

Keys to the market

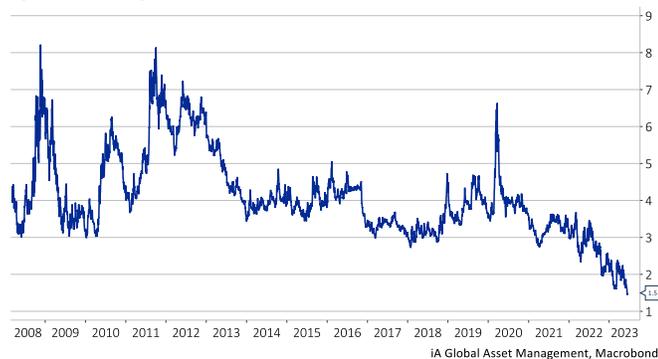
What happened last week

June 16, 2023

One week after the Bank of Canada's surprise rate hike, the Fed paused at its June meeting but indicated that two more hikes would come later this year. Both decisions received mixed reactions from the markets. In Canada, we think the decision was premature because we expect the economic data to deteriorate. Moreover, the uptick in unemployment that was announced after the decision could be an early indicator. In the United States, we cannot but question the relevance of the June pause if central bankers are so hawkish about the strength of the economy and the path of inflation. China's struggling recovery, combined with its stimulus announcements this week, casts further doubt on the global outlook. Even so, equities had their best week since March on expectations of rate cuts, owing to a potential policy mistake. U.S. stocks are officially in a bull market after their fall 2022 trough. Whether a rally driven mostly by AI frenzy in the tech sector has legs in an already expensive stock market is still up for debate.

S&P 500: Equity Risk Premium

Using 12-Month Fwd Earnings and U.S. 10 Year Rate



iA Global Asset Management, Macrobond

Bond market

Investor reaction to U.S. CPI in line with estimates and the Fed's pause was decently muted in 10-year Treasuries, which came down only 10 basis points before giving most of that back on Friday on hawkish talk from a couple of Fed speakers who emphasized the need to remain vigilant against inflation. Investors were more attuned to the potential for another hike down the road, spiking levels 20 basis points and driving the 2s-10s curve inversion down another 10 basis points to close in on the recent March lows. The balance between recession worries and a hawkish Fed will most likely keep curve inversion front and centre in the near term, especially with no big data releases this week. In credit, there were no thoughts of recession, as HY and IG

Highlights

- The Fed pauses but signals that two more hikes are to come.
- Stock markets had their best week since March 2023.

On our radar

- Canada: April retail sales and the Bank of Canada's summary of deliberations
- United States: May housing starts and existing home sales, and June PMI.

shaved off another 5 to 10 basis points, consistent with the rally in equities.

Stock market

The S&P 500 edged higher in the early part of the week on the back of the latest CPI report, which showed U.S. inflation slowing in May. Overall inflation and core inflation both decelerated year over year. Overall CPI increased 0.1% and now stands at 4%, its lowest level since March 2021. Core inflation rose 0.4% for the third straight month but was in line with estimates.

In other news, AMD had its much-anticipated data centre and AI technology event, which showcased its new line of enterprise-level processors and data centre roadmap. Most important, management offered impressive architecture details on the previously announced MI300 processors, which are expected to compete with NVIDIA in the AI training and inferencing market. The MI300X can deliver 2.4x higher memory density and 1.6x the bandwidth versus NVIDIA H100s, which, as management noted, should enable large language models to run directly in memory, reducing the number of GPUs needed and accelerating performance.

We continue to take an optimistic view of AMD's outlook; although NVIDIA will most likely remain the AI hardware leader in the near term, the market is large enough to support multiple players.

Markets

(Total Return, in \$CAD)

| As of June 15, 2023 | WTD% | MTD% | YTD% | 1Y% | 3Y% | 5Y% |
|-----------------------------------|-------|-------|--------|--------|-------|-------|
| Equities | | | | | | |
| S&P 500 | 2.44 | 3.26 | 13.58 | 21.60 | 13.74 | 11.77 |
| S&P/TSX | 0.80 | 2.53 | 4.86 | 5.56 | 12.57 | 7.44 |
| NASDAQ | 3.95 | 3.80 | 35.68 | 34.05 | 14.72 | 16.00 |
| MSCI AWCI | 2.27 | 3.27 | 12.43 | 20.79 | 11.65 | 8.69 |
| MSCI EAFE | 1.88 | 3.22 | 10.60 | 22.44 | 9.05 | 4.32 |
| MSCI EM | 1.72 | 4.31 | 5.86 | 6.27 | 3.88 | 1.25 |
| Commodities (USD) | | | | | | |
| Gold | -0.16 | -0.24 | 7.35 | 6.77 | 4.31 | 8.89 |
| CRB | 1.29 | 2.12 | -0.33 | -11.51 | 14.92 | 4.21 |
| WTI | 0.64 | 3.72 | -12.01 | -38.76 | 23.91 | 1.65 |
| Fixed Income | | | | | | |
| FTSE TMX Canada Universe | 0.31 | -0.67 | 1.78 | 4.27 | -3.81 | 0.55 |
| FTSE TMX Canada Long | 0.59 | -0.97 | 3.24 | 7.04 | -7.82 | -0.59 |
| FTSE TMX Canada Corporate Overall | 0.34 | -0.25 | 2.51 | 5.29 | -1.80 | 1.48 |
| Currency | | | | | | |
| DXY | -1.39 | -2.12 | -1.36 | -2.89 | 1.83 | 1.50 |
| USDCAD | -0.88 | -2.59 | -2.44 | 2.58 | -0.86 | 0.06 |
| USDEUR | -1.78 | -2.33 | -2.18 | -4.55 | 1.14 | 1.18 |
| USDJPY | 0.64 | 0.68 | 6.99 | 4.82 | 9.34 | 4.86 |
| USDGBP | -1.66 | -2.69 | -5.49 | -4.75 | -0.47 | 0.77 |

Source: iA Global Asset Management, Bloomberg

| | CA | US |
|-----------------------|------|------|
| Bon yields | | |
| 2Y | 4.49 | 4.64 |
| 5Y | 3.64 | 3.91 |
| 10Y | 3.33 | 3.72 |
| 30Y | 3.21 | 3.84 |
| Credit spreads | | |
| IG corporate bonds | 164 | 137 |
| HY bonds | 360 | 421 |

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Rooted in history, innovating for the future.

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