NATIONAL BANK FINANCIAL

The Week at a Glance

August 19th, 2022

THE WEEK IN NUMBERS
(August 15th – August 19th)

Research Services

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INDEX	Last price	Change Week	% Change Week	% Change YTD	%Change 1 Year	Trailing P/E
Dow Jones Industrial	33,706.74	-54.31	-0.16%	-7.24%	-3.40%	18.7
S&P 500	4,228.48	-51.67	-1.21%	-11.28%	-4.02%	20.7
Nasdaq Composite	12,705.22	-341.97	-2.62%	-18.79%	-12.63%	24.7
S&P/TSX Composite	20,111.38	-68.43	-0.34%	-5.24%	-0.51%	13.0
Dow Jones Euro Stoxx 50	3,730.32	-52.78	-1.40%	-13.22%	-9.56%	13.4
FTSE 100 (UK)	7,550.37	49.48	0.66%	2.25%	6.96%	10.5
DAX (Germany)	13,544.52	-251.33	-1.82%	-14.73%	-14.09%	13.7
Nikkei 225 (Japan)	28,930.33	383.35	1.34%	0.48%	6.05%	16.0
Hang Seng (Hong Kong)	19,773.03	-402.59	-2.00%	-15.49%	-21.90%	9.3
Shanghai Composite (China)	3,258.08	-18.81	-0.57%	-10.49%	-5.99%	12.0
MSCI World	2,788.50	-46.01	-1.62%	-13.71%	-8.97%	17.8
MSCI EAFE	1,921.33	-42.55	-2.17%	-17.75%	-16.79%	13.2

S&P TSX SECTORS	Last price	Change Week	% Change Week	% Change YTD	%Change 1 Year	Trailing P/E
S&P TSX Consumer Discretionary	255.35	-0.36	-0.14%	-6.71%	-3.65%	21.7
S&P TSX Consumer Staples	828.15	17.01	2.10%	8.53%	10.81%	19.9
S&P TSX Energy	235.29	1.98	0.85%	43.65%	108.70%	7.1
S&P TSX Financials	376.89	1.50	0.40%	-6.51%	-1.06%	10.6
S&P TSX Health Care	23.22	-0.74	-3.09%	-49.48%	-61.38%	N/A
S&P TSX Industrials	390.99	1.62	0.42%	2.64%	6.74%	27.9
S&P TSX Info Tech.	139.41	-8.01	-5.43%	-34.32%	-38.50%	N/A
S&P TSX Materials	302.84	-8.89	-2.85%	-7.76%	0.66%	10.7
S&P TSX Real Estate	328.05	-7.57	-2.26%	-17.44%	-11.89%	7.5
S&P TSX Communication Services	192.09	2.26	1.19%	-1.56%	-1.54%	19.7
S&P TSX Utilities	364.88	4.84	1.34%	6.27%	7.70%	29.1

COMMODITIES	Last price	Change Week	% Change Week	% Change YTD	%Change 1 Year	NBF 2022E
Oil-WTI futures (US$/Barrels)	$90.05	-17.57	-16.33%	19.73%	41.39%	$100.00
Natural gas futures (US$/mcf)	$9.30	3.08	49.47%	149.25%	142.74%	$6.00
Gold Spot (US$/OZ)	$1,748.10	-78.40	-4.29%	-4.34%	-1.80%	$1,843
Copper futures (US$/Pound)	$3.67	-0.09	-2.50%	-17.71%	-9.22%	$3.60

CURRENCIES	Last price	Curr. Net Change	% Change Week	% Change YTD	%Change 1 Year	NBF Q4/22e
Cdn$/US$	0.7696	-0.0058	-0.75%	-2.74%	-1.26%	0.79
Euro/US$	1.0039	-0.0515	-4.88%	-11.69%	-14.01%	1.02
Pound/US$	1.1828	-0.0434	-3.54%	-12.57%	-13.27%	1.21
US$/Yen	136.83	1.66	1.23%	18.90%	24.71%	134

Source: Refinitiv and NBF Research

Please see last page for NBF Disclosures

FIXED INCOME NUMBERS

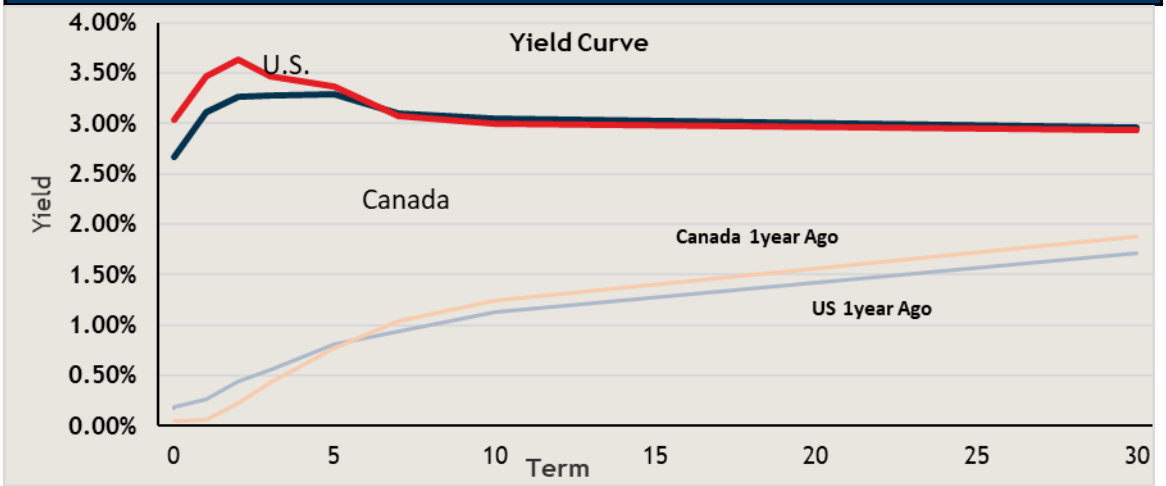
THE WEEK IN NUMBERS
(August 15th – August 19th)

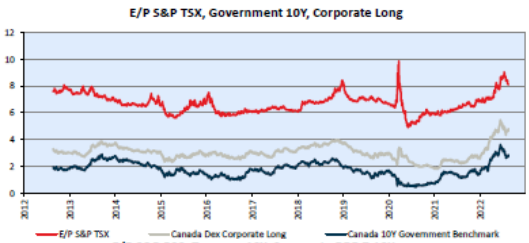
Canadian Key Rate	Last	Change 1 month bps		Last	Change 1 month bps
CDA o/n	2.50%	1.0	CDA 5 year	3.08%	-5.0
CDA Prime	4.70%	1.0	CDA 10 year	2.93%	-15.0
CDA 3 month T-Bill	3.04%	44.0	CDA 20 year	3.03%	-10.9
CDA 6 month T-Bill	3.47%	45.0	CDA 30 year	2.97%	-6.1
CDA 1 Year	3.64%	23.0	5YR Sovereign CDS	38.98	
CDA 2 year	3.47%	15.1	10YR Sovereign CDS	40.06	

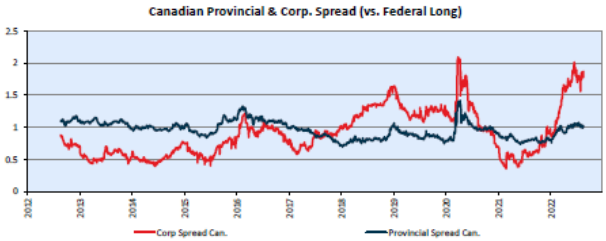
US Key Rate	Last	Change 1 month bps		Last	Change 1 month bps
US FED Funds	2.25-2.50%	0.75	US 5 year	3.10%	-5.0
US Prime	5.50%	0.75	US 10 year	2.96%	-5.6
US 3 month T-Bill	2.67%	16.6	US 30 year	3.21%	2.8
US 6 month T-Bill	3.12%	7.7	5YR Sovereign CDS	18.99	
US 1 Year	3.26%	6.5	10YR Sovereign CDS	26.99	
US 2 year	3.28%	4.5			

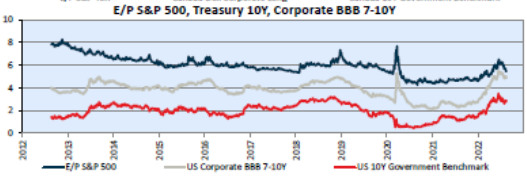
CANADIAN BOND - TOTAL RETURN	Change Week	Change Y-T-D
FTSE Universe Bond Index	-1.03%	-10.79%
FTSE Short Term Bond Index	-0.66%	-4.02%
FTSE Mid Term Bond Index	-1.49%	-10.30%
FTSE Long Term Bond Index	-1.12%	-19.09%

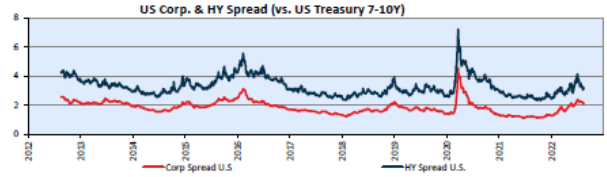
CURRENT YIELD CURVE











Source: Refinitiv & NBF

NBF Economy & Strategy Group

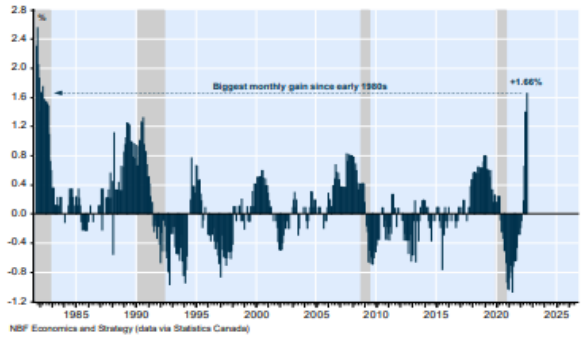
WEEKLY ECONOMIC WATCH

CANADA - The **Consumer Price Index** rose a consensus-matching 0.1% in July (not seasonally adjusted) after jumping 0.7% the prior month. In seasonally adjusted terms, headline prices were up 0.3% (+0.26% to be exact), the smallest gain in 16 months. Higher prices for food (+0.7%), recreation/education/reading (+0.6%), alcoholic beverages/tobacco products (+0.6%), shelter (+0.4%), and health/personal care (+0.4%) were only partially offset by declines for transportation (-0.6%), clothing/footwear (-0.5%), and household operations/furnishings (-0.1%). Year on year, headline inflation weakened from a 40-year high of 8.1% in June to 7.6% in July. Core inflation measures were as follow: 5.5% for CPI-Common (up two ticks vs. prior month), 5.4% for CPI-Trim (down one tick), and 5.0% for CPI-Median (up one tick). As a result, the average of the three measures climbed from 5.2% to 5.3%, its highest level in the series going back to 1990.

