

Keys to the market

What happened this week

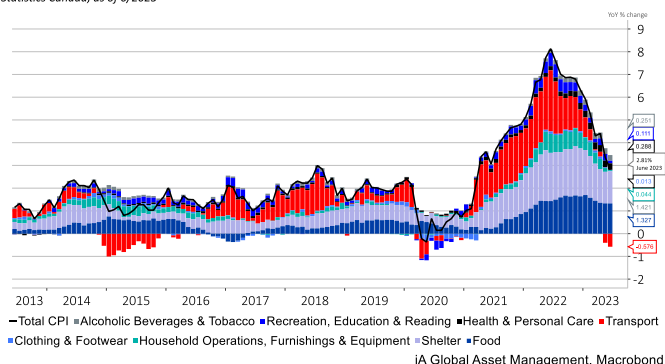
July 21, 2023

The financial markets were relatively calm during the week. In Canada, the CPI data released on Tuesday came in lower than expected, reaching the Bank of Canada's target range for the first time in two years and providing relief to investors. Even so, the battle against inflation is far from over, as core inflation remains elevated. In June, housing starts saw their largest monthly increase in a decade, buoyed by new multiunit projects. Meanwhile, retail sales for May showed signs of weakening under the effects of monetary policy.

In the United States, headline retail sales rose moderately, but surprised on the downside, painting a picture of robust consumer spending, albeit at a slower pace. Housing market data revealed a tightening inventory, with housing starts experiencing a notable decline and new listings dipping to their lowest level since the pandemic. In another sign of a weakening economy, the latest industrial production report showed a contraction in manufacturing output amid an uneven goods backdrop. Market participants will be keeping a close eye on next week's Fed meeting for any updates to its stance on monetary policy.

Canada: Contributions to Inflation

Statistics Canada, as of 6/2023



Bond market

Not a ton of action in the fixed income markets this week as the traditionally slow pace of summer continued to take hold. Yields ended mostly unchanged after bouncing around somewhat on better-than-expected jobs data in the United States toward the end of the week. All eyes are now on the Fed and its policy meeting on Wednesday, with the market modestly pricing in the possibility of another hike as we approach the end of the current cycle. In the credit markets, IG was unchanged, while HY continued its slow grind tighter, as the start of corporate earnings season in the U.S. brought few surprises.

Highlights

- Canadian CPI slowed in June, reaching the BoC's target range.
- U.S. retail sales showed signs of slowing, suggesting a decrease in the pace of consumer spending.

On our radar

- Canada: May GDP and June wholesale and manufacturing sales
- United States: Second-quarter GDP, PCE Index for June, Consumer Confidence Index for July and FOMC decision

Stock market

The S&P 500 was flat this week as the market continued to digest last week's CPI numbers as well as more data this week. Industrial production fell for the second month in a row, and manufacturing output declined in June, the most in three months. Additionally, retail sales fell short of expectations, although they were still positive. In M&A news, the FTC paused its in-house trial against Microsoft's \$69-billion acquisition of Activision Blizzard. It's worth noting that the FTC is still appealing last week's federal court ruling in favour of the merger. Although a setback for the FTC, this is a clear win for corporate M&A. As a result, we are likely to see an uptick in the back half of the year as companies get more comfortable with taking the risk. In earnings news, Netflix shares fell the most this year on the back of earnings and guidance that were below expectations. Even though its subscriber base grew 8%, more than double the sell-side estimates, Netflix generated less revenue per customer, and its guidance on third-quarter net customer adds and full-year revenues was underwhelming. On the positive side, J&J reported a beat and raise on strong procedure volume growth, which had already been largely telegraphed by UNH's earnings last week. Looking at earnings, we see that 82 of the S&P 500 companies have reported, representing 19% of the index's market cap. So far, 66% of reporters have beaten on EPS, 51% have beaten on sales and 44% have beaten on both – results that are right in line with the historical trend.

Markets

(Total Return, in \$CAD)

| As of July 20, 2023 | WTD | MTD | YTD | 1Y | 3Y | 5Y |
|-----------------------------------|-------|-------|-------|--------|-------|-------|
| Equities | | | | | | |
| S&P 500 | 0.70 | 1.54 | 15.92 | 19.27 | 12.46 | 12.13 |
| S&P/TSX | 0.86 | 1.51 | 7.30 | 11.03 | 11.36 | 7.72 |
| NASDAQ | -0.61 | 1.46 | 37.48 | 27.28 | 11.17 | 16.12 |
| MSCI ACWI | 0.43 | 1.74 | 14.35 | 19.32 | 10.11 | 9.09 |
| MSCI EAFE | -0.29 | 1.96 | 11.20 | 22.34 | 7.15 | 4.68 |
| MSCI EM | -0.95 | 2.88 | 5.59 | 9.19 | 0.45 | 1.94 |
| Commodities (USD) | | | | | | |
| Gold | 0.73 | 2.61 | 7.98 | 16.09 | 2.71 | 9.88 |
| CRB | 0.60 | 2.54 | 1.26 | -2.72 | 15.27 | 5.39 |
| WTI | 0.28 | 7.06 | -5.77 | -26.04 | 22.83 | 1.43 |
| Fixed income | | | | | | |
| FTSE TMX Canada Universe | -0.54 | -1.27 | 1.21 | 0.98 | -4.38 | 0.39 |
| FTSE TMX Canada Long | -1.05 | -3.03 | 2.20 | 0.45 | -8.85 | -0.85 |
| FTSE TMX Canada Corporate Overall | -0.34 | -0.69 | 2.26 | 2.80 | -2.42 | 1.40 |
| Currencies | | | | | | |
| DXY | 0.97 | -1.97 | -2.55 | -5.79 | 1.73 | 1.32 |
| USDCAD | -0.33 | -0.53 | -2.82 | 2.24 | -0.90 | 0.04 |
| USDEUR | 0.88 | -1.99 | -3.81 | -8.53 | 0.95 | 1.04 |
| USDJPY | 0.91 | -2.94 | 6.83 | 1.35 | 9.30 | 4.68 |
| USDGBP | 1.74 | -1.28 | -6.10 | -6.96 | -0.54 | 0.41 |

| | CA | US |
|-----------------------|------|------|
| Bond yields | | |
| 2Y | 4.64 | 4.84 |
| 5Y | 3.88 | 4.10 |
| 10Y | 3.50 | 3.85 |
| 30Y | 3.32 | 3.91 |
| Credit spreads | | |
| IG corporate bonds | 163 | 127 |
| HY bonds | 352 | 390 |

Source: iA Global Asset Management, Bloomberg

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Rooted in history, innovating for the future.

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