

Keys to the market

What happened this week

August 25, 2023

The financial markets continued to process the latest influx of economic data. In Canada, retail sales for June were relatively flat but beat expectations owing to robust new car sales. Even so, core retail sales, which exclude autos, decreased during the period, signaling a weakening consumer, and suggesting that the effects of rate hikes is starting to take a toll on household budgets. July's new housing price index recorded a slight decline, marking its first dip in two months and underscoring the challenges that homebuilders face as borrowing costs put a damper on the housing market. South of the border, existing home sales declined more than expected in July, hitting their lowest level since the start of the year, and reflecting the impact of higher rates and limited availability of properties in a market that continued to deter buyers. The week ended with comments from Fed Chair Jerome Powell, who affirmed the Fed's commitment to its inflation target and willingness to tighten further, if needed.

Canada: Retail Sales
% change MoM, as at 6/2023



Bond market

All eyes were on Powell this week for signs of the direction of policy rates and indications that the central bank is finished, but he didn't provide much insight apart from the ongoing commentary about higher-for-longer rates and further increases if warranted by the data. The initial bond market response was muted to a little softer, although 10-year yields were down about 10 basis points on the week, as earlier tepid PMI data in Europe and the United States indicated slowing economic activity. Next week, we will have some U.S. labour data as well as further insights into inflation from the PCE numbers, while Canada will report GDP figures. The market is pricing in only small odds of another U.S. rate hike at the September or

Highlights

- Canadian retail sales exceeded expectations but indicated a weakening consumer.
- In the U.S., Powell reaffirmed the Fed's commitment to its inflation target.

On our radar

- Canada: Second-quarter GDP growth and S&P Global Manufacturing PMI
- United States: July PCE, Consumer Confidence Index and unemployment rate for August

November Fed meeting, so data will be watched closely in the coming weeks. In the credit markets, IG and HY were both down a few basis points as levels improved after several weeks of pressure. That being said, we expect further signs of slowing economic momentum to start weighing more heavily on risk assets.

Stock market

The S&P 500 was flat this week with notable intraday volatility as the market continued to digest the mixed macro news and waited for Powell's Jackson Hole speech. Not surprisingly, he reiterated the Fed's commitment to a 2% inflation target and the chance of more hikes this year. Even so, he hinted at the possibility of a pause at the September meeting, citing positive trends.

In earnings news, NVDA reported this week and did not disappoint. Investors had very high expectations, which the company more than handily met. Revenues were again at a record high. The data centre segment accounted for most of the beat with revenues of \$10.32 billion, an increase of almost 2.5 times over the previous quarter. What's more, the CEO thinks the company has significant visibility into next year's purchasing trends and expects shipments to continue increasing sequentially as supply ramps up. Nonetheless, the durability of the demand remains an open question; it is difficult to judge whether some of it is being pulled forward from China amid the possibility of more export controls, and there is uncertainty as to who the next set of customers will be, once the hyperscalers finish their purchases.

Markets

(Total Return, in \$CAD)

As of August 24, 2023	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	0.11	-1.66	15.26	12.30	11.12	11.53
S&P/TSX	-0.18	-3.99	4.10	2.05	9.16	7.13
NASDAQ	0.78	-3.16	35.50	19.82	9.36	15.53
MSCI ACWI	0.27	-2.21	13.01	12.86	8.93	8.72
MSCI EAFE	0.76	-2.69	8.98	17.95	6.45	4.64
MSCI EM	1.86	-3.15	5.11	7.44	-0.28	2.32
Commodities (USD)						
Gold	1.46	-2.45	5.09	9.46	-0.21	9.72
CRB	-0.04	-2.17	-0.57	-6.83	12.50	5.99
WTI	-2.71	-3.36	-1.51	-16.69	22.87	2.84
Fixed income						
FTSE TMX Canada Universe	0.23	-1.18	0.17	-0.25	-4.66	0.23
FTSE TMX Canada Long	0.49	-3.03	-0.45	-2.43	-9.38	-1.27
FTSE TMX Canada Corporate Overall	0.18	-0.87	1.70	1.73	-2.81	1.29
Currencies						
DXY	0.59	2.09	0.44	-4.32	3.68	1.79
USDCAD	0.21	2.97	0.21	4.74	0.91	0.84
USDEUR	0.58	1.73	-0.97	-7.80	2.93	1.46
USDJPY	0.30	2.49	11.22	6.35	11.23	5.56
USDGBP	1.04	1.85	-4.12	-6.37	1.20	0.39

Source: iA Global Asset Management, Bloomberg

	CA	US
Bond yields		
2Y	4.76	5.02
5Y	4.09	4.41
10Y	3.69	4.24
30Y	3.51	4.30
Credit spreads		
IG corporate bonds	158	123
HY bonds	337	391

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Rooted in history, innovating for the future.

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