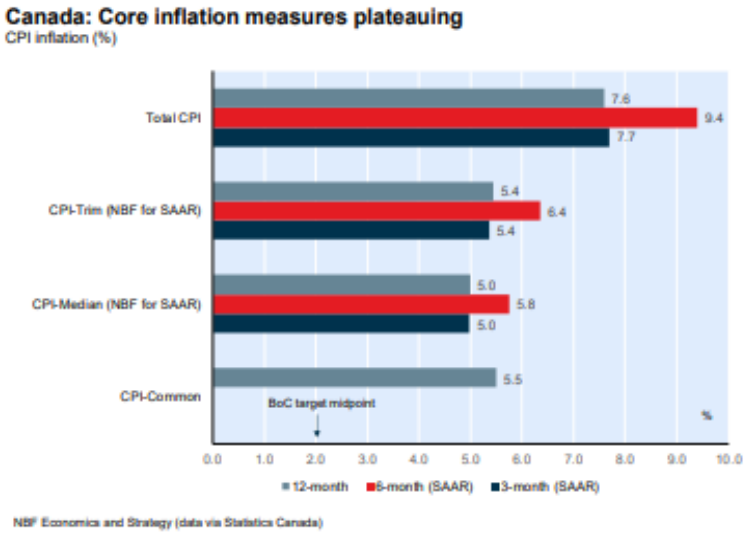
Canada: Headline inflation eased for first time in 13 months in July
Consumer Price Index

Headline inflation was roughly in line with consensus expectations in July and, though much of the deceleration in the month-on-month print was due to lower gasoline prices (-9.2%), other categories showed signs of slowing as well. This was the case for clothing/footwear (biggest monthly decline since September 2020) and household operations/furnishings. Food prices, on the other hand, pursued their stratospheric ascent. Year on year, they were up 10.9%, the most since 1982. The housing component, meanwhile, continued to be supported by rents and mortgage interest costs. While the former registered yet another strong monthly advance (+0.7%) that translated into a 4.9% annual gain (the biggest since 1989), the latter skyrocketed in July, shooting up 1.7%, the most since the early 1980s. Needless to say that the increase was due to rising interest rates. However, as these seem to have peaked, a slowdown is to be expected later this year. As fading demand in the real estate sector has led to a drop in house prices in several regions of the country, we can also expect homeowners' replacement cost to increase at a more moderate pace. Prices in this category were up only 0.1% in July, their smallest progression in two years.

Canada: Mortgage interest costs soar as rates rise
Mortgage interest cost component of CPI inflation, monthly change (%), not seasonally adjusted



As for the average of the three core measures preferred by the Bank of Canada, it continued to rise in July, but mostly because of an upswing in the CPI-Common, the methodology of which we called into question in a recent special report (see here). In short, the recent upward deviation of inflation has challenged the measure's statistical method and made it a lot more volatile. Given this inherent weakness, we recommend focusing on CPI-Trim and CPI-Median, which have proved better at capturing underlying inflation trends. Encouragingly, our in-house replication of these two measures showed signs of a deceleration recently, with 3-month annualized progressions dropping significantly below 6-month gains, a sign of fading momentum.



Although this suggests that the worst is now behind us, inflation remains too high. This should encourage the Bank of Canada to implement a 75-bp rate hike at its September meeting. The situation will become more complicated after that, as growth is expected to slow, hampered by reduced global demand and a weakening housing market. In this context, further tightening of monetary policy could prove counterproductive. This leads us to believe that the Bank of Canada will then want to take a break to gauge the effects of the action it has taken so far.

Retail sales were up 1.1% in June, quite a bit more than the median economist forecast calling for a +0.4% print. The prior month's result, meanwhile, was revised from +2.2% to +2.3%. Consumer outlays increased in 8 of the 11 subsectors in June, with the strongest gains occurring in gasoline stations (+3.9%), motor vehicles/parts (+1.8%), clothing stores (+1.8%), miscellaneous store retailers (+1.8%), furnishing stores (+1.3%), and general merchandise stores (+1.1%) among others. These rises were partially offset by the decline in electronics and appliance stores (-2.4%), food/beverage stores (-1.1%) and sporting goods (-0.8%). Excluding autos, retail sales progressed 0.8%, a tick less than consensus expectations (+0.9%). In real terms, retail sales rose 0.2% m/m. Finally, Statistics Canada's early estimate for July signaled a 2.0% decrease in nominal sales.

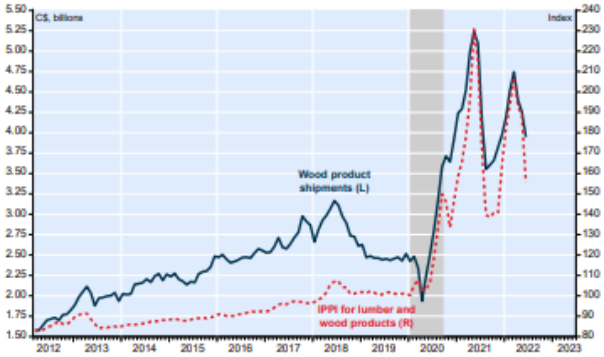
Consumer spending on goods was better than expected in June, with the upward surprise caused in large part by higher sales at gasoline stations and motor vehicles/parts dealers. For gasoline, this was the sixth consecutive increase in sales, but this was entirely due to higher prices, as gasoline sales fell 1.3% after adjusting for the price effect. For autos, sales were not driven by prices as volume sales rose 1.6%. Instead, sales volumes at new car dealer sales (+2.7%) were the main contributor, as they benefited from increased manufacturing activity and ongoing improvements on the supply chain front. The rest of the retail sales report was not as robust as evidenced by core retail sales (ex. autos/gas) which increased 0.2% in June, a sixth consecutive monthly increase but a clear deceleration from the previous months. This trend is expected to continue heading into the third quarter, as Statistics Canada's preliminary July estimate shows a 2.0% decline in nominal retail sales.

This month's release showed a 3.2% increase in nominal retail sales in Q2, a progression largely attributable to prices as growth in real terms was limited to 0.9%.

Manufacturing sales fell for the second month in a row in June, declining 0.8% to C$71.8 billion. Of the 21 industries covered, eight saw decreases in the month. The petroleum/coal industry was one of the largest negative contributors to the headline number amid "concerns about the global economic slowdown". Indeed, shipments in this category dropped 7.8% as higher prices failed to compensate for a drop in volumes (-11.3%). Without petroleum/coal, nominal shipments would actually have increased 0.5%. Sales in the wood product category also fell (-6.0%), owing essentially to sharply lower prices for softwood lumber, something Statistics Canada attributed to a decrease in construction activity in the United States. Alternatively, shipments of motor vehicles advanced 13.8% in June thanks to increased production in most assembly plants in Ontario. Despite this increase, sales in this segment remained 22.1% lower than they were at the onset of the pandemic in February 2020.

Canada: Wood product shipments fall as lumber prices drop

Wood product shipments (current C$) vs. Industrial Product Price Index for lumber and wood products

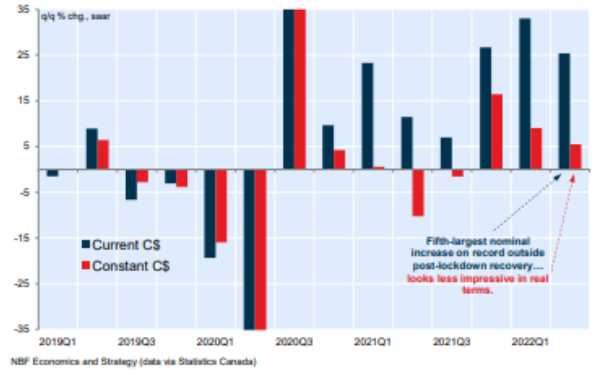


Total inventory levels increased 2.1% to $116.4 billion in June on gains for machinery (+4.3%), transportation equipment (+2.5%), and chemicals (+3.5%). As a result, the inventory-to-sales ratio climbed five ticks to 1.62, topping the pre-pandemic peak for this indicator (1.57).

With the price effect removed, total factory sales edged up 0.1%, which means that the entire decrease in current dollar sales was driven by lower prices. In Q2 as a whole, real sales were up 5.5% annualized. Though solid, this performance was much less impressive than the nominal gain (+25.4%), which was the fifth-largest recorded since the inception of the series in 1992, outside of the post-lockdown recovery.

Canada: Higher prices translated into healthy Q2 gain for factory sales

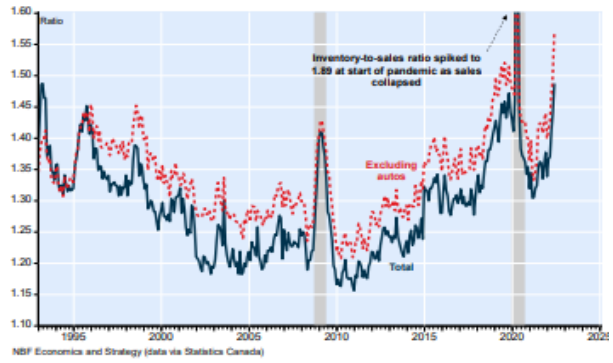
Manufacturing shipments, seasonally adjusted



After advancing 0.9% in May, nominal **wholesale trade** edged up 0.1% in June to a new all-time high of C$80.7 billion. Sales were up in just two of the seven subsectors surveyed, namely, miscellaneous items (+3.5%) and motor vehicles/parts (+3.1%). The former benefited from greater demand for Canadian fertilizer following Russia's invasion of Ukraine, while the latter continued to recover from production delays caused by a shortage of semiconductors. These increases were partially offset by a 3.5% drop in the personal/household goods segment. Wholesale inventories expanded 3.4% in June to an unprecedented C$120 billion. All subsectors save motor vehicles/parts reported larger inventories. As a result, the inventory-to-sales ratio jumped from 1.44 to 1.49. Without autos, it sprang from 1.50 to 1.57. These were the highest levels ever recorded outside of the pandemic period.

