

Keys to the market

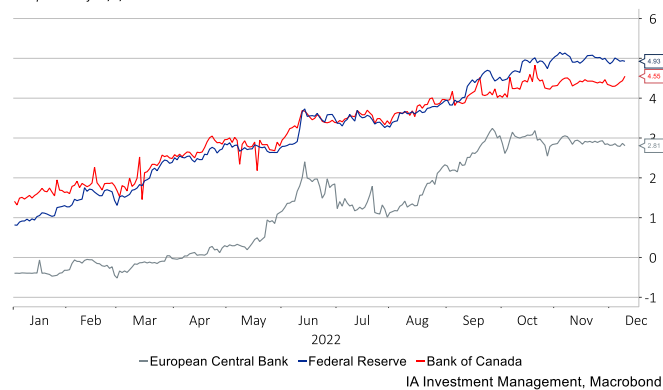
What happened last week

December 9, 2022

The selloff in risk assets continued throughout the week despite further relaxation of zero-Covid measures in China. Even so, Chinese assets did stage a rally on the announcement and are closing the week up. Durable goods orders and the producer price index came in above expectations in the United States, renewing fears about the timing of the elusive Fed pivot. The Bank of Canada delivered a much-anticipated rate hike on Wednesday, albeit some market participants were surprised by the 0.50% increase, having expected 0.25% instead. In comments that followed the release, the Bank indicated that a pause might be warranted at this stage and that it would adopt a data-dependant approach. Nonetheless, the expected Canadian terminal rate moved higher afterward. The oil price, which shot up after news of a spill on the Keystone XL pipeline, has come down, and gasoline prices at North American pumps have retraced to levels seen a year ago. This should support the peak-inflation narrative.

Terminal Rates

OIS Implied as of 12/9/2022



Bond Market

Yields in North America were little changed, despite an intra-week swing of 10 basis points. Early concerns about slowing economic conditions, which drew yields down a bit, eventually gave way to stronger-than-expected PPI data in the United States on Friday, which rekindled fears that inflation may not yet be fully on the wane. In Canada, the BoC's unexpectedly high 50-basis-point hike was allayed by language indicating that a pause may be in the offing and thereby inducing a more muted bond market response. Next up are US CPI data and the Fed meeting as the final main drivers of yields for 2022. After the strong rally in yields the

Highlights

- The Bank of Canada raised the policy rate by 0.50% to 4.25%, while indicating that level might be sufficient for now.
- The Chinese government lifted most of the Covid restrictions, spurring a rally in Chinese stocks, while the rest of the stock market undershot on average.

On our radar

- In Canada: November housing starts and home sales.
- In the United States: FOMC's last decision of the year, November CPI and retail sales.

past few weeks, they are expected to drift a little higher into year-end, absent any major surprises. In credit, spreads moved a touch higher on concerns about a slowing economy.

Stock Market

It was a busy week in the energy markets as oil continued to decline, even as we saw the EU place a \$60-a-barrel price cap on Russia. Energy stocks have outperformed the oil price in recent months, as investors look past spot weakness on a continued lack of supply response, and the possibility of stronger demand from China in 2023. The Canadian banks' fourth-quarter earnings were mixed, with the strongest showings from RBC and TD, the banks with the largest volume of business in the United States.

The easing of zero-Covid policies in China is both surprising and positive for global equities, as it could have a positive effect on North America's energy, materials and consumer sectors. While the transition may be volatile, as hospital capacity will be stretched, we think it is a necessary move to position the Chinese economy for a fuller reopening in 2023. In North America, even though recession fears continue to mount, employment levels remain high and consumer balance sheets are generally in good shape, signalling a measured, rather than swift, drop in economic activity.

Markets

(Total Return in \$CAD)

As at December 8, 2022	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	-1.87	-2.61	-9.17	-8.06	10.65	11.52
S&P/TSX	-2.48	-2.28	-3.26	-2.33	8.75	7.63
NASDAQ	-2.21	-3.06	-23.31	-23.84	12.38	14.14
MSCI ACWI	-1.51	-1.62	-9.74	-8.90	7.64	8.17
MSCI EAFE	-0.29	1.15	-7.20	-6.17	2.92	3.31
MSCI EM	0.33	-0.09	-12.75	-13.39	0.91	1.17
Commodities (USD)						
Gold	-0.47	1.17	-2.19	0.34	7.01	7.46
CRB	-0.55	-0.91	-3.32	-2.29	12.70	5.32
WTI	-10.65	-11.28	-4.99	-1.24	6.47	4.49
Fixed Income						
FTSE TMX Canada Universe	0.17	1.74	-8.64	-7.28	-1.20	0.80
FTSE TMX Canada Long	0.65	3.99	-15.56	-13.14	-3.61	0.17
FTSE TMX Canada Corporate Overall	0.13	1.40	-7.66	-6.45	-0.30	1.47
Currencies						
USD trade-weighted index	0.22	-1.11	9.52	9.26	2.36	2.22
USDCAD	0.94	1.36	7.58	7.44	0.85	1.14
USDEUR	-0.20	-1.42	7.73	7.44	1.58	2.21
USDJPY	1.76	-1.01	18.76	20.23	7.97	3.79
USDGBP	0.38	-1.43	10.58	7.94	2.41	1.81

Source: iA Investment Management, Bloomberg

	CA	US
Bond yields		
2Y	3.81	4.31
5Y	3.00	3.71
10Y	2.79	3.48
30Y	2.74	3.43
Credit spreads		
IG corporate bonds	174	138
HY bonds	385	455

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