iA Global Asset Management

Keys to the market

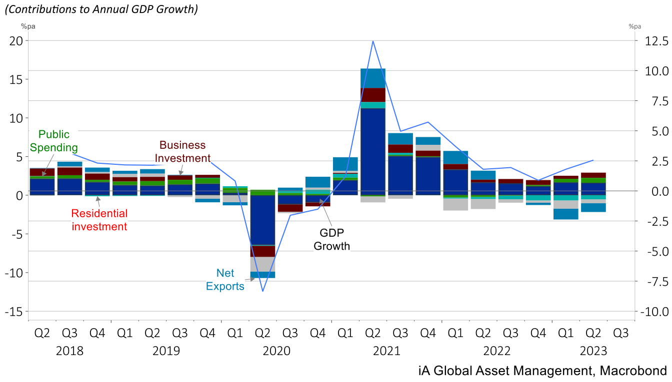
What happened this week

July 28, 2023

This week, the financial markets were focused on the FOMC decision announced on Wednesday. As expected, the Fed raised its key rate by 25 basis points, bringing interest rates to their highest level in 22 years as economic activity remained robust, albeit at a slower pace. In his comments, Fed Chair Powell hinted at additional rate hikes, stating that future decisions would continue to depend on economic data. Even so, positive sentiment continued to prevail in the market, as indicated by the July Conference Board's Index of Consumer Confidence, which surprised on the upside. Second-quarter U.S. GDP figures were well ahead of expectations, revealing a healthy economy bolstered by strong consumer spending and a tight labour market. In Canada, things were relatively quiet. June GDP reflected decelerating momentum, notably in the wholesale and manufacturing sectors. The effects of monetary policy are starting to show, as the Canadian economy enters a softer patch.

U.S. YoY Real GDP Growth

(Contributions to Annual GDP Growth)



Bond market

The fixed income markets took this week's rate hikes by the U.S. and Europe in stride, but yields jumped 10+ basis points after word emerged that the Bank of Japan would no longer maintain its ceiling on yields, which had served to anchor the bond market globally. Despite the selloff, 4% on the 10-year U.S. Treasury seems to be serving as a cap on yields; the fixed income market has priced in one more hike by the Fed this year, with cuts expected to start in the first half of 2024. As we head into August, the market will be looking toward labour data in Canada and the U.S. for clues about changes in sentiment at either central bank. In the spread markets, decent corporate earnings and a growing belief there will be no recession in the U.S. helped IG push through 120 basis points while HY dropped to 370.

Highlights

- The Fed raised interest rates by 25 basis points amid robust economic data.
- Second-quarter GDP figures revealed a healthy U.S. economy led by strong consumer spending and a tight labour market.

On our radar

- Canada: July S&P Global Manufacturing PMI and unemployment rate
- United States: June ISM services and ISM manufacturing, nonfarm payroll, and unemployment rate for July

Stock market

The S&P 500 was flat this week after the uneventful FOMC meeting. As expected, the Fed raised rates by 25 basis points and reiterated its data-dependent stance for the remainder of this year's meetings. One such data point, core PCE, came out this week and showed inflation moderating in June to its lowest annual level in 2 years, while consumer spending saw an increase. If this pattern holds, a soft landing will be quite possible. On the earnings front, the biggest surprise was META, which beat expectations and raised its guidance to 15%-25% topline growth for the next quarter, although investor expectations for revenues were significantly more muted. Moreover, engagement across its platforms was healthy, with Reels having reached an annual revenue run-rate of $10 billion, up from $3 billion only 3 quarters ago. In what is perhaps positive news for AI names, although META is cutting overall capex spending, investments in AI infrastructure remain intact. Intel reported a beat, with second-quarter revenues down significantly less than the consensus, and provided guidance that exceeded expectations. The beat was broad based, and the company's plan of five nodes in 4 years was reconfirmed. On the flip side, Intel forecast a weaker spending environment in the data centre market and continued inventory digestion, which was not a surprise because hyperscalers had already telegraphed that they were prioritizing AI spends over traditional servers. Even though Intel had an impressive quarter over all, expectations were quite low, and a full turnaround for the company is probably still years away.

Markets
(Total Return, in $CAD)

As of July 27, 2023	WTD	MTD	YTD	1Y	3Y	5Y
Equities						
S&P 500	-0.05	1.76	16.17	17.40	13.17	12.15
S&P/TSX	-0.69	1.36	7.14	9.44	11.33	7.73
NASDAQ	0.17	1.61	37.68	25.59	12.66	16.45
MSCI ACWI	0.12	2.07	14.72	18.08	10.72	9.10
MSCI EAFE	0.68	2.64	11.94	22.35	7.58	4.64
MSCI EM	3.29	4.80	7.56	10.57	1.21	1.99
Commodities (USD)						
Gold	-0.81	1.39	6.69	12.21	0.06	9.71
CRB	0.82	3.43	2.13	-2.27	14.57	5.53
WTI	3.92	13.38	-0.21	-17.65	24.40	3.12
Fixed income						
FTSE TMX Canada Universe	-1.13	-1.97	0.48	-1.77	-4.60	0.39
FTSE TMX Canada Long	-2.15	-4.37	0.79	-4.26	-9.21	-0.83
FTSE TMX Canada Corporate Overall	-0.76	-1.11	1.83	0.61	-2.68	1.43
Currencies						
DXY	0.69	-1.11	-1.69	-4.40	2.80	1.46
USDCAD	0.00	-0.14	-2.43	3.11	-0.33	0.26
USDEUR	1.33	-0.63	-2.48	-7.09	2.30	1.21
USDJPY	-1.59	-3.35	6.38	2.13	9.80	4.66
USDGBP	0.45	-0.72	-5.57	-4.98	0.22	0.47

	CA	US
Bond yields		
2Y	4.79	4.93
5Y	4.02	4.24
10Y	3.61	4.00
30Y	3.42	4.04
Credit spreads		
IG corporate bonds	159	120
HY bonds	340	378

Source: iA Global Asset Management, Bloomberg

About iAGAM
A magnet for top investment talent, iA Global Asset Management is one of Canada's largest asset managers, with over $100 billion under management across institutional and retail mandates. We help investors achieve their long-term wealth creation goals through innovative investment solutions designed for today's complex markets. We are building upon our historic success, supporting the growth of our core strengths, and exploring innovative ways to meet investor needs. We are rooted in history and innovating for the future. Our experienced portfolio managers use a proprietary investment methodology, rooted in iAGAM's unifying commitment to strong risk management, analytical rigour and a disciplined, process-driven approach to asset allocation and security selection.

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