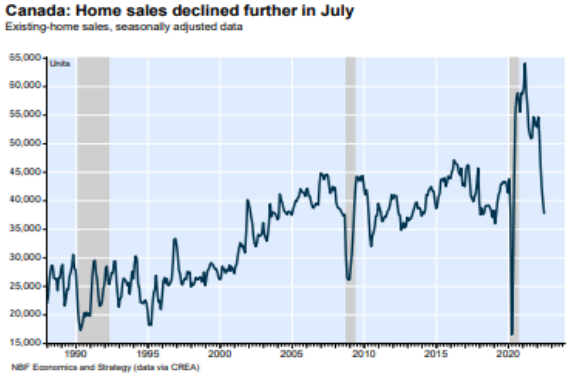
Canada: Wholesale inventories at their highest outside pandemic perioc

Inventory-to-sales ratio in wholesale sector. Las observation: 2022M06

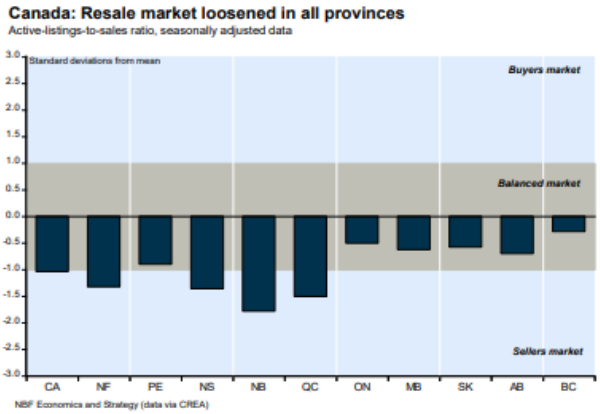


Looking at the data in volume terms, total wholesale trade cooled 0.1% in June. In Q1 as a whole, it progressed 0.7% annualized.

Seasonally adjusted **home sales** fell 5.3% in June. This fifth drop in a row brought the total drawback for this indicator since February to 31.1%. The decline was quite widespread, with 75% of the markets covered seeing retreats. The number of transactions was down in all of the four most populous provinces, but the decrease was particularly marked in British Columbia (-8.3%) and Ontario (-6.7%).



New listings cooled 5.3% countrywide but, as this failed to compensate for lower sales, the number of months of inventory climbed from 3.1 to 3.4, its highest level in two years. The active-listings-to-sales ratio showed market conditions loosening in every province during the month, with six of the ten now in balanced territory: British Columbia, Saskatchewan Alberta, Manitoba, Ontario, and Prince Edward Island (new this month). Market conditions elsewhere continued to favour sellers mainly thanks to lack of supply. We expect the current moderation in home sales to continue going forward as the Bank of Canada is expected to raise its overnight rate further in September.



Housing starts rose 2.9K in July to 275.3K (seasonally adjusted and annualized) instead of cooling to 264.1K as economists anticipated. Urban starts eased 2.0K to 254.4K on small declines for both single-family dwellings (-1.4K to 58.4K) and multi-family units (-0.6K to 196.0K.). Rural starts were up 4.9K in the month to 21.0K. At the provincial level, gains in Quebec (+6.9K to 60.7K), Alberta (+3.4K to 42.5K), and Ontario (+2.0K to 96.5K) were only partially offset by declines in British Columbia (-6.8K to 49.2K) and Saskatchewan (-3.5K to 3.5K). We expect housing demand to moderate as interest rates rise and demand in the resale market flags. This should eventually lead to a tapering of residential construction. However, with building permits remaining high and housing supply still tight, starts should stabilize at levels that remain strong on a historical basis.

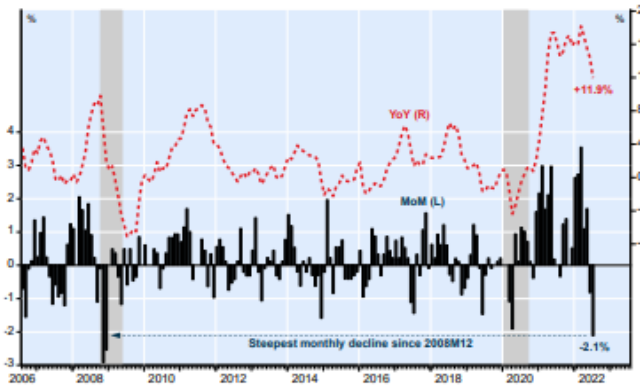
In July, the **Teranet–National Bank Composite National House Price Index™** decreased 0.2% from the previous month, marking the first monthly decline since the one seen at the start of the pandemic in June 2020. Only 4 of the 11 markets included in the composite index saw lower prices in the month: Toronto (-1.1%), Halifax (-1.0%), Hamilton (-0.7%), and Ottawa-Gatineau (-0.2%). Conversely, prices increased in Calgary (+2.3%), Quebec City (+1.7%), Montreal (+0.7%), Edmonton (+0.5%), Winnipeg (+0.5%), Victoria (+0.3%), and Vancouver (+0.2%). From July 2021 to July 2022, the composite index rose 14.2%, led by Halifax (25.7%), Toronto (16.3%), and Montreal (15.4%). Growth was lower than average in Winnipeg (12.0%), Ottawa-Gatineau (11.7%), Vancouver (11.6%), Quebec City (11.6%), Calgary (9.0%), and Edmonton (0.6%)

Prices for products manufactured in Canada, as measured by the **Industrial Product Price Index** (IPPI), fell 2.1% m/m in July, marking the second decline in a row for this indicator and the largest since December 2008. Of the 21 major commodity groups, only six saw lower prices, led by energy/petroleum products (-11.6%). Specifically, prices for both diesel fuel (-13.4%) and motor gasoline (-12.6%) fell, declines attributable to lower prices for crude oil and tighter refiner margins. Prices for primary non-ferrous metal products, meanwhile, dropped for the fourth month running, sinking 8.9% on decreases for unwrought nickel/nickel alloy (-18.5%) and unwrought copper/copper alloy (-15.7%), among others.

On a 12-month basis, the IPPI was up 11.9%, down significantly from the peak of 18.1% attained in March. Among the major categories, energy/petroleum products (+57.5%), fabricated metals/construction material (+19.5%), textile/leather products (+15.0%), fruit/vegetables/feed (+14.6%), electrical/electronic/ telecom equipment (+14.0%), and chemicals/chemical products (+13.7%) recorded the steepest increases. Alternatively, prices in the lumber/wood products segment were down 8.9% in July from a year earlier.

Canada: IPPI registered steepest monthly drop since 2008

Industrial Product Price Index. Last observation: July 2022



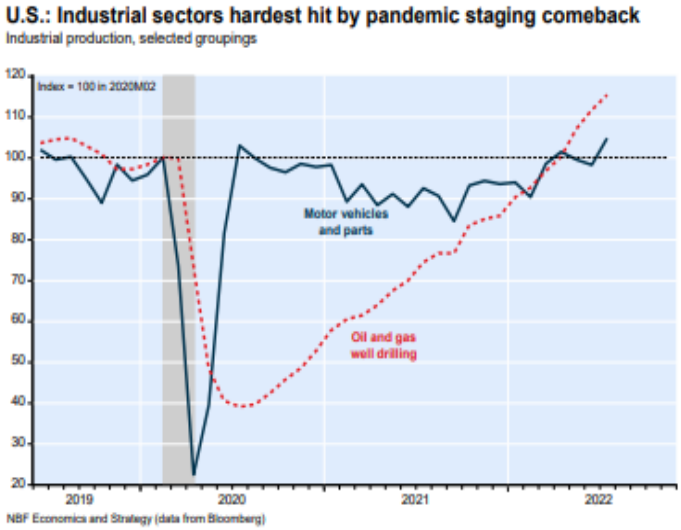
NBF Economics and Strategy (data via Statistics Canada)

The **Raw Materials Price Index** slid 7.4% in July on steep decreases for crop products (-10.7%), crude energy products (-10.3%), metal ores/concentrates/scrap (-7.8%), and non-metallic minerals (-7.5%). On a 12-month basis, the headline RMPI was still up 19.1%.

UNITED STATES - **Retail sales** stayed flat in July instead of swelling 0.1% as per consensus. The previous month's print, meanwhile, was revised from +1.0% to +0.8%. Sales of motor vehicles and parts contributed negatively to the headline figure by contracting 1.6%. Without autos, retail outlays increased a consensus-topping 0.4% as gains for non-store retailers (+2.7%), miscellaneous items (+1.5%), and building materials (+1.5%) were only partially offset by declines for gasoline stations (-1.8%), general merchandise (-0.7%), and clothing (-0.6%). In the end, sales were up in 9 of the 13 categories surveyed. Core sales (i.e., sales excluding food services, auto dealers, building materials, and gasoline stations), which are used to calculate GDP, were up 0.8% in the month.

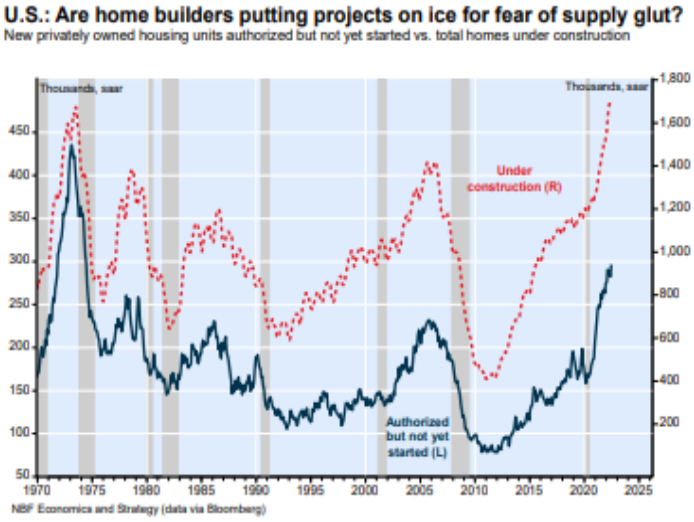
Although the overall result fell short of consensus expectations, the details of the July report were not too bad. Granted, auto sales were down, but that was probably due to lingering supply issues. Meanwhile, outlays at gasoline stations likely suffered from lower pump prices. Core sales, on the other hand, came in stronger than expected, with non-store retailers getting a boost from Amazon Prime Day held on July 12-13. With two months of data still to come, core sales are on track to increase 6.2% annualized in Q3. Though this figure will be cut down once adjusted for inflation (real retail sales data will be published next week), it should nonetheless translate into decent growth for household goods consumption in the quarter. As for services spending, the few clues we have so far also hint at decent expansion. Spending at restaurants and bars–the only services category included in the retail sales report–advanced just 0.1% in July but remained on pace for 3.7% annualized growth in the third quarter.

