

# Keys to the market

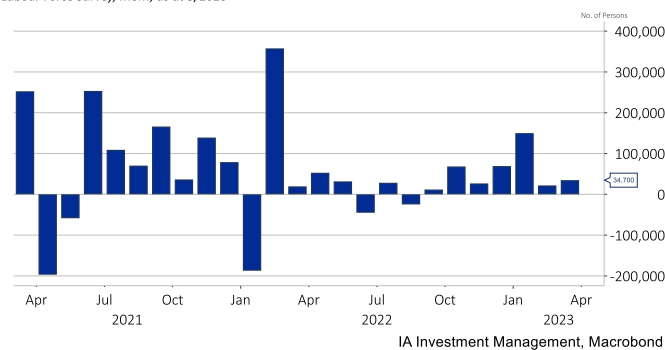
## What happened last week

April 6, 2023

Renewed concerns over economic growth, particularly in the United States, where economic data disappointed throughout the week, pushed bond yields lower. Perceived risks from banking sector stress receded, supporting stock prices as well as corporate spreads in the sector. Deposits seem to have normalized, and flows to money market funds are slowing, both of which should provide further support. In Canada, employment surprised positively, and March's increase in net new jobs helped drive the unemployment rate down to 5.0%. Despite the negative economic surprises of late, several U.S. central bankers continue to guide markets to expect another rate hike in May. The nonfarm payroll and CPI numbers to be published next week will provide further clarity regarding the next steps for monetary policy south of the border.

### Canada: Net Change in Employment

Labour Force Survey, MoM, as at 3/2023



## Bond market

Softer-than-expected job numbers in the United States, combined with weak ISM data, pushed yields down another 10+ basis points during the week as the market's focus shifted from fears of a regional banking crisis to the growing reality that aggressive moves by the Federal Reserve over the past year have tilted the U.S. economy closer to a hard landing. Meanwhile in Canada, a hotter-than-expected jobs report kept yields from dropping as much as in the United States but still managed to shave off another 5 basis points or so. In the coming week, we will see whether the CPI is still giving the Fed cause for concern or is starting to wane more meaningfully, along with slowing economic activity, which will prompt bond yields to decline further. As for credit, the broadening blemishes in the U.S. economic performance moved spreads out by a few basis points for IG and more than 20 for HY, as those asset classes stand to

## Highlights

- Weak economic data in the U.S. brings yields lower, as the economy starts to feel the effects of the central bank's aggressive moves.
- Even so, the central bank seems to suggest that further rate hikes are on the way.

## On our radar

- Canada: Bank of Canada rate decision, February manufacturing sales and March existing home sales
- United States: March nonfarm payroll and average hourly earnings, CPI, PPI, retail sales and April University of Michigan sentiment

bear the brunt of negative investor sentiment in the fixed-income world, should a recession emerge.

## Stock market

The S&P 500 Index took a breather during the week, as numerous indicators came in unexpectedly soft. Monday's ISM indexes pointed toward a slowing U.S. economy with lower pricing pressures, as well as a contraction in manufacturing output and employment. Furthermore, the JOLTS data showed that, for the first time since 2021, U.S. job openings fell below 10 million. The number of open positions declined month over month to 9.9 million from 10.6 million, a figure that had already been revised downward. Lastly, private payrolls in March missed by a wide margin (145,000 versus 210,000), with most gains concentrated in the service sector.

This combination of data renewed fears of a U.S. recession, causing a clear sector rotation within the S&P 500. Tech and software underperformed, while traditionally defensive sectors, such as consumer staples and health care, outperformed. We think health care will continue to trend upward, as perceived overhangs lift over time. Most recently, Medicare Advantage reimbursement cuts proved to be less severe than had been feared, leading to an uplift in managed care organizations, such as UNH, which have underperformed this year.

# Markets

(Total Return, in \$CAD)

As of April 5, 2023	WTD %	MTD%	YTD%	1Y%	3Y%	5Y%
<b>Equities</b>						
S&P 500	-0.91	-0.91	6.39	-0.42	18.10	12.05
S&P/TSX	0.40	0.40	4.97	-5.01	19.50	8.90
NASDAQ	-2.09	-2.09	17.83	-5.26	18.05	15.66
MSCI ACWI	-0.72	-0.72	6.83	0.55	16.14	8.92
MSCI EAFE	-0.02	-0.02	8.32	7.53	13.23	4.60
MSCI EM	-0.66	-0.66	3.21	-4.32	7.21	0.53
<b>Commodities (USD)</b>						
Gold	2.61	2.61	10.78	5.05	7.63	8.78
CRB	-1.13	-1.13	-1.87	-14.25	14.47	4.51
WTI	6.53	6.53	0.44	-20.94	41.69	4.87
<b>Fixed Income</b>						
FTSE TMX Canada Universe	0.79	0.79	4.03	-0.56	-1.56	1.21
FTSE TMX Canada Long	1.08	1.08	5.85	-5.09	-4.40	0.37
FTSE TMX Canada Corporate Overall	0.83	0.83	3.64	0.36	0.76	1.89
<b>Currencies</b>						
DXY	-0.64	-0.64	-1.61	2.39	0.42	2.40
USDCAD	-0.43	-0.43	-0.71	7.78	-1.78	1.09
USDEUR	-0.61	-0.61	-1.83	0.00	-0.33	2.34
USDJPY	-1.16	-1.16	0.15	6.25	6.55	4.11
USDGBP	-1.01	-1.01	-3.04	4.90	-0.53	2.36

Source: iA Investment Management, Bloomberg

	CA	US
<b>Bond yields</b>		
2Y	3.56	3.78
5Y	2.88	3.37
10Y	2.79	3.31
30Y	2.96	3.57
<b>Credit spreads</b>		
IG corporate bonds	177	145
HY bonds	405	484

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ROOTED IN HISTORY, INNOVATING FOR THE FUTURE.

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