

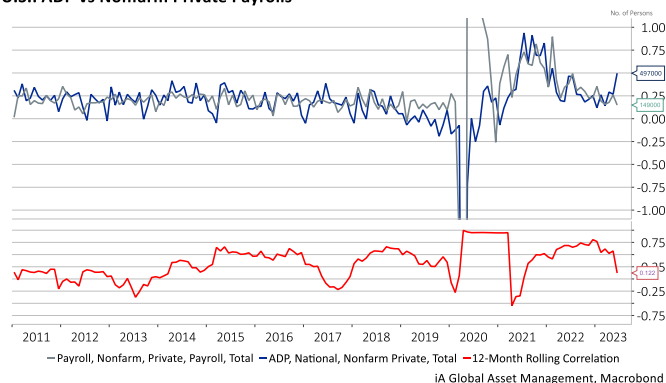
Keys to the market

What happened this week

July 7, 2023

This week, the financial markets continued to react to the latest economic data. In Canada, the Manufacturing PMI report indicated a slowdown in economic activity, while employment numbers surprised on the upside, portraying a slightly different narrative. Similarly, in the United States, the ISM Manufacturing PMI report showed a contraction for June, with its lowest reading since May 2020. Even so, the Fed minutes released on Wednesday dominated the news and evidenced a much more hawkish stance, increasing the probability of a rate hike at the July 26 meeting. The ADP numbers released on Thursday caught investors off guard, coming in much stronger than expected and further highlighting the resilience of the U.S. labour market and the need to tame inflation. As a result, yields rallied across the curve and stocks posted losses as investors braced for further tightening. Finally, Friday saw the release of employment data that demonstrated a job market that is still robust but showing signs of a gradual slowdown.

U.S.: ADP vs Nonfarm Private Payrolls



Bond market

It was another tough week for fixed income as yields in the U.S. increased by roughly 15 basis points (30 basis points higher the past 2 weeks), with 10-years breaching 4% for the first time since March and 2-years piercing 5%. In Canada, the damage was even more acute as 10s jumped higher by 25 basis points to eclipse 3.5%. Continuing strong labour conditions, punctuated in the U.S. by an outsized ADP report, and central bankers' ongoing determination to tame inflation are the primary culprits that have reinvigorated bearish sentiment in the bond market over the past couple of months. That being said, we seem to be near the top of the hiking cycle, with only one or two more moves higher left to go and futures pricing in cuts starting early next year.

Highlights

- In the United States, the ISM Manufacturing PMI contracted to its lowest level since May 2020.
- The U.S. job market remains strong, although there are signs of a slowdown.

On our radar

- Canada: Building permits for May and BoC interest rate decision
- United States: CPI and PPI for June

Next up, on July 12 we have both the BoC decision (an expected 25-basis-point hike) and CPI in the U.S. – a couple of key inputs that will determine sentiment in bonds. In the spread markets, IG tacked on 5 basis points and HY added 10 as investors were spooked by the weakening momentum in bond prices and the growing possibility of a recession.

Stock market

The S&P 500 Index was largely flat this week after the release of the FOMC minutes, which showed diverging opinions on the rate pause at its June meeting. The minutes also showed that almost all agreed that more tightening will most likely be needed. The payroll numbers released this week came in below forecasts but are still rising at a healthy pace, while unemployment dropped and wage growth rose year over year. In other news, the struggle for control over the semiconductor industry intensified, with China retaliating in response to the U.S. ban on exports of semiconductor manufacturing equipment. China imposed restrictions on exports of gallium and germanium, two rare earth metals that are crucial in the manufacture of semiconductors, telecom equipment and electric vehicles. China accounts for 94% of the world's gallium production. It is difficult to predict the impacts, but we note that both metals are byproducts of the processing of other commodities. Higher prices will most likely encourage production elsewhere and could erode China's dominance in the longer term. We continue to believe in the AI theme and we're confident that the semiconductor players will be able to manage the new restrictions because current demand far outstrips supply.

Markets

(Total Return, in \$CAD)

As of July 6, 2023	WTD	MTD	YTD	1Y	3Y	5Y
Equities						
S&P 500	0.00	0.00	14.16	19.13	12.78	12.19
S&P/TSX	-1.66	-1.66	3.94	9.31	11.41	7.14
NASDAQ	0.26	0.26	35.86	29.95	11.95	16.36
MSCI ACWI	-0.56	-0.56	11.77	18.55	10.09	8.91
MSCI EAFE	-1.72	-1.72	7.18	20.29	6.33	4.12
MSCI EM	0.66	0.66	3.31	5.99	-0.04	1.80
Commodities (USD)						
Gold	-0.44	-0.44	4.76	9.89	2.30	8.76
CRB	1.09	1.09	-0.17	-4.74	15.26	4.86
WTI	1.64	1.64	-10.54	-27.13	20.90	-0.55
Fixed income						
FTSE TMX Canada Universe	-1.34	-1.34	1.14	1.37	-4.19	0.32
FTSE TMX Canada Long	-2.49	-2.49	2.77	2.46	-8.29	-0.89
FTSE TMX Canada Corporate Overall	-0.99	-0.99	1.96	2.94	-2.24	1.29
Currencies						
DXY	0.25	0.25	-0.34	-3.67	2.17	1.89
USDCAD	0.95	0.95	-1.37	2.50	-0.42	0.43
USDEUR	0.19	0.19	-1.68	-6.49	1.27	1.52
USDJPY	-0.17	-0.17	9.88	5.97	10.30	5.45
USDGBP	-0.29	-0.29	-5.16	-6.40	-0.65	0.84

	CA	US
Bond yields		
2Y	4.75	4.98
5Y	3.92	4.35
10Y	3.49	4.03
30Y	3.25	4.00
Credit spreads		
IG corporate bonds	164	129
HY bonds	355	410

Source: iA Global Asset Management, Bloomberg

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Rooted in history, innovating for the future.

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