Still in July, **industrial production** expanded 0.6% and reached a new all-time high. Manufacturing output sprang 0.7% as production of motor vehicles/parts (+6.6%) continued to recover after being hit by semiconductor shortages last year. Excluding autos, factory output still advanced 0.3% on a 0.5% gain for machinery. Utilities output shrank 0.8% while production in the mining sector increased 0.7%. In the latter category, oil and gas well drilling sprang 3.3%, moving further above its pre-crisis level.

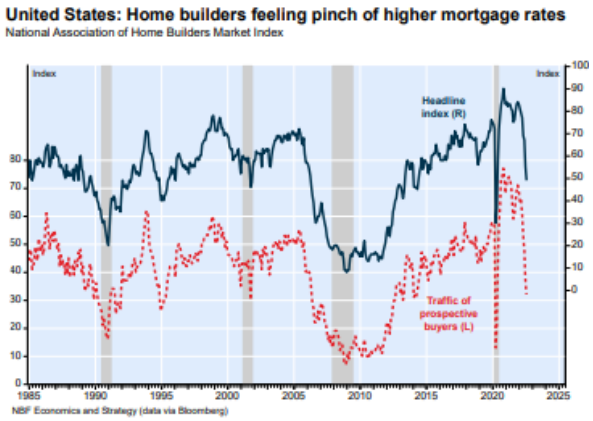


Capacity utilization in the industrial sector improved from 79.9% in June to 80.3% in July, its highest level since August 2018. In the manufacturing sector, it went from 79.3% to 79.8%.

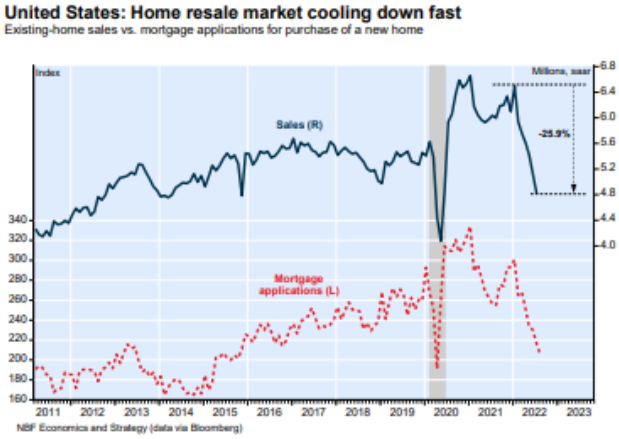
Housing starts retraced from 1,599K in June (initially estimated at 1,559K) to a 17-month low of 1,446K in July, a much bigger decline than expected by economists (1,527K). The drop reflected decreases in the single-family and the multi-family segments alike (respectively, -10.1% to 916K and -8.6% to 530K). **Building permits**, for their part, edged down 1.3% to a 10-month low of 1,674K. A 4.3% decline in the single-family segment (to 928K) was partially offset by a 2.8% gain in the multi-family category (to 746K). Meanwhile, the number of authorized residential projects for which construction had not yet started stood near a 50-year high of 296K in July. In normal times, such a high number of unexercised permits would signal booming activity in the residential sector as it would reflect the inability of builders to meet demand. Under current market conditions, however, we might wonder instead whether this figure reflects a loss of confidence among builders, who now perhaps prefer to leave a few projects on ice while waiting to see how the situation evolves. You might recall that a record number of housing units are currently under construction (1,703K), something that already risks boosting supply greatly at a time when demand is fading. In this context and given that the residential sector faces challenges ranging from rising interest rates to labour shortages, suspending the construction of housing units for which permits have already been issued does not seem like a bad idea.



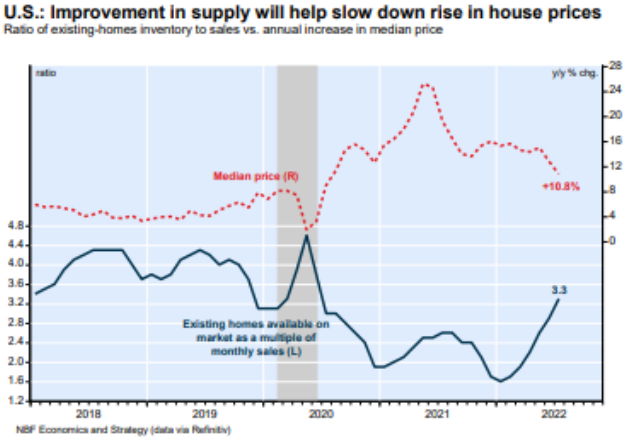
Homebuilder sentiment, meanwhile, is sliding fast. In August, **the National Association of Home Builders Market Index** fell 5.0 points to 49.0. Outside of the pandemic period, this was the lowest print since June 2014. NAHB data also showed a significant drop in prospective buyer traffic. Taken together, these data suggest that there could be more pain in store for residential construction.



After sliding 8.6% in February, 3.0% in March, 2.6% in April, 3.4% in May, and 5.5% in June, **existing-home sales** slipped another 5.9% in July to 4,810K (seasonally adjusted and annualized), bringing the total drawback over six months to 25.9%. Excluding the first months of the pandemic, this was also the lowest level of sales observed in nearly seven years. Contract closings sagged for both single-family dwellings (-4.8%) and condos (-9.1%). As sales volumes dropped, the inventory-to-sales ratio rose four ticks to 3.3, marking a sixth consecutive improvement for this indicator. Despite the recent increase, the ratio remained low on a historical basis (at <5 it indicates a tight market according to the National Association of Realtors), as supply continued to lag. To be sure, the inventory of properties available for sale totaled just 1.31 million (not seasonally adjusted), the joint-lowest level ever recorded in a month of July. Given the scarce supply, listed properties stayed on the market no more than 14 days on average, the shortest time on records.



Insufficient supply and low interest rates during the pandemic helped push prices up at breakneck speed. However, with supply recovering slowly and with mortgage rates having risen sharply, we expect price increases to moderate quickly. Although it was only one month's data, July stats seemed to be in line with this forecast, with the median price paid for a previously owned home retracing from an all-time high of $413,800 to $403,800. This was up 10.8% y/y, no doubt a significant increase, but still much less pronounced than that recorded at the height of the pandemic boom (+25.2% in May 2021).

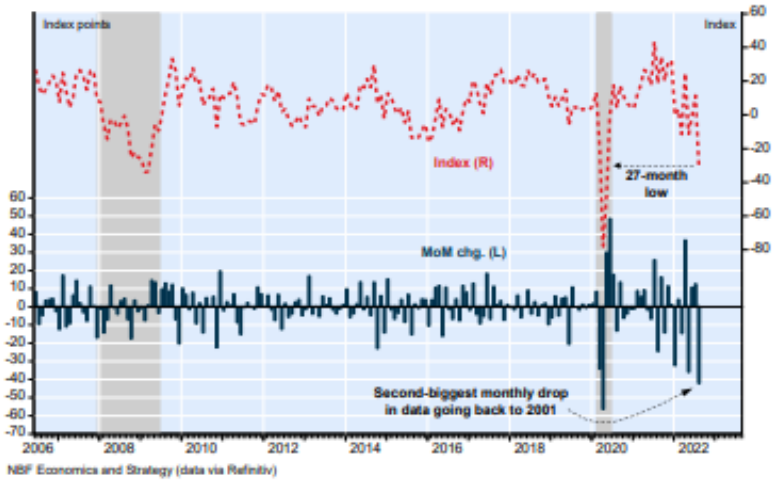


The housing market may face more woes down the road given the higher borrowing costs and the associated drop in mortgage applications. We expect sales to remain below their pre-pandemic level for some time and home prices to moderate further going forward.

The **Empire State Manufacturing Index** of general business conditions plunged 42.4 points in August to a 27-month low of -31.3. Excluding the first months of the pandemic, this was the largest monthly decline registered by this indicator since data began to be compiled in 2001. Needless to say, the headline result was significantly below consensus expectations calling for a 5.0 print. It was also indicative of a deterioration in operating conditions at factories operating in New York State and surrounding areas in a context of slowing demand and bloated inventories. After progressing in July, both the new orders sub-index (-29.6 vs. 6.2 prior month) and the shipments sub-index (-24.1 vs. 25.3) declined abruptly. The number of employees tracker cooled as well (7.4 vs. 18.0), as did the average workweek gauge (-13.1 vs. 4.3). Supply chain pressures continued to ease with the delivery times (-0.9 vs. 8.7) and input price trackers (55.5 vs. 64.3) falling to a 27- and 19-month low, respectively. Manufacturers once again raised selling prices (32.7 vs. 31.3), albeit less so than in the early months of the year. Business optimism for the next six months improved (2.1 vs. -6.2) but remained below its long-term average. Finally, capex (12.7 vs. 16.5) and technology spending intentions (10.0 vs. 12.2) moved further below their long-term averages.

U.S.: New York Fed gauge signals contraction in goods sector

Empire State Manufacturing Survey. Last observation: 2022M08



NBF Economics and Strategy (data via Refinitiv)

The **Philly Fed Manufacturing Business Outlook Index** painted a more optimistic picture of the situation prevailing in the manufacturing sector, as it rose from a 26-month low of -12.3 to 6.2, a result comfortably above the -5.0 print expected by consensus. The indices tracking new orders (-5.1 vs. -24.8 prior month), shipments (24.8 vs. 14.8), and the number of employees (24.1 vs. 19.4) all strengthened while input (43.6 vs. 52.2) and output (23.3 vs. 30.3) inflation continued to ease. After sinking to a 43-year low of -18.6 the prior month, the index tracking future business activity crept up to 10.6, which remained quite low by historical standards.

