MARKET SPOTLIGHT—SEPTEMBER 2022

The fight against market volatility and climate extremes

Volatility has been a common theme of markets and the weather lately.

In this month's issue of *Market Spotlight*, we look at some of the measures being taken—or that may need to be taken—to return to a sense of normalcy.

We start with the guidance that came out of the U.S. Federal Reserve Board's recent symposium in August. Although the battle against inflation is well and truly engaged, bringing inflation back to its normal level of 2% will be challenging.

In "ESG in focus," Aaron White connects the dots between climate change, the flooding in Pakistan, and the costs that will be incurred if we don't take the needed steps to get to net-zero.

Volatility returns to markets after central bankers meet

> **Central banks are going to continue to raise interest rates, likely into an economic slowdown. Doing so is the only way to reduce stubbornly high inflation.**
>
> *– Equity Team, CIBC Asset Management*

Volatility returned to markets in late August after Jerome Powell, Chairman of the U.S. Federal Reserve Board (Fed), warned that the central bank may need to continue raising interest rates in a way that will cause "some pain" to the U.S. economy in the fight against inflation.

Bringing inflation under control

Powell made the comments in a speech following the central bank's annual economic symposium in Jackson Hole. Since 1978, each summer central bankers, policymakers, academics and economists from around the world meet in Jackson Hole, Wyoming, where they discuss long-term policy issues of mutual concern.

This year's symposium, explored the emergence of economic constraints during the pandemic and how supply issues have returned to centre stage. Bottlenecks and shortages have limited economic supply even as historic levels of fiscal and monetary accommodation have led to a surge in demand, resulting in an imbalance that has pushed up inflation globally.

In giving an update on the economic outlook, the inflation picture, and the path ahead for interest rates, Powell stressed that the Fed has an "overarching focus" to bring inflation back down to its 2% target.

Powell said the Fed was pleased with July's lower inflation readings but noted that "a single month's improvement falls far short of what the committee will need to see before we are confident that inflation is moving down."

Powell added, "We are taking forceful and rapid steps to moderate demand so that it comes into better alignment with supply, and to keep inflation expectations anchored."

Interest rates on the rise

In view of Powell's pledge to reduce inflation, it came as little surprise when the Fed enacted its third consecutive 0.75 percentage point interest rate increase, taking its benchmark rate to a range of 3% to 3.25%, on September 21.

The Bank of Canada raised interest rates to their highest level in 14 years on September 7, hiking its policy rate to 3.25% from 2.50% and signaling that its aggressive tightening campaign is not yet done.

> **We expect that over the coming year, GDP will slow markedly under the strain of a retrenching consumer and a less ebullient business sector. It remains to be seen how far the Fed will push rates in a slowing economy.**
>
> *– Fixed Income Team, CIBC Asset Management*

Environmental, social and governance (ESG) in focus

Extreme weather and its associated impacts

Aaron White, *Vice-President, Sustainable Investments*

Soaring temperatures, record rainfalls, and melting glaciers have caused significant flooding across Pakistan. Approximately one third of the nation's land mass is underwater. To date, this has resulted in over 1,300 deaths, the displacement of more than 33 million people (equal to roughly 87% of the population of Canada), and estimated damages in excess of $10 billion.

Who pays the price

This crisis is a stark reminder of the impacts of climate change and extreme weather events. Simultaneously, it showcases how developing nations in high-risk geographies will bear the costs of climate change despite not being significant contributors to global emissions. Pakistan represents less than 1% of global carbon dioxide emissions.

We have seen a number of other climate-related issues develop in recent months. Europe is facing its worst drought in at least 500 years. A heatwave in China is causing fires and threatening crop yields. And water levels in the American West have reached their lowest levels ever.

These extreme weather events have investment implications. They illustrate the physical risk of climate change through costs associated with damages to property and assets, and a loss in productivity. These events also illustrate the transition risk that companies may face moving forward as global policy action aimed at curbing emissions and/or driving innovation in low-carbon technologies can have significant impact to some business models and operations.

Finally, these events allow us to see the potential economic and social costs of climate change, and reinforce the need to take action on global commitments to net-zero. Allocate even a small portion of your portfolio to an ESG investment solution, and you take a step towards this goal. Talk to your advisor today about the role these investments can play in your portfolio.

CIBC is committed to helping you achieve your long-term financial goals. Part of that commitment includes ensuring sustainability is at the heart of what we do. We integrate sustainability into many aspects of our business, focusing on ESG factors that matter to our clients.

568 | 09/2022