

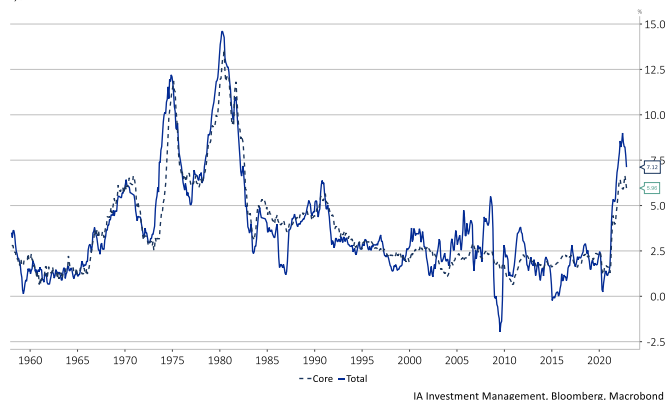
Keys to the market

What happened last week

December 16, 2022

A surprise downshift in inflation in the United States was the week's main headline, which initially pushed asset prices up sharply. This number adds to the peak inflation narrative and fuels fears that central banks might overdo it. Indeed, there was a flurry of rate hikes around the globe. The US Fed raised its key rate 50 bps, in line with market expectations, while downgrading next year's growth profile and indicating restrictive monetary policy will persist for the time being. Consequently, the expected terminal rates moved higher in the United States; the equity markets were taken by surprise, while bond yields erased their initial reaction. The European Central Bank used similar language, causing European bond yields to rise by more than 25 bps on average.

U.S.: Total & Core Inflation
YoY, %



Bond Market

The final set of potential major market movers in fixed income came and went, with little to show in terms of impact. Softer-than-expected CPI data in the U.S. did bring yields in North America down about 10 basis points or so, but the ensuing central bank action south of the border and in Europe were taken in stride and had little effect. The main message was that United States inflation has most likely peaked, and yields are on their way down as a result. At the same time, we think the US Fed will remain vigilant in its fight against inflation. The terminal rate could be higher than that currently priced in, and there may still be upward pressure on yields, but we have in all likelihood seen the highs of the current cycle. In spread product, levels were only a touch softer, which was a noticeable outperformance,

Highlights

- CPI data were below expectations in the United States, fuelling the narrative that inflation has peaked.
- Nonetheless, hawkish comments by global central banks drove equity prices down; bonds were overall unchanged.

On our radar

- In Canada: October retail sales and GDP, as well as November CPI.
- In the United States: November housing starts, new home sales and PCE deflator, Conference Board consumer confidence for December.

given equity market weakness. We expect spreads to coast into year-end.

Stock Market

It was another volatile week on a stock market driven at first by better-than-expected CPI numbers, which raised hopes for a Fed pivot; but only a day later they were tempered by an unexpectedly hawkish FOMC speech from Jerome Powell. In company-specific news, Apple is considering opening its ecosystem to third-party app stores in Europe. Such a move would mark the first crack in Apple's monopoly over its ecosystem and could have important implications for other big tech giants. It is most likely a net negative for GOOGL and a positive for MSFT and AMZN.

In a continuation of last week's comments, China's relaxation of its zero-Covid policy is accelerating. Domestic travellers no longer need to show a negative test result or have their health codes checked when going from one province to another. Again, we think the transition will be volatile but will lead to increased demand for energy and commodities as the economy reopens, at the cost of near-term productivity declines and increasing Covid cases. On a net basis, it should be positive for 2023.

Markets

(Total Return in \$CAD)

As at December 15, 2022	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	-1.07	-4.01	-10.48	-11.35	10.03	11.05
S&P/TSX	-1.64	-3.99	-4.95	-2.69	8.07	7.31
NASDAQ	-2.01	-5.27	-25.06	-26.56	11.31	13.24
MSCI ACWI	-1.08	-2.60	-10.63	-10.99	7.10	7.88
MSCI EAFE	-0.99	1.39	-6.98	-6.12	2.60	3.39
MSCI EM	-1.91	-0.71	-13.29	-13.78	-0.32	0.96
Commodities (USD)						
Gold	-1.14	0.47	-2.86	0.00	6.37	7.18
CRB	-0.25	-1.36	-3.76	-1.75	12.00	5.28
WTI	7.17	-5.51	1.20	7.39	8.21	5.84
Fixed Income						
FTSE TMX Canada Universe	0.61	1.79	-8.60	-8.20	-1.25	0.74
FTSE TMX Canada Long	0.40	3.14	-16.26	-15.28	-3.99	-0.20
FTSE TMX Canada Corporate Overall	0.64	1.66	-7.42	-7.03	-0.29	1.46
Currencies						
USD trade-weighted index	-0.24	-1.31	9.29	8.34	2.47	2.17
USDCAD	0.10	1.83	8.08	6.42	1.23	1.20
USDEUR	-0.82	-2.08	7.01	6.27	1.53	2.03
USDJPY	0.89	-0.21	19.73	20.82	8.00	4.12
USDGBP	0.66	-0.98	11.09	8.91	3.06	1.82

Source: iA Investment Management, Bloomberg

	CA	US
Bond yields		
2Y	3.69	4.24
5Y	2.90	3.62
10Y	2.78	3.45
30Y	2.82	3.49
Credit spreads		
IG corporate bonds	173	138
HY bonds	376	454

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ROOTED IN HISTORY. INNOVATING FOR THE FUTURE.

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