The **index of leading economic indicators (LEI)** declined 0.5 point in July to a one-year low of 116.6. Four of the ten underlying economic indicators acted as a drag on the headline index, with the biggest negative contributions coming from average consumer expectations (-0.37 pp), ISM new orders (-0.17 pp), and jobless claims (-0.09 pp). Alternatively, the interest rate spread contributed 0.15 pp to the headline figure. Historical analysis shows that a 3.5% annualized drop in the LEI index over six months, coupled with a six-month diffusion index below 50%, is generally symptomatic of a pending recession. These conditions were very nearly met in July, as the index dropped 3.2% annualized over six months and the six-month diffusion index stood at 30%.

Initial jobless claims eased slightly in the week to August 13, moving from 252K to 250K. Continued claims, on the other hand, rose from 1,430K to a four-month high of 1,437K. This number remains low by historical standards, which suggests that unemployed workers were finding jobs quickly.

The **Federal Reserve published the minutes** of its two-day policy meeting of July 25-26. (Recall that the central bank had raised key rates 75 basis points following the meeting.) Here are some of the highlights of the minutes:

Still in the **Eurozone**, the **flash estimate for the Consumer Price Index** showed that prices rose 8.9% y/y in July, up from the prior month reading of 8.6% and the highest reading since the inception of the series in the late 1990s. Energy prices spiked 40% from their level a year earlier, while the cost of food, alcohol and tobacco climbed 9.8%. The core CPI, which excludes these four items, moved up from 3.7% to a new all-time high of 4.0%.

Once again in the **Eurozone**, **economic sentiment** dipped 4.5 points to 99.0 in July, the lowest value since 2015 excluding the pandemic.

On the policy rate path:

- "Participants judged that moving to a restrictive stance of policy was required."
- "Participants judged that, as the stance of monetary policy tightened further, it likely would become appropriate at some point to slow the pace of policy rate increases while assessing the effects of cumulative policy adjustments."
- "Some participants indicated that, once the policy rate had reached a sufficiently restrictive level, it likely would be appropriate to maintain that level for some time to ensure that inflation was firmly on a path back to 2 percent."
- "Many participants remarked that … there was also a risk that the Committee could tighten the stance of policy more than necessary to restore price stability. These participants highlighted this risk as underscoring the importance of the Committee's data-dependent approach to judging the pace and magnitude of policy firming over coming quarters."

On inflation:

- "Participants agreed that there was little evidence to date that inflation pressures were subsiding."
- "Participants remarked that … declines in the prices of oil and some other commodities could not be relied on as providing a basis for sustained lower inflation, as these prices could quickly rebound."
- "Participants noted that supply bottlenecks were continuing to contribute to price pressures. There were, however, some signs of gradual improvement in the supply situation."
- "They judged that inflation would respond to monetary policy tightening and the associated moderation in economic activity with a delay and would likely stay uncomfortably high for some time."

On growth:

- "Participants anticipated that U.S. real GDP would expand in the second half of the year, but many expected that growth in economic activity would be at a below-trend pace."
- "Participants noted that indicators of spending and production pointed to less underlying strength in economic activity than was suggested by indicators of labor market activity."
- "Participants noted that a period of below-trend GDP growth would help reduce inflationary pressures and set the stage for the sustained achievement of the Committee's objectives of maximum employment and price stability."

On the labour market:

- "Many participants also noted, however, that there were some tentative signs of a softening outlook for the labor market: These signs included increases in weekly initial unemployment insurance claims, reductions in quit rates and vacancies, slower growth in payrolls than earlier in the year, and reports of cutbacks in hiring in some sectors."
- "Participants observed that, in part because of tighter financial conditions and an associated moderation in the growth of aggregate demand, growth in employment would likely slow further in the period ahead. They noted that this development would help bring labor demand and supply into better balance, reducing upward pressures on nominal wage growth and aiding the return of inflation to 2 percent."

There were no major surprises in this week's minutes but, to our eyes, they appeared slightly more dovish than anticipated. The Fed continued to talk tough on inflation, but it also acknowledged the risks associated with aggressive rate tightening. Indeed, some participants warned that much of the hikes implemented so far had not yet been reflected in real activity and that, consequently, there was a risk that the Committee could overtighten given the lagged effects of monetary policy on the economy. We wholeheartedly agree with this notion. As we have been highlighting for many months, we feel the appropriate policy path for the Fed would be to take a break after a 50-bp rate hike in September to allow the economy to catch up.

IN THE NEWS

U.S. and Canadian News

Monday August 15th, 2022

- **U.S. home builder sentiment, New York state factory activity drop**
  The National Association of Home Builders/Wells Fargo Housing Market Index fell 6 points to 49 this month, the eighth consecutive monthly decline and the lowest reading outside of the pandemic era since 2014. Meanwhile, a separate survey by the New York Fed showed the "Empire State" index on current business conditions plummeted 42.4 points to a reading of -31.3 this month.
- **Canada home-price skid hits four months amid steep interest rate hikes**
  Benchmark home prices declined 1.7 per cent in July, to $789,600 according to data released from the Canadian Real Estate Association. The number of sales also continued to drop, falling 5.3 per cent from June and 29.3 per cent from a year earlier.
- **Manufacturing sales down 0.8% in June**
  Statistics Canada says manufacturing sales fell 0.8 per cent to $71.8 billion in June as the petroleum and coal product sector helped lead the way down. Overall sales in constant dollars edged up 0.1 per cent in June.

Tuesday August 16th, 2022

- **U.S. housing starts tumble in July; building permits fall**
  Housing starts plunged 9.6% to a seasonally adjusted annual rate of 1.446 million units last month, the lowest level since February 2021. Data for June was revised slightly higher to a rate of 1.599 million units from the previously reported 1.559 million units. Economists had forecast starts declining to a rate of 1.540 million units.
- **U.S. manufacturing production accelerates in July**
  Manufacturing output rebounded 0.7% last month after declining 0.4% in June. Economists had forecast factory production would rise 0.2%. Output increased 3.2% compared to July 2021. The rise in manufacturing and mining output helped to lift overall industrial production by 0.6%. Industrial output was unchanged in June.
- **Canada inflation eases to 7.6% in July**
  Canadian inflation slowed to 7.6% in July, matching analyst forecasts and down from 8.1% in June. On a month-over-month basis, the index rose 0.1%, again matching forecasts.
- **Canadian housing starts rise 1.1% in July**
  The seasonally adjusted annualized rate of housing starts rose 1.1% to 275,329 units from a revised 272,381 units in June. Analysts had forecasts starts would dip to 262,100.

Wednesday August 17th, 2022

- **Gasoline price drop weighs on U.S. retail sales**
  U.S. retail sales were unexpectedly unchanged in July as falling gasoline prices weighed on receipts at service stations, but consumer spending appeared to be holding up. Economists had forecast that sales would gain 0.1%.
- **Pace of future Fed hikes depends on data, no evidence inflation subsiding, July minutes show**
  Federal Reserve officials said last month that the pace of future interest rate increases would hinge on incoming data, with some saying rates would need to stay at a "sufficiently restrictive level" for "some time" in order to control inflation, according to the minutes of the July 26-27 session.
- **U.S. business inventories increase solidly in June**
  Business inventories rose 1.4% after advancing 1.6% in May. Inventories increased 18.5% on a year-on-year basis in June. Retail inventories increased 2.0% in June, as estimated in an advance report published last month.
- **Cooler U.S. inflation lowers odds of 75-basis-point rate hike in Canada**
  Overnight swap markets suggest about a 45 per cent chance that officials led by Governor Tiff Macklem will increase borrowing costs by three quarters of a percentage point at their Sept. 7 decision. Bets were trimmed from around 60 per cent, before U.S. consumer price data.

Thursday August 18th, 2022

- **U.S. weekly jobless claims dip as labor market remains resilient**
  Initial claims for state unemployment benefits slipped 2,000 to a seasonally adjusted 250,000 for the week ended Aug. 13. Data for the prior week was revised to show 10,000 fewer claims filed than previously reported. Economists had forecast 265,000 applications for the latest week.
- **Philadelphia Fed manufacturing index unexpectedly rises in August**
  The Philadelphia Federal Reserve's monthly manufacturing index rose to 6.2 this month from negative 12.3 in July, topping all 30 estimates in a poll of Reuters economists, which had a median prediction for a reading of minus 5.0.
- **Canada Producer Prices Decline 2.1% in July**
  Canada's industrial product price index fell 2.1% in July from the previous month. In June, producer prices had eased 1.1% from the previous month. On a 12-month basis, the producer-price index advanced 11.9%.
- **Teranet-National Bank Index Says Prices Have Come Down From Their Peak in July**
  Teranet-National Bank Composite House Price Index fell 0.2% from June to July after seasonal adjustments. This was the first monthly decline since the one seen at the beginning of the pandemic in June 2020.

Friday August 19th, 2022

- **Fed united on need for higher rates, divided over how high**
  The Federal Reserve needs to keep raising borrowing costs to bring high inflation under control, a string of U.S. central bank officials said, even as they debated how fast and how high to lift them.
- **Canadian retail sales unexpectedly strong in June**
  Canadian retail sales rose 1.1% in June, easily beating forecasts, on pricier gasoline and higher sales at car dealerships. Analysts had expected retail sales to rise 0.3% in July. Statscan, in a preliminary estimate, said it sees July retail sales falling 0.2%.

Click on title to view the full story.

