

Keys to the market

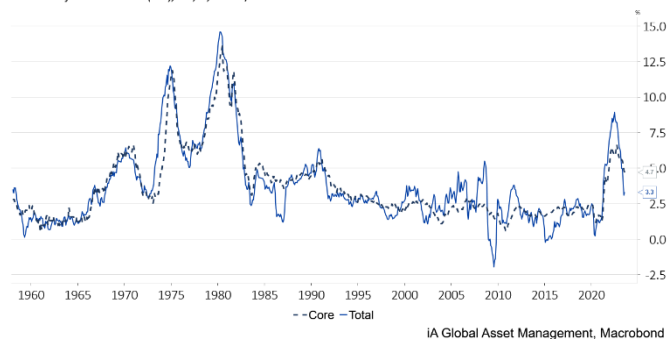
What happened this week

August 11, 2023

This week's financial market developments were mixed. In Canada, building permits rose in June, driven by growth in hospital and industrial construction projects. Even so, residential projects posted a decline for the month. Meanwhile, in the United States, the latest small business confidence report rose to an 8-month high in July as concerns over inflation fell to their lowest level in 2 years. The July CPI data released on Thursday showed a modest increase but came in lower than expected. Housing expenditures contributed the most to the increase, while used-car prices and airfares saw their biggest declines since the onset of the pandemic. Over all, the report revealed a gradual decrease in inflation, suggesting that tightening measures have been effective in curbing price pressures. As a result, the U.S. dollar edged higher amid hopes that the Federal Reserve may soon complete its rate-hiking cycle. However, sentiment turned bearish toward the end of the week when the latest PPI data came in stronger than expected, lifting bond yields and weighing on equities.

U.S.: Total & Core Inflation

U.S. Bureau of Labor Statistics (BLS), YoY, %, as at 7/2023



Bond market

The week got off to a fine start in the bond market, bolstered to a degree by better-than-expected CPI data in the U.S. Even so, yields started to rise after a weakish 30-year Treasury auction, along with comments by Fed speakers to the effect that more work was needed on inflation. Add in a higher-than-expected PPI number at week's end and lean trading levels due to thinly populated trading desks as we hit the dog days of summer, and 10-year yields rose by 10 to 15 basis points, taking levels to about 4.15%, or 85 basis points above the April nadir. Not a lot on the data front in the U.S. next week, aside from the Fed meeting minutes, while Canada will print its July CPI number,

Highlights

- U.S. CPI rose in July but was lower than expected.
- U.S. PPI surprised on the upside, triggering a sell-off in the stock and bond markets.

On our radar

- Canada: July CPI, PPI and housing starts
- United States: July retail sales and housing starts, minutes of FOMC meeting

with investors looking for signs of a meaningful shift away from hiking by North American central bankers. In spread product, the market bought into the notion of a soft landing, bringing HY down about 15 basis points and keeping IG flattish.

Stock market

The S&P 500 was largely unchanged this week as we progressed through earnings season. Possibly giving ammunition to the bulls in the soft-landing camp, U.S. core CPI data for July showed the smallest consecutive increase in more than 2 years and was in line with expectations. This development increases the probability of a pause in rate hikes at the next Fed meeting, although at least two more hikes are expected this year.

Mirroring what occurred earlier this year with Nvidia, Eli Lilly, a large-cap pharma company, was up more than 15% in a single day, which is a 5+ standard deviation event for the stock. The increase was due to better-than-expected earnings and a surprisingly good data readout from its competitor Novo Nordisk. For the first time, preliminary study results showed that patients who took Wegovy, the wildly popular weight-loss drug, had a 20% lower risk (versus placebo) of cardiovascular events, such as heart attacks and strokes. Eli Lilly has a competing product that has showed higher efficacy for weight loss and is expected to produce even better results.

Markets

(Total Return, in \$CAD)

As of August 10, 2023	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	0.13	-0.79	16.27	13.43	11.86	11.99
S&P/TSX	0.53	-1.37	6.94	5.69	10.24	7.77
NASDAQ	-0.65	-2.23	36.80	18.80	11.07	15.91
MSCI ACWI	0.29	-0.76	14.68	13.79	9.97	9.20
MSCI EAFE	0.90	-0.15	11.82	18.35	7.90	5.20
MSCI EM	-0.58	-1.81	6.55	9.76	0.51	2.30
Commodities (USD)						
Gold	-1.57	-2.68	4.85	6.70	-1.93	9.58
CRB	-0.15	-1.27	0.34	-5.13	13.61	5.70
WTI	0.00	1.25	3.19	-9.91	25.46	4.14
Fixed income						
FTSE TMX Canada Universe	-0.21	-0.74	0.62	-2.26	-4.73	0.38
FTSE TMX Canada Long	-0.37	-2.43	0.17	-6.19	-9.70	-1.02
FTSE TMX Canada Corporate Overall	-0.15	-0.49	2.10	0.27	-2.80	1.43
Currencies						
DXY	0.50	0.66	-0.96	-2.54	3.09	1.25
USDCAD	0.52	1.96	-0.77	5.27	0.24	0.47
USDEUR	0.23	0.15	-2.51	-6.20	2.25	0.78
USDJPY	2.11	1.73	10.40	8.92	10.96	5.49
USDGBP	0.57	1.26	-4.68	-3.60	1.03	0.15

Source: iA Global Asset Management, Bloomberg

	CA	US
Bond yields		
2Y	4.64	4.84
5Y	3.93	4.23
10Y	3.59	4.11
30Y	3.48	4.25
Credit spreads		
IG corporate bonds	158	122
HY bonds	340	383

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Rooted in history, innovating for the future.

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