iA Investment Management

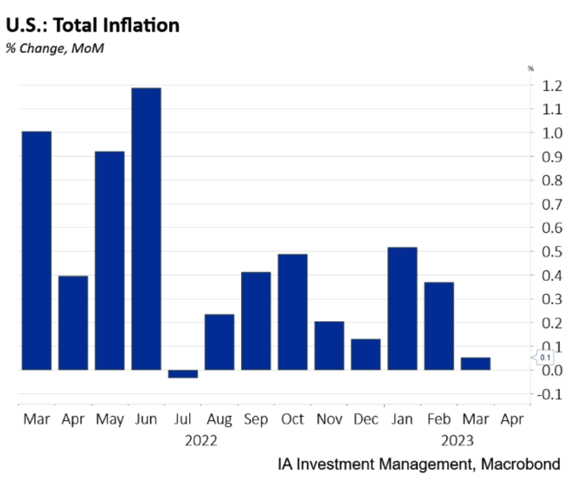
Keys to the market

What happened last week

April 14, 2023

Market sentiment was positive for most of the week as a result of softening economic data. The March CPI report released on Wednesday came in lower than expected, offering temporary solace to the markets while putting pressure on the U.S. dollar. PPI and retail sales data were in negative territory, also falling short of consensus estimates. Stocks and bonds alike rallied on signals of cooling inflation and optimism that the central banks have almost finished hiking rates.

The upbeat tone was short-lived, however. Both asset classes reversed their gains after the Fed minutes scaled back expectations of a peak rate and revealed that the probability of a recession this year has increased because of the recent banking crisis. In Canada, the BoC kept the policy rate unchanged at 4.5% on the grounds that current monetary policy is restrictive enough to tame sticky inflation. With a recession looking more likely, the impact of economic growth on corporate earnings will be the focus in the coming earnings season.



Bond market

Yields backed up roughly 20 basis points last week, initially on inflation that was sticky, albeit slightly lower than expected. At week's end, market sentiment weakened further after hawkish comments by Fed Governor Christopher Waller about monetary tightening. Adding to the adverse momentum in Canada were comments from BoC Governor Tiff Macklem, who said that policy rates will most likely stay where they are for a while. With little in the way of market-moving data during the week, investors had some time to adjust to the growing reality that inflation will keep central bankers hawkish for the foreseeable future, now that the regional banking scare in the United States seems to be in the rear-view mirror. In the credit markets, HY and IG spreads narrowed a touch as we moved further away from the risk-off tone that prevailed in March.

Highlights

- The CPI reading came in lower than expected, prompting a sense of optimism in the markets.
- That said, the Fed minutes indicated that further rates hikes may be necessary and that a recession may be close.

On our radar

- Canada: Retail sales for February and CPI and Housing starts for March
- United States: Building permits, housing starts and existing home sales for March

Stock market

It was yet another good week for the stock market, as investors welcomed CPI data pointing to a continued decrease in inflation. All eyes turned toward the first-quarter earnings season, which officially started on Friday. JP Morgan & Chase kicked things off with better-than-expected results fuelled partly by deposit inflows due to the regional bank crisis.

As for consensus S&P expectations, sales are expected to grow 2.1% in the first quarter of 2023 while earnings are expected to decline 7.3%, driven by margin compression. With cuts to earnings forecasts widely expected this quarter, companies should beat earnings by only about 2%, in contrast to the historical 4% beat.

Multiple data sets are pointing to a continued slowdown in April, which should see companies cut their guidance. Expectations on that front are for a 4 to 5% cut for the reminder of the year. This would put the earnings revision from the peak at about 15%, in line with the average earnings cut we see for a recession.

Markets

(Total Return, in $CAD)

As of April 13, 2023	WTD %	MTD%	YTD%	1Y%	3Y%	5Y%
Equities						
S&P 500	0.28	-0.22	7.13	0.44	14.67	12.58
S&P/TSX	1.82	2.42	7.08	-2.74	16.92	9.43
NASDAQ	-0.38	-1.71	18.28	-2.37	14.62	15.97
MSCI ACWI	0.67	0.23	7.85	2.05	13.16	9.35
MSCI EAFE	1.38	1.40	9.86	10.44	11.24	4.89
MSCI EM	0.28	-0.42	3.46	-2.44	5.49	0.80
Commodities (USD)						
Gold	1.61	3.60	11.85	3.16	5.95	8.67
CRB	0.40	-0.49	-1.24	-14.27	15.64	4.50
WTI	1.81	8.58	2.37	-21.19	54.20	4.04
Fixed Income						
FTSE TMX Canada Universe	-0.93	-0.18	3.03	-0.64	-2.03	0.99
FTSE TMX Canada Long	-1.53	-0.35	4.35	-4.10	-4.93	0.00
FTSE TMX Canada Corporate Overall	-0.66	0.14	2.94	0.49	0.07	1.74
Currencies						
DXY	-1.06	-1.46	-2.43	1.14	0.55	2.38
USDCAD	-1.30	-1.32	-1.60	6.13	-1.38	1.13
USDEUR	-1.28	-1.88	-3.08	-1.38	-0.42	2.22
USDJPY	0.32	-0.21	1.11	5.54	7.15	4.31
USDGBP	-0.84	-1.49	-3.52	4.74	-0.05	2.60

Source: iA Investment Management, Bloomberg

	CA	US
Bond yields		
2Y	3.82	3.97
5Y	3.12	3.50
10Y	2.97	3.44
30Y	3.07	3.69
Credit spreads		
IG corporate bonds	174	142
HY bonds	383	449

About iAIM

A magnet for top investment talent, iA Investment 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 iAIM's unifying commitment to strong risk management, analytical rigor and a disciplined, process-driven approach to asset allocation and security selection.

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