IN THE NEWS

International News

Monday August 15th, 2022

- **China unexpectedly cuts key rates as economic data disappoints**
  China's central bank cut key lending rates in a surprise move to revive demand as data showed the economy unexpectedly slowing in July, with factory and retail activity squeezed by Beijing's zero-COVID policy and a property crisis. Industrial output grew 3.8% in July from a year earlier, below the 3.9% expansion in June and a 4.6% increase expected by analysts. Retail sales, which only just returned to growth in June, rose 2.7% from a year ago, missing forecasts for 5.0% growth and the 3.1% growth seen in June.
- **Chinese developers in 'survival mode' slash property investment**
  Property investment in July fell 12.3% year-on-year, the biggest decline in 2022, while new construction starts by floor area slumped 45.4%, the largest drop since January-February 2013.
- **Japan's economy stages modest bounce from COVID jolt, global outlook darkens**
  The world's third-largest economy expanded an annualised 2.2% in April-June, marking the third straight quarter of increase but falling short of median market forecasts for a 2.5% gain. It followed a revised 0.1% rise in gross domestic product (GDP) in January-March.
- **German wholesale prices fall for the first time since October 2020**
  Prices in German wholesale fell in July for the first time in more than a year and a half. Compared to the previous month, they fell by 0.4 percent, that was the first decline since October 2020. This was caused by the development of the prices for grain, raw tobacco, seeds and animal feed, which were 8.4 percent cheaper for seasonal reasons.

Tuesday August 9th, 2022

- **German investor morale dips as inflation fuels recession angst**
  The ZEW economic research institute said its economic sentiment index fell to -55.3 points from -53.8 in July. A Reuters poll had pointed to an August reading of -53.8.
- **UK's hot labour market cools and inflation eats pay**
  The unemployment rate of 3.8% in the three months to June was unchanged from last month's report, close to a half-century low despite Bank of England warnings that the economy is likely to slip into recession later this year.
- **China to boost economic demand, speed up infrastructure**
  China is stepping up spending on infrastructure projects to prop up the flagging economy, which has been hobbled by strict COVID-19 restrictions, a troubled property market and weak consumption. Infrastructure investment grew 7.4% in the first seven months of the year from the same period a year earlier.
  The producer price index (PPI) rose 4.2% year-on-year, versus an uptick of 6.1% in June and analysts' median

Wednesday August 17th, 2022

- **UK inflation hits double digits for first time since 1982**
  Consumer price inflation in Britain jumped to 10.1% in July, the highest since February 1982. The increase from June's annual rate of 9.4% was above all economists' forecasts in a Reuters poll and fuelled bets by investors that the Bank of England will keep on hiking interest rates quickly.
- **Euro zone Q2 growth revised down slightly, employment rises**
  Eurostat said gross domestic product in the 19 countries using the euro rose 0.6% quarter-on-quarter in April-June for a 3.9% year-on-year rise. The office had previously estimated the quarterly growth at 0.7% and the year-on-year rise at 4.0%.
- **Japan posts longest run of trade gaps in 7 years as import costs soar**
  Exports grew 19.0% in July from a year earlier, posting 17 straight months of gains, beating expectations for a 18.2% gain. Imports rose 47.2% in July year-on-year to a record 10.2 trillion yen (US$76.06 billion), driven by costs of crude oil, coal and liquid natural gas. That beat expectations for a 45.7% rise and overwhelmed exports, bringing the trade deficit to 1.4368 trillion yen in July.

Thursday August 18th, 2022

- **UK consumer spending drops as inflation hit intensifies**
  Credit and debit card spending - which is based on Bank of England CHAPS interbank payment flows, and is not seasonally or inflation adjusted - was seven percentage points lower in the week to Aug. 11 than in the previous week and stood at 97% of its level in February 2020, just before the COVID-19 pandemic.
- **Euro zone July inflation confirmed at 8.9% y/y, core measure sharply up**
  The European Union's statistics office Eurostat said consumer prices in the 19 countries using the euro rose 0.1% month-on-month in July for a 8.9% year-on-year increase, the highest since the euro was created in 1999.
- **U.S., Taiwan to start formal trade talks under new initiative**
  The United States and Taiwan have agreed to start trade talks under a new initiative to reach agreements with "economically meaningful outcomes", with a Taiwan official saying China's "economic coercion" would also be discussed.

Friday August 19th, 2022

- **UK consumer sentiment hits record low as inflation soars**
  The GfK consumer sentiment index sank to a record-low -44 in August from July's reading of -41, which was already the lowest since the survey began. Economists had forecast a drop to -42.
- **Record jump in German producer prices adds to gloomy outlook**
  Producer prices surged 37.2% on the year, the biggest rise since records began in 1949. The month-on-month rise, 5.3%, was also the highest on record.
- **Japan's inflation holds above BOJ target**
  The core consumer price index rose 2.4% in July from a year earlier, matching a median market forecast. That followed a 2.2% gain in June.

Click on title to view the full story.

WEEKLY PERFORMERS – S&P/TSX

S&P/TSX: LEADERS	LAST	CHANGE	%CHG
Canopy Growth Corp	$4.96	$0.77	18.38%
Birchcliff Energy Ltd	$11.26	$1.06	10.39%
Home Capital Group Inc	$30.68	$2.21	7.76%
Loblaw Companies Ltd	$123.59	$5.60	4.75%
Imperial Oil Ltd	$61.54	$2.67	4.54%
Brookfield Infrastructure Partners LP	$55.22	$2.20	4.15%
George Weston Ltd	$161.42	$6.26	4.03%
Canadian Tire Corporation Ltd	$168.94	$6.16	3.78%
Boralex Inc	$50.10	$1.70	3.51%
Maple Leaf Foods Inc	$23.86	$0.78	3.38%

S&P/TSX: LAGGARDS	LAST	CHANGE	%CHG
New Gold Inc	$0.89	-$0.17	-16.04%
Ballard Power Systems Inc	$9.78	-$1.67	-14.59%
Shopify Inc	$44.43	-$7.57	-14.56%
Dye & Durham Ltd	$16.29	-$2.75	-14.44%
Energy Fuels Inc	$7.67	-$1.26	-14.11%
Silvercrest Metals Inc	$7.79	-$1.26	-13.92%
Denison Mines Corp	$1.34	-$0.20	-12.99%
Lightspeed Commerce Inc	$26.18	-$3.89	-12.94%
K92 Mining Inc	$7.43	-$1.07	-12.59%
Canada Goose Holdings Inc	$25.71	-$3.32	-11.44%

Source: Refinitiv

WEEKLY PERFORMERS – S&P500

S&P500: LEADERS	LAST	CHANGE	%CHG
Occidental Petroleum Corp	$71.29	$5.56	8.46%
Coterra Energy Inc	$30.30	$1.64	5.72%
Kroger Co	$49.50	$2.29	4.85%
Eli Lilly and Co	$322.77	$14.69	4.77%
Progressive Corp	$127.48	$5.71	4.69%
Devon Energy Corp	$68.51	$2.96	4.52%
CDW Corp	$188.37	$8.10	4.49%
Cisco Systems Inc	$48.70	$2.09	4.48%
J M Smucker Co	$139.77	$5.98	4.47%
Hasbro Inc	$84.00	$3.42	4.24%

S&P500: LAGGARDS	LAST	CHANGE	%CHG
Moderna Inc	$146.10	-$25.08	-14.65%
ETSY Inc	$107.01	-$12.90	-10.76%
Solaredge Technologies Inc	$300.33	-$30.19	-9.13%
Caesars Entertainment Inc	$46.71	-$4.66	-9.07%
Match Group Inc	$61.87	-$6.10	-8.97%
PENN Entertainment Inc	$34.34	-$3.36	-8.91%
Generac Holdings Inc	$256.01	-$24.51	-8.74%
DISH Network Corp	$18.39	-$1.72	-8.55%
PerkinElmer Inc	$145.13	-$12.78	-8.09%
Lam Research Corp	$476.79	-$41.80	-8.06%

Source: Refinitiv

NBF RATINGS & TARGET PRICE CHANGES

Company	Symbol	Current Rating	Previous Rating	Current Target	Previous Target
AG Growth International Inc.	AFN	Outperform	Outperform	**C$52.00**	**C$49.00**
Alimentation Couche-Tard Inc.	ATD	Sector Perform	Sector Perform	**C$63.00**	**C$59.00**
Arizona Metals Corp.	AMC	**Outperform**		**C$7.25**	
Automotive Properties Real Estate Investment T	APR.un	Sector Perform	Sector Perform	**C$13.50**	**C$13.00**
Aya Gold & Silver Inc.	AYA	Outperform	Outperform	**C$10.50**	**C$8.00**
Bank of Montreal	BMO	Sector Perform	Sector Perform	**C$151.00**	**C$152.00**
Bank of Nova Scotia	BNS	Sector Perform	Sector Perform	**C$90.00**	**C$91.00**
Canadian Imperial Bank of Commerce	CM	Outperform	Outperform	**C$83.00**	**C$84.00**
Centerra Gold Inc.	CG	Outperform	Outperform	**C$10.50**	**C$14.00**
CES Energy Solutions Corp.	CEU	Outperform	Outperform	**C$3.70**	**C$3.50**
Chemtrade Logistics Income Fund	CHE.un	**Restricted**		**Restricted**	
Crew Energy Inc.	CR	Sector Perform	Sector Perform	**C$7.50**	**C$6.75**
Crombie REIT	CRR.un	Outperform	Outperform	**C$18.00**	**C$17.50**
Exchange Income Corporation	EIF	**Restricted**		**Restricted**	
Farmers Edge Inc.	FDGE	Sector Perform	Sector Perform	**C$1.00**	**C$2.00**
Fortuna Silver Mines Inc.	FVI	Sector Perform	Sector Perform	**C$4.25**	**C$4.50**
Gold Standard Ventures Corp.	GSV		**Tender**		**C$0.39**
Granite REIT	GRT.UN	Outperform	Outperform	**C$90.00**	**C$85.00**
H&R Real Estate Investment Trust	HR.un	Outperform	Outperform	**C$16.50**	**C$15.25**
Inovalis REIT	INO.UN	Sector Perform	Sector Perform	**C$6.00**	**C$7.25**
K92 Mining Inc.	KNT	Outperform	Outperform	**C$10.75**	**C$10.50**
Lassonde Industries Inc.	LAS.A	Outperform	Outperform	**C$141.00**	**C$161.00**
Maverix Metals Inc	MMX	Sector Perform	Sector Perform	**C$6.50**	**C$6.75**
Nexus Industrial REIT	NXR.un	Sector Perform	Sector Perform	**C$11.00**	**C$10.00**
Northland Power Inc.	NPI	Outperform	Outperform	**C$49.00**	**C$47.00**
NorthWest Healthcare Properties REIT	NWH.un	**Restricted**		**Restricted**	
Pan American Silver Corp.	PAAS	Outperform	Outperform	**C$33.00**	**C$39.00**
Park Lawn Corporation	PLC	Outperform	Outperform	**C$38.00**	**C$45.00**
Q4 Inc.	QFOR	Outperform	Outperform	**C$7.00**	**C$8.00**
Royal Bank of Cda	RY	Outperform	Outperform	**C$147.00**	**C$148.00**
Sandstorm Gold Ltd.	SSL	**Outperform**	**Restricted**	**C$11.50**	**Restricted**
Shawcor Ltd.	SCL	Outperform	Outperform	**C$12.00**	**C$8.50**
Sienna Senior Living Inc.	SIA	Outperform	Outperform	**C$16.00**	**C$15.00**
SmartCentres REIT	SRU.un	Sector Perform	Sector Perform	**C$30.00**	**C$29.00**
Softchoice Corporation	SFTC	**Outperform**	**Sector Perform**	**C$28.00**	**C$25.00**
Taiga Motors Corp.	TAIG	Outperform	Outperform	**C$8.00**	**C$9.00**
Tidewater Midstream and Infrastructure Ltd.	TWM	**Outperform**	**Restricted**	**C$1.75**	**Restricted**
Trevali Mining Corporation	TV	**Underperform**	**Sector Perform**	**C$0.25**	**C$0.55**
Wesdome Gold Mines Ltd.	WDO	Outperform	Outperform	**C$15.00**	**C$16.00**
Wheaton Precious Metals Corp.	WPM	Outperform	Outperform	**C$68.00**	**C$70.00**
WSP Global Inc.	WSP	**Outperform**	**Restricted**	**C$188.00**	**Restricted**

