

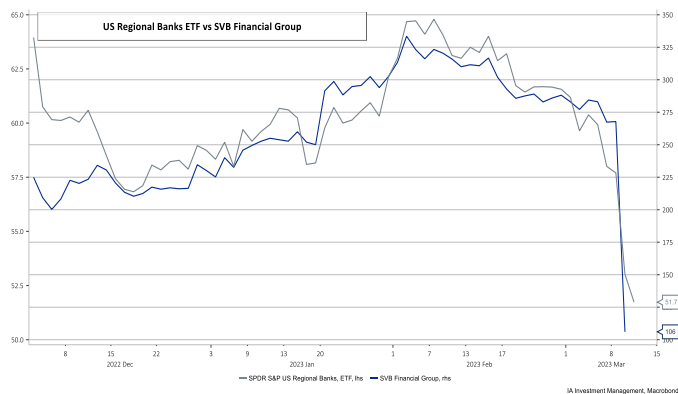
Keys to the market

What happened last week

March 10, 2023

The week started on a positive note for the financial markets. That being said, U.S. Fed Chair Jerome Powell's testimony to Congress underscored the central bank's worries about unexpectedly upbeat economic data. Powell stated that the Fed intended to be more aggressive with rate hikes in the coming months to fight off inflation, if needed. His comments sent stock and bond prices lower, as the markets adjusted to a higher terminal rate. As for the Bank of Canada, it stayed on the sidelines on Wednesday, causing the Canadian dollar to end the week down.

On Friday, stronger non-farm payroll data were eclipsed by the collapse of Silicon Valley Bank (SVB), a US-based regional bank that services the technological venture-capital sector. Fear of contagion to other regional banks and the financial system at large sent bond yields significantly lower, reducing the probability of a 50-bps hike next week by the Fed as stocks came under tremendous pressure, especially in the financial sector. Even though we think the risk of contagion to larger financial institutions is limited, this development offers further evidence of the impact that rate hikes are having on the economy, because tech startups rely heavily on debt to finance their growth and operations.



Bond market

It was an action-packed week in the bond market as Powell's testimony before Congress about the path of policy rates had investors bracing for more hikes in light of sticky inflation and ongoing jobs strength. In contrast, the BoC's decision to stand pat on Wednesday helped ease yields up north. But it was the shock to the U.S. regional banking system on Friday in the form of troubled Silicon Valley Bank that sent yields plummeting across the globe and helped bring US 10-year yields down by 25+ basis points on the week. Spread

Highlights

- Inflation continues to be the main topic of discussion, with economic data remaining stronger than expected.
- The impact of rate hikes is being felt, notably in the financial sector.

On our radar

- Canada: February CPI, PPI, retail sales, housing starts and existing home sales, and March University of Michigan sentiment
- United States: February housing starts and existing home sales, as well as industrial producer price index

product was similarly buffeted, as levels backed up materially.

Stock market

The equity markets came under pressure during the week amid fears that the SVB crisis would create a contagion effect within the regional bank sector. The meltdown was caused by management's announcement of asset sales at steep losses combined with a failed capital raise to meet a deposit flight, which accidentally sparked a massive bank run.

On Friday, California banking regulators swiftly proceeded to shut down the bank, making it the first FDIC-insured institution to fail this year. We think this setback will spur a review of balance sheets by each tech startup and venture group at SVB and will most likely end with the transfer of deposits to bigger banks, such as JP Morgan and Bank of America.

Moreover, it is important to highlight that the risk of contagion to larger financial institutions is very limited in our view because this situation is in large part due to the type of customer that SVB is exposed to. Even so, one of the concerns will be the adverse impact on future Silicon Valley funding for tech and health care startups, which could put pressure on both sectors.

Markets

(Total Return, in \$CAD)

As of March 9, 2023	WTD %	MTD%	YTD%	1Y%	3Y%	5Y%
Equities						
S&P 500	-2.14	-0.17	4.01	0.05	15.07	10.48
S&P/TSX	-2.36	-0.58	4.18	-3.54	14.86	8.48
NASDAQ	-1.42	0.70	11.38	-6.26	15.37	12.61
MSCI ACWI	-1.39	0.30	5.32	1.99	12.85	7.88
MSCI EAFE	0.75	1.72	8.18	10.77	9.69	4.30
MSCI EM	-0.98	1.58	3.01	-1.48	4.11	-0.23
Commodities (USD)						
Gold	-1.37	0.22	0.38	-8.07	2.90	6.70
CRB	-0.47	-0.46	-1.58	-12.94	11.38	4.17
WTI	-4.97	-1.73	-5.66	-30.34	34.49	4.07
Fixed Income						
FTSE TMX Canada Universe	1.05	1.18	2.22	-5.17	-3.82	0.95
FTSE TMX Canada Long	1.90	2.27	4.38	-9.35	-8.43	0.31
FTSE TMX Canada Corporate Overall	0.93	1.07	2.52	-2.77	-1.74	1.74
Currencies						
DXY	0.75	0.42	1.73	7.49	3.53	3.17
USDCAD	1.69	1.33	2.02	7.96	0.31	1.54
USDEUR	0.51	-0.05	1.18	4.67	2.66	3.07
USDJPY	0.21	-0.01	3.84	17.54	9.98	4.97
USDGBP	0.94	0.82	1.33	10.57	3.24	3.04

Source: iA Investment Management, Bloomberg

	CA	US
Bond yields		
2Y	4.15	4.87
5Y	3.37	4.19
10Y	3.16	3.90
30Y	3.04	3.85
Credit spreads		
IG corporate bonds	156	130
HY bonds	348	427

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