

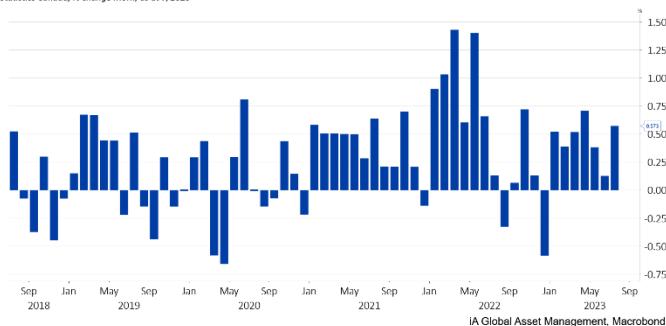
Keys to the market

What happened this week

August 18, 2023

This week, stocks and bonds retreated as market sentiment deteriorated with the release of new economic data. In Canada, the July CPI figure published on Tuesday was considerably higher than expected, signaling that the fight against inflation is far from over. Moreover, PPI data rebounded in July as the limited supply of energy and oil caused prices to surge, resulting in the first growth period since October 2022. Meanwhile, housing starts painted a slightly different picture, with data declining significantly from the June highs amid higher borrowing costs and weaker market sentiment. In the United States, July retail sales surprised on the upside with their biggest gain in six months, while the housing market continued to display resilience with an increase in housing starts for the month. The week's most notable development was the FOMC minutes, which revealed a hawkish bias as the economy remains robust and inflation above target. Even though the Fed acknowledged the lagged impact of monetary policy, the minutes stressed that further tightening may still be needed to address inflation risks.

Canada: Total Inflation
Statistics Canada, % change MoM, as at 7/2023



Bond market

Sentiment continued to fade in fixed income during the week, buffeted by the hawkish tone of the latest Fed minutes and Japan's weakest government bond auction since 1987. As a result, investors resigned themselves to higher-for-longer interest rates and are pricing them farther out on the curve, with 10-year Treasuries rising another 5 basis points and dancing around 4.3%, a jump of 50 basis points since mid-July. What's more, there is building talk of 5% peak yields for the U.S. 10-year, especially because higher Japanese yields are encouraging domestic investors to repatriate funds and will reduce demand for U.S. product. At the same time, the short

Highlights

- Canadian CPI came in higher than expected, while PPI rose for the first time since October 2022.
- In the United States, the Fed expressed concerns about upside inflation risks.

On our radar

- Canada: June retail sales and July new housing price index
- United States: July existing and new home sales, S&P manufacturing and services PMI, and Jackson Hole symposium

end enjoyed somewhat of a bid last week as ongoing damage in equities, stemming from concerns about the Chinese economy, spurred a flight to quality and caused the 2s-10s curve to become less inverted by a few basis points. The next major driver of yields will be the coming Jackson Hole symposium, where key economic and central bank speakers will opine about the state of the world. In spread product, IG and HY both tacked on a few basis points as momentum was adversely affected by ongoing equity-market weakness, but to nowhere near the same degree.

Stock market

The S&P 500 was down this week on continued worries about the deteriorating macro environment in China as well as Wednesday's publication of the latest FOMC minutes. The minutes suggested that officials are considering a tighter policy because most still see continued inflation risks. In contrast, most investors don't expect any further rate hikes this year.

Pointing to continued consumer resilience, Walmart posted a clean beat and raise, despite a decelerating spending environment. Growth in groceries was above peers' and general merchandise trends improved, suggesting share gains across its businesses. Notably, ecommerce grew 24% in the second quarter, outpacing Amazon's 11%. Curiously, in a sign that GLP-1 is entering the vernacular, much like AI, the company noted decreased demand for snacks, which could pressure revenues as more and more people start treatment.

Markets

(Total Return, in \$CAD)

| As of August 17, 2023 | WTD % | MTD % | YTD % | 1Y % | 3Y % | 5Y % |
|-----------------------------------|-------|-------|-------|-------|-------|-------|
| Equities | | | | | | |
| S&P 500 | -1.35 | -2.12 | 14.72 | 8.77 | 11.50 | 11.55 |
| S&P/TSX | -2.84 | -3.86 | 4.24 | 1.43 | 9.16 | 7.21 |
| NASDAQ | -1.39 | -4.12 | 34.15 | 14.23 | 10.07 | 15.55 |
| MSCI ACWI | -1.65 | -2.68 | 12.46 | 9.34 | 9.12 | 8.78 |
| MSCI EAFE | -2.09 | -3.25 | 8.35 | 14.24 | 6.27 | 4.77 |
| MSCI EM | -1.65 | -4.34 | 3.82 | 3.41 | -0.43 | 2.54 |
| Commodities (USD) | | | | | | |
| Gold | -1.27 | -3.85 | 3.59 | 7.25 | -1.64 | 9.79 |
| CRB | -0.71 | -2.32 | -0.73 | -6.64 | 12.81 | 5.90 |
| WTI | -3.37 | -1.72 | 0.16 | -8.76 | 23.30 | 4.05 |
| Fixed income | | | | | | |
| FTSE TMX Canada Universe | -0.80 | -1.78 | -0.43 | -2.23 | -4.81 | 0.13 |
| FTSE TMX Canada Long | -1.60 | -4.25 | -1.70 | -6.20 | -9.68 | -1.47 |
| FTSE TMX Canada Corporate Overall | -0.64 | -1.32 | 1.25 | 0.21 | -2.92 | 1.21 |
| Currencies | | | | | | |
| DXY | 0.71 | 1.69 | 0.05 | -2.82 | 3.71 | 1.51 |
| USDCAD | 0.79 | 2.70 | -0.06 | 4.90 | 0.83 | 0.73 |
| USDEUR | 0.70 | 1.15 | -1.53 | -6.36 | 2.97 | 1.02 |
| USDJPY | 0.61 | 2.49 | 11.23 | 7.99 | 11.22 | 5.71 |
| USDGBP | -0.39 | 0.69 | -5.21 | -5.48 | 0.93 | 0.00 |

Source: iA Global Asset Management, Bloomberg

| | CA | US |
|-----------------------|------|------|
| Bond yields | | |
| 2Y | 4.77 | 4.93 |
| 5Y | 4.12 | 4.41 |
| 10Y | 3.77 | 4.27 |
| 30Y | 3.58 | 4.39 |
| Credit spreads | | |
| IG corporate bonds | 157 | 126 |
| HY bonds | 330 | 395 |

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Rooted in history, innovating for the future.

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