STRATEGIC LIST - WEEKLY UPDATE

(August 15th – August 19th)

No Changes this Week

Comments

Energy (Overweight)

Enbridge Inc. (ENB)

NBF: Enbridge announced a joint venture merger transaction with Phillips 66 realigning their economic and governance interests in Gray Oak Pipeline LLC and DCP Midstream LP. Through the JV agreement, Enbridge's indirect economic interest in Gray Oak rises to 58.5% (was 22.8%) with an agreement to take operatorship of the long-haul crude pipeline from Phillips 66 in Q2/23, while also receiving a cash payment of US$400 mln from the merged entity in exchange for reducing its economic interest in DCP to 13.2% (was 28.3%), which in turn reduces ENB's commodity exposed cash flows. Of note, the 900,000 bpd Gray Oak Pipeline, which delivers crude from the Permian and Eagle Ford Basins to the Gulf Coast, compliments ENB's existing asset base including Enbridge's 1.6 mmbpd Ingleside Energy Centre (EIEC), which is currently responsible for loading ~30% of North American oil exports. Overall, with Permian oil supply expected to grow by ~2.0 mmbpd by 2030 and the Gray Oak pipeline delivering crude to the Gulf Coast, the strategic benefits associated with the company's Ingleside Export Terminal support further integration and development of new commercial initiatives. As such, despite modest near-term accretion to its estimates, NBF sees the exchange of non-core commodity exposed Midstream cash flows for increased exposure to a low-risk pipeline-utility model asset tied to the company's crude oil export strategy as further supporting valuation multiple expansion longer-term. NBF maintained its Outperform rating and $61.00 target price.

Financials (Overweight)

Canadian Imperial Bank of Commerce (CM)

NBF: Q3 preview: While every other bank released performing provisions during Q2/22, CM was the sole bank making additions. Mind you, the addition was a mere $13 mln. CM finds itself having released only 43% of its fiscal 2020 performing ACL "build", compared to a 62% peer average. NBF views the bank's strategy as conservative and expects most other banks to follow suit this quarter. A lingering question for many investors is that CM didn't add provisions because it wanted to, but because it needed to. NBF believes upcoming sector results will support the former. At 10%, CM's H1/22 expense growth rate (excl. variable comp) was well above the 4% industry average. To be fair, the bank had warned investors at the end of fiscal 2021 that it would report higher expense growth in the early part of fiscal 2022 as it stepped up initiative spending that had been put on hold during the pandemic. NBF expects a deceleration in the second half, in no small part due to the somewhat high 6% expense growth rate CM reported during H2/21 (excl. variable comp). In the current climate, NBF believes the bank could signal slower expense growth ahead. Such guidance could be particularly timely if we look ahead to H1/23, which would have favourable "comps". The bank's relatively high exposure to Canadian mortgages & HELOCs, which represent 55% of its consolidated loan book, is a cause for concern for many observers. NBF notes that delinquency rates in this portfolio sit at 22bps, compared to a 24bps peer average. LTVs on new uninsured originations over the past year averaged 65%, compared to a 69% peer average. Obviously, with such a large exposure in its loan book, NBF understands why investors would take a certain view of the bank. However, NBF does not believe the "smoke" will generate any "fire". NBF lowered CM target price by $1 to $83.00.

Royal Bank of Canada (RY)

NBF: Q3 preview: Expectations for Capital Markets are subdued given recent market performance. However, NBF also sees a few specific challenges to RY's business. For one, its exposure to investment banking fee revenue is relatively high at 26% of LTM segment revenue (vs.16% peer average) and 6% of consolidated revenue (vs. 3%). Additionally, we could see RY's trading results dragged by losses on its HY desk, where the bank is a top-10 industry player. Along with BNS, RY has released the most of its 2020 performing ACL build in the group, at 76%. The bank surprised investors during Q2/22, releasing $504 mln of performing allowances despite the backdrop at the time having become materially more volatile & uncertain. Confusing matters even more, management stated that its outlook factors in a ~50% probability of a slight recession. Regardless, NBF expects RY to resume modest additions to its performing ACL this quarter (i.e., NBF is forecasting $250 mln). Thankfully, RY's industry-high CET 1 ratio. One of the main factors to explain RY's strong relative performance so far this year is its 13.2% CET 1 ratio. This figure compares well to most peers that are operating closer to

11%, either currently or on a pro forma basis. The bank put some of this capital to work, with filings showing ~10mln shares repurchased through the end of July (compared to 14mln during Q2/22). A big question at this juncture is whether RY puts its buyback program on hold, as the economic backdrop certainly dictates more caution with regard to capital deployment. NBF lowered RY target price by $1 to $147.00.

Industrials (Market Weight)

WSP Global Inc. (WSP)

NBF: NBF is off restriction post RPS deal. RPS was purchased at 14.9x LTM pre-IFRS EBITDA (vs. WSP at 16.6x on 2022E) – EV of $975 mln; with $30 mln synergies, the forward multiple drops to 10.1x. To finance all the recent M&A, WSP has also issued $800 mln of equity (NBF assumes over-allotment will be exercised in its accretion analysis). According to NBF's math, the combined Wood Group E&I + RPS will result in 15.5% EPS accretion on 2022E EPS once full synergies cycle through while leverage will stay under 2.0x on a pro-forma basis. WSP's top line run rate is $10 bln pro forma, achieving the 2024 objective. Despite fears of awards slowdown, co's organic backlog jumped organically 19% YTD to $11.5 bln. Organic net revenue growth amounted to 5% in the Q2. Net revenue for the quarter came in at $2,109 mln (up 4% y/y), slightly below consensus at $2,126 mln and NBF at $2,053 mln. Adjusted EBITDA for the quarter (with IFRS 16 impact) came in at $352.2 mln at 16.7% margin, above Street at $347.8 mln (NBF was at $345.7 mln). Adjusted EPS stood at $1.30, in line with the Street (NBF at $1.33). WSP is using the industry M&A lull to its advantage. It has done something similar in the past: legacy WSP in 2012 (Europe coming unglued), PB in 2014 (concerns about US) and Golder during COVID. While some might call this a "buy-the-dip" mentality, we have to be mindful that public infrastructure spending has only gotten more robust while energy transition will now provide tangible growth for decades. As a result, the M&A strategy has always been backstopped by strong fundamentals. Some M&A was instantly margin accretive (Golder) while PB was an iconic asset but needed to get its margins up (it did, over time). Again, NBF believes the Co has been adept in dealing with various circumstances on each underlying asset. NBF continues to view WSP as a diversified engineering juggernaut with now leading Environment credentials (32% of top line) that support Co's Tier 1 transit and Buildings practice. NBF reiterated its Outperform rating on WSP shares while increasing the target price to $188.00 (from prior $182.00).

Information Technology (Underweight)

Kinaxis Inc. (KXS)

NBF: Kinaxis announced that it acquired Netherlands-based MPO, a unified cloud-based SaaS platform for Multi-Party Orchestration of orders, inventory and transport. The deal closed August 15, 2022, for total consideration of $45 mln of which ~75% in cash with the remaining ~25% in equity. The level of equity consideration will depend on the level of attainment of certain revenue and execution goals over the near term. NBF estimates MPO's annualized revenue run rate to be ~$9 mln. This would imply a TTM EV/S multiple of 5.0x - reasonable for an IP-focussed deal. MPO has ~66 employees and currently operates in similar industries to Kinaxis such as Pharma/Healthcare, High-Tech and Retail, with notable customers such as Johnson & Johnson, Patagonia and BP (a shared customer). While the acquisition will not have a material impact to Kinaxis's financials, NBF believes MPO's platform offering will add incremental complementary technical capabilities to Kinaxis's existing platform (RapidResponse - RR). More specifically, it will extend Kinaxis's real-time data solutions into logistics channels and provide execution capabilities in terms of organizing how products are shipped, thereby extending Kinaxis's ability to provide management beyond the loading dock (i.e., activate supply chain concurrency from planning through last-mile execution). It's NBF's understanding that MPO will continue to operate as a standalone entity with Kinaxis providing further support on execution with respect to a building pipeline for the Multi Orchestration Cloud Platform while potentially leveraging MPO's customer base for RR. Longer term, NBF sees potential for Kinaxis to integrate MPO's unique capabilities into RapidResponse with incremental revenue coming from the added functionality (module pricing) while enhancing the overall value proposition for Kinaxis's platform. Bottom line, NBF viewsthis acquisition as complementary to Kinaxis's existing tech stack with the opportunity to cross-/up-sell into MPO's existing customer base and fortify RapidResponse. NBF continues to believe KXS's valuation does not fully value a "normalized" financial run rate looking ahead, particularly given what it estimates to be a market share of less than 10%. With its expectations for accelerating momentum over the next 12-24 months, NBF reiterated its Outperform rating with a $250.00 target price.

