

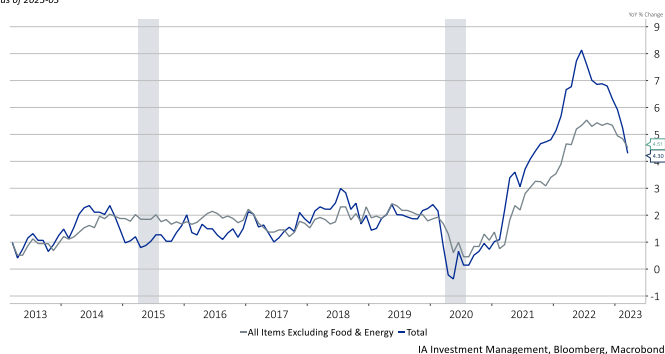
Keys to the market

What happened last week

April 21, 2023

The equity and bond volatility indices continued to fall as the financial markets settled into a lull. In Canada, where the central bank maintained a pause on rate hikes, the CPI data were in line with expectations and confirmed the trend toward moderating inflation. February retail sales also hit a soft patch, but the underlying data were mixed; auto sales were up during the month. South of the border, March U.S. housing starts and existing home sales came in way below expectations. The softer data drove bond yields lower during the week despite firm expectations that the Fed will deliver a 25-bps rate hike early in May. Cash levels among global fund managers have fallen slightly as more funds flow into fixed income and tech stocks, revealing signs of a slight improvement in market sentiment.

Canada: Total and Core Inflation
as of 2023-03



Bond market

The bond markets continued to settle last week as we moved further away from the banking turmoil that characterized March, with yields drifting down by several basis points as some corporate earnings weakness in the latter half spurred a modest risk-off tone. This week, GDP numbers in Canada and the United States will tell us whether the central bank hiking cycles are biting into economic activity. In the credit markets, we saw IG back up several basis points and HY move out by 10+ on earnings weakness, but we think the bigger drive wider as the year unfolds will be building signs of recession, only part of which is captured in corporate profitability.

Highlights

- Volatility was less pronounced during the week as the stock and bond markets settled down.
- Canadian CPI and retail sales data showed signs of slowing inflation.

On our radar

- Canada: February GDP
- United States: March new home sales, PCE deflator and durable goods orders; April consumer confidence and University of Michigan sentiment.

Stock market

The first quarter earnings season is in full swing, with 18% of the S&P 500 market cap having reported so far. Overall, the results are better than the historical average, on the top and bottom lines, but mainly because estimates have recently fallen off a cliff since the beginning of 2023. Interestingly, the reaction of stocks is also positively skewed when compared to the past. This dynamic can be attributed to positioning, which is leaning toward the bearish side, as the consensus expectation is for negative earnings revisions this quarter.

This week will be the most important time for earnings as the mega-cap tech companies, which have been the key drivers of market performance since the beginning of the year, start reporting. We think their results could be key in determining the market's direction for the next couple of months.

Markets

(Total Return, in \$CAD)

As of April 20, 2023	WTD %	MTD%	YTD%	1Y%	3Y%	5Y%
Equities						
S&P 500	0.47	-0.04	7.33	1.46	13.67	12.29
S&P/TSX	0.25	2.75	7.43	-3.13	16.19	9.20
NASDAQ	-0.07	-2.08	17.85	-0.11	12.51	15.54
MSCI ACWI	0.55	0.58	8.23	3.21	12.36	9.11
MSCI EAFE	0.77	2.17	10.68	11.75	10.91	4.75
MSCI EM	-0.41	-0.55	3.33	0.54	4.59	0.62
Commodities (USD)						
Gold	0.03	1.80	9.91	2.40	5.74	8.45
CRB	0.15	0.02	-0.73	-14.24	16.21	4.33
WTI	-6.34	2.14	-3.70	-24.78	-227.11	2.48
Fixed Income						
FTSE TMX Canada Universe	0.50	-0.14	3.07	0.80	-2.60	1.10
FTSE TMX Canada Long	0.99	-0.14	4.58	-1.34	-5.91	0.28
FTSE TMX Canada Corporate Overall	0.54	0.37	3.17	1.98	-0.51	1.86
Currencies						
DXY	0.28	-0.65	-1.62	1.44	0.62	2.43
USDCAD	0.77	-0.29	-0.57	7.82	-1.61	1.10
USDEUR	0.20	-1.20	-2.42	-1.06	-0.33	2.29
USDJPY	0.34	1.04	2.38	4.99	7.65	4.51
USDGBP	-0.25	-0.86	-2.90	5.02	-0.02	2.38

Source: iA Investment Management, Bloomberg

	CA	US
Bond yields		
2Y	3.79	4.14
5Y	3.15	3.63
10Y	2.97	3.53
30Y	3.07	3.74
Credit spreads		
IG corporate bonds	169	138
HY bonds	379	454

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ROOTED IN HISTORY, INNOVATING FOR THE FUTURE.

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