

# Keys to the market

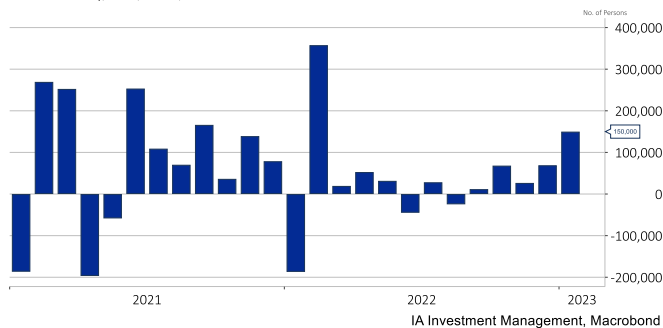
## What happened last week

February 10, 2023

After a strong start to 2023, the markets are finally heeding central bank warnings that further rate hikes are needed to tame inflation. Sentiment was negative all week as both bonds and equities gave back some of this year's gains. Equity volatility spiked to its highest level in a month, foreshadowing a potential end to this year's rally. On Friday, Russia said it would cut crude production in response to Western sanctions causing the commodity to surge. This development will not help the inflation argument. In Canada, we also learned this week that the impact of prior rate hikes on the housing market had played a role in the Bank of Canada's decision to pause its hiking cycle, which should provide some relief for the sector. Like the United States, Canada posted strong job numbers for the month of January, sending bond yields and the Canadian dollar higher.

### Canada: Net Change in Employment

Labour Force Survey, MoM, as at 1/2023



## Bond market

The lack of action in North American fixed income during the week reinforces the recent trend of decent initial rallies fading amid strong labour numbers that generally leave yields higher than where they started. Since the second half of January, rising yields have erased slightly more than half of the solid rally that occurred in the first two weeks of 2023. Buoyant labour numbers and the ongoing chorus of higher for longer by Fed speakers have been the primary culprits. Even spread products have started to give up ground in the past week or so as the deluge of new issuance is beginning to dampen investor appetite. We will look to CPI in the United States next week as the next key driver of rates after the recent Fed move.

## Highlights

- A surge in volatility signals that the rally may have peaked, with stocks and bonds giving up some of their gains.
- Robust labor markets in Canada and the United States are hinting that further rate hikes may be required.

## On our radar

- Canada: January housing starts, existing home sales and the Teranet - National Bank home price index
- United States: January CPI, retail sales, housing starts and PPI

## Stock market

On the equity front, all eyes were on the start of what can be termed the "search war" after the hype surrounding ChatGPT. Both Microsoft and Alphabet (Google) hosted press events during the week to highlight product advancements involving AI-driven search technologies and showcased the integration of large natural-language models into their search functions. It goes without saying that these events proved to be market movers; Alphabet lost in two trading days more than the combined market capitalization of 440 companies in the S&P 500 Index.

Note that it's not the first time Alphabet has seen one of its products face competition. It will be recalled that Apple tried to take on Google Maps by launching its own application, which to this day is still far behind in terms of market share. Going forward, the focus will be on monthly market-share data that will provide insight as to how Microsoft is doing in its initiative to compete with Google search. Currently, everything indicates that Alphabet has the better product.

# Markets

(Total Return, in \$CAD)

As of February 9, 2023	WTD %	MTD%	YTD%	1Y%	3Y%	5Y%
<b>Equities</b>						
S&P 500	-0.95	0.71	5.41	-4.29	9.09	12.59
S&P/TSX	-0.77	-0.81	6.54	-1.63	8.50	9.81
NASDAQ	-1.17	2.87	12.07	-13.00	9.92	15.47
MSCI ACWI	-0.70	0.77	6.26	-3.95	7.01	9.51
MSCI EAFE	0.07	1.14	7.67	0.15	4.11	5.13
MSCI EM	-1.00	-0.12	6.14	-9.60	0.92	1.86
<b>Commodities (USD)</b>						
Gold	-0.17	-3.45	2.07	1.55	5.84	7.17
CRB	0.06	-0.44	-0.04	-6.89	11.34	4.81
WTI	6.36	-1.03	-2.74	-12.94	15.76	5.69
<b>Fixed Income</b>						
FTSE TMX Canada Universe	-0.87	-0.82	2.25	-5.92	-2.41	1.03
FTSE TMX Canada Long	-1.60	-1.55	3.81	-11.52	-6.31	0.35
FTSE TMX Canada Corporate Overall	-0.67	-0.38	2.58	-4.15	-1.12	1.80
<b>Currencies</b>						
DXY	0.30	1.10	-0.29	8.09	1.51	2.68
USDCAD	0.43	1.11	-0.74	6.19	0.36	1.35
USDEUR	0.51	1.15	-0.32	6.36	0.63	2.67
USDJPY	0.30	1.15	0.36	13.91	6.24	3.88
USDGBP	-0.54	1.64	-0.31	11.65	2.06	2.67

Source: iA Investment Management, Bloomberg

	CA	US
<b>Bond yields</b>		
2Y	3.97	4.48
5Y	3.19	3.86
10Y	3.05	3.66
30Y	3.09	3.73
<b>Credit spreads</b>		
IG corporate bonds	157	120
HY bonds	344	405

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ROOTED IN HISTORY, INNOVATING FOR THE FUTURE.

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