NBF STRATEGIC LIST

Company	Symbol	Addition Date	Addition Price	Last Price	Yield (%)	Beta	% SPTSX	NBF Sector Weight
Communication Services							**5.2**	**Market Weight**
Rogers Communications Inc.	RCIb.TO	13-Feb-20	$ 65.84	$ 58.97	3.4	0.5		
Telus Corp.	T.TO	19-May-22	$ 30.64	$ 30.74	4.5	0.5		
Consumer Discretionary							**3.4**	**Market Weight**
Canadian Tire Corporation Ltd.	CTCa.TO	18-Nov-21	$ 174.10	$ 168.94	3.8	1.9		
Dollarama Inc.	DOL.TO	19-Mar-20	$ 38.96	$ 80.35	0.3	0.6		
Consumer Staples							**4.2**	**Market Weight**
Loblaw Companies Ltd.	L.TO	25-Mar-21	$ 68.50	$ 123.59	1.3	0.3		
Premium Brands Holdings Corp.	PBH.TO	17-Feb-22	$ 122.90	$ 101.04	2.7	0.7		
Energy							**17.9**	**Overweight**
Cenovus Energy Inc.	CVE.TO	16-Jan-20	$ 12.26	$ 23.64	1.7	2.5		
Enbridge Inc.	ENB.TO	21-Jan-15	$ 59.87	$ 56.25	6.1	0.9		
Tourmaline Oil Corp.	TOU.TO	13-Aug-20	$ 16.68	$ 77.98	1.2	1.4		
Whitecap Resources Inc.	WCP.TO	19-May-22	$ 10.27	$ 9.18	4.7	2.4		
Financials							**32.0**	**Market Weight**
Canadian Imperial Bank of Commerce	CM.TO	29-Mar-22	$ 78.14	$ 67.81	4.8	1.1		
Element Fleet Management Corp	EFN.TO	02-Apr-20	$ 8.58	$ 17.20	1.8	1.2		
Fairfax Financial Holdings Ltd.	FFH.TO	20-Dec-18	$ 585.81	$ 667.60	1.9	0.9		
iA Financial Corporation Inc.	IAG.TO	21-Jul-22	$ 64.09	$ 72.71	3.7	1.9		
Intact Financial Corp.	IFC.TO	11-Jun-20	$ 130.04	$ 195.54	2.0	0.8		
Royal Bank of Canada	RY.TO	19-Jun-13	$ 60.69	$ 129.05	4.0	0.9		
Health Care							**0.4**	**Market Weight**
Industrials							**12.3**	**Market Weight**
ATS Automation Tooling Systems Inc.	ATA.TO	18-Nov-21	$ 48.62	$ 42.99	0.0	0.7		
WSP Global Inc.	WSP.TO	19-May-22	$ 142.73	$ 161.62	0.9	1.7		
Information Technology								**Underweight**
Kinaxis Inc.	KXS.TO	19-Mar-20	$ 100.05	$ 160.61	0.0	0.7		
Open Text Corp.	OTEX.TO	26-Oct-16	$ 41.61	$ 49.63	2.5	0.9		
Materials							**11.3**	**Overweight**
Agnico Eagle Mines Ltd.	AEM.TO	29-Mar-22	$ 75.74	$ 56.82	3.6	0.6		
Kinross Gold Corp.	K.TO	16-Sep-21	$ 7.06	$ 4.58	3.5	0.5		
Teck Resources Ltd.	TECKb.TO	01-Nov-17	$ 27.15	$ 44.20	1.1	1.2		
REITs							**2.7**	**Underweight**
Canadian Apartment Properties REIT	CAR_u.TO	10-Dec-20	$ 49.82	$ 46.71	3.1	0.7		
Summit Industrial Income REIT	SMU_u.TO	17-Feb-22	$ 21.50	$ 19.01	3.0	1.2		
Utilities							**5.2**	**Underweight**
Capital Power Corp.	CPX.TO	22-Aug-19	$ 30.90	$ 50.54	4.6	1.2		
Innergex Renewable Energy Inc.	INE.TO	22-Aug-19	$ 15.00	$ 19.47	3.7	0.8		

Source: Refinitiv (Priced August 19, 2022 after market close)

* R = Restricted Stocks - Stocks placed under restriction while on The NBF Strategic List will remain on the list, but noted as Restricted in accordance with compliance requirements

Week Ahead

THE ECONOMIC CALENDAR

(August 22nd – August 26th)

U.S. Indicators

Date	Time	Release	Period	Previous	Consensus	Unit
22-Aug	08:30	National Activity Index	Jul	-0.19		Index
23-Aug	09:45	**S&P Global Mfg PMI Flash**	Aug	52.2	51.9	Index (diffusion)
23-Aug	09:45	**S&P Global Svcs PMI Flash**	Aug	47.3	49.1	Index (diffusion)
23-Aug	09:45	S&P Global Comp Flash PMI	Aug	47.7		Index (diffusion)
23-Aug	10:00	**New Home Sales-Units**	Jul	0.590M	0.575M	Number of
24-Aug	07:00	MBA Mortgage Applications	19 Aug, w/e	-2.3%		Percent
24-Aug	08:30	**Durable Goods**	Jul	2.0%	0.5%	Percent
24-Aug	08:30	**Durables Ex-Transport**	Jul	0.4%	0.2%	Percent
24-Aug	10:00	**Pending Sales Change MM**	Jul	-8.6%	-3.8%	Percent
24-Aug	10:30	EIA Wkly Crude Stk	19 Aug, w/e	-7.056M		Barrel
25-Aug	08:30	**GDP 2nd Estimate**	Q2	-0.9%	-0.8%	Percent
25-Aug	08:30	GDP Deflator Prelim	Q2	8.9%	8.7%	Percent
25-Aug	08:30	**Core PCE Prices Prelim**	Q2	4.4%	4.4%	Percent
25-Aug	08:30	**Initial Jobless Clm**	15 Aug, w/e	250k	253k	Person
25-Aug	08:30	Jobless Clm 4Wk Avg	15 Aug, w/e	246.75k		Person
25-Aug	08:30	Cont Jobless Clm	8 Aug, w/e	1.437M	1.443M	Person
25-Aug	10:30	EIA-Nat Gas Chg Bcf	15 Aug, w/e	18B		Cubic foot
26-Aug	08:30	**Personal Income MM**	Jul	0.6%	0.6%	Percent
26-Aug	08:30	**Consumption, Adjusted MM**	Jul	1.1%	0.4%	Percent
26-Aug	08:30	**Core PCE Price Index MM**	Jul	0.6%	0.3%	Percent
26-Aug	08:30	Core PCE Price Index YY	Jul	4.8%	4.7%	Percent
26-Aug	08:30	PCE Price Index MM	Jul	1.0%		Percent
26-Aug	08:30	PCE Price Index YY	Jul	6.8%		Percent
26-Aug	08:30	Adv Goods Trade Balance	Jul	-98.59B		USD
26-Aug	08:30	Wholesale Inventories Adv	Jul	1.8%		Percent
26-Aug	08:30	Retail Inventories Ex-Auto Adv	Jul	1.5%		Percent
26-Aug	10:00	**U Mich Sentiment Final**	Aug	55.1	55.2	Index

Canadian Indicators

Date	Time	Release	Period	Previous	Consensus	Unit
22-Aug	08:30	New Housing Price Index	Jul	0.2%		Percent
25-Aug	08:30	Average Weekly Earnings YY	Jun	2.54%		Percent
25-Aug	11:00	Budget Balance, C$	Jun	2.66B		CAD
25-Aug	11:00	Budget, Year-To-Date, C$	Jun	2.66B		CAD

Source : Refinitiv

S&P/TSX QUARTERLY EARNINGS CALENDAR

Monday August 22nd, 2022

None

Tuesday August 23rd, 2022

COMPANY*	SYMBOL	TIME	EPS ESTIMATE
Bank of Nova Scotia	BNS	06:00	2.12

Wednesday August 24th, 2022

COMPANY*	SYMBOL	TIME	EPS ESTIMATE
National Bank of Canada	**NA**	**BMO**	**2.34**
Royal Bank of Canada	**RY**	**BMO**	**2.67**

Thursday August 25th, 2022

COMPANY*	SYMBOL	TIME	EPS ESTIMATE
Canadian Imperial Bank of Commerce	**CM**	**06:00**	**1.84**
Toronto-Dominion Bank	TD	BMO	2.06

Friday August 26th, 2022

COMPANY*	SYMBOL	TIME	EPS ESTIMATE
Canadian Western Bank	CWB	BMO	0.91

Source: Refinitiv, NBF Research
*Companies of the S&P/TSX index expected to report. Stocks from the Strategic List are in Bold.

S&P500 INDEX QUARTERLY EARNINGS CALENDAR

Monday August 22nd, 2022

COMPANY*	SYMBOL	TIME	EPS ESTIMATE
Nordson Corp	NDSN	AMC	2.4386

Tuesday August 23rd, 2022

COMPANY*	SYMBOL	TIME	EPS ESTIMATE
Advance Auto Parts Inc	AAP	AMC	3.76635
Intuit Inc	INTU	AMC	0.98238
J M Smucker Co	SJM	07:00	1.27436
Medtronic PLC	MDT	BMO	1.1213

Wednesday August 24th, 2022

COMPANY*	SYMBOL	TIME	EPS ESTIMATE
Autodesk Inc	ADSK	AMC	1.58919
NetApp Inc	NTAP	AMC	1.09795
NVIDIA Corp	NVDA	AMC	1.25751
Salesforce Inc	CRM	AMC	1.03142

Thursday August 25th, 2022

COMPANY*	SYMBOL	TIME	EPS ESTIMATE
Dollar General Corp	DG	BMO	2.59273
Dollar Tree Inc	DLTR	BMO	1.00296
Ulta Beauty Inc	ULTA	AMC	2.56313

Friday August 26th, 2022

None

Source: Refinitiv, NBF Research
* Companies of the S&P500 index expected to report.

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