

Keys to the market

What happened last week

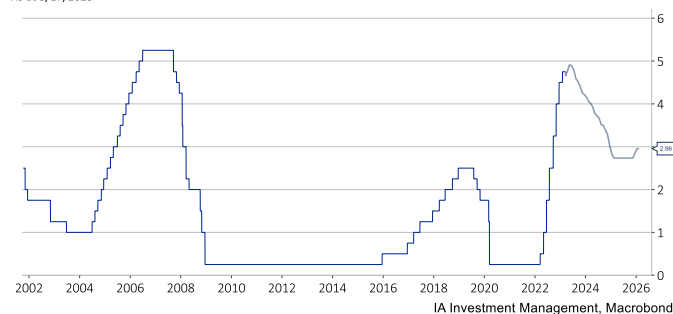
March 17, 2023

After an eventful weekend, when US regulatory authorities closed Silicon Valley Bank (SVB) and Signature Bank of New York while fully guaranteeing their clients' deposits, the markets opened with a quieter tone but were still very volatile. Negative sentiment took over at mid-week, when Credit Suisse's main shareholder announced it would not provide further capital to the embattled financial group. Fear of contagion throughout the financial system spurred a flight to quality, sending bond yields and equity prices down. The only good news was that bonds finally seemed to do their part in balanced portfolios.

The markets at first expected, and some pundits even called for, central banks to pause their rate hikes as the banking system showed its first cracks in response to the aggressive monetary tightening cycle. But the European Central Bank (ECB), with a rate hike of 50 basis points, set the tone for the Federal Reserve's meeting this week. There is a clear separation in their mandates and the applicable tools when it comes to price and financial system stability. Thus, the path is open for the Fed to go ahead with its telegraphed rate hike this week. Even so, the markets have repriced their expectations and see a lower terminal rate in 2023.

Implied Fed Fund Rate

As at 3/17/2023



Bond market

The situation in the U.S. regional banking system and the difficulties confronting Credit Suisse continued to pound bond yields as regulators' efforts to allay fears were met with ongoing skepticism. Ten-year yields are down roughly 50 basis points since word of the problems at Silicon Valley Bank emerged, while 2-year yields are down a full percentage point. And all that despite the ECB's 50-basis-point hike. Attention is squarely on the Fed. Will it continue its efforts to quell inflation by hiking another 25 basis points?

Highlights

- Liquidity stress in US regional banks and Credit Suisse sparked turmoil in global capital markets.
- Investors remain weary despite the stability measures introduced by regulatory authorities.
- The ECB has set the tone for the Fed's next meeting: inflation remains a key focus.

On our radar

- Canada: January retail sales and February CPI
- United States: The main event for capital markets will be the FOMC decision on Wednesday.

We think it has no choice but to remain vigilant, given the latest CPI data. Meanwhile, spread product is facing acute pressure as IG spreads are up 40 basis points owing to the recent turmoil and hovering near last year's high at 160 basis points, while HY spreads are up a full percentage point to 500 basis points.

Stock market

In a reversal from the previous week, the S&P 500 is almost back to its level of March 8, when the jitters began in the banking sector. The recovery is due mainly to the government's swift action to contain the SVB fallout by fully backstopping depositors and providing additional liquidity to the banking system under the Fed's Bank Term Funding Program. The market's expectations of no further rate hikes and 50 basis points of rate cuts by January 2024 caused a rotation out of financials and into longer-duration, high-quality uncorrelated equities, such as large cap tech. With a continued commitment to profitability, such as Meta's fresh round of layoffs affecting another 10,000 employees, combined with more reasonable valuations, we see an opportunity in being tactically overweight large cap tech.

Markets

(Total Return, in \$CAD)

As of March 16, 2023	WTD %	MTD%	YTD%	1Y%	3Y%	5Y%
Equities						
S&P 500	2.47	0.94	5.16	-0.16	19.71	10.55
S&P/TSX	-1.06	-3.16	1.47	-6.01	20.07	7.71
NASDAQ	6.22	5.60	16.80	-2.64	20.84	13.49
MSCI ACWI	0.69	-0.16	4.83	0.17	17.49	7.49
MSCI EAFE	-3.18	-1.92	4.31	4.75	13.91	3.09
MSCI EM	-1.46	-1.14	0.25	-2.79	6.52	-1.27
Commodities (USD)						
Gold	2.74	5.07	5.24	-0.40	8.23	7.87
CRB	-0.23	-1.30	-2.41	-13.37	12.46	4.07
WTI	-10.86	-11.29	-14.84	-28.08	33.54	1.86
Fixed Income						
FTSE TMX Canada Universe	0.02	2.29	3.35	-2.23	-2.06	0.95
FTSE TMX Canada Long	-0.92	3.33	5.46	-5.47	-4.99	0.03
FTSE TMX Canada Corporate Overall	-0.41	1.44	2.89	-0.95	-0.16	1.65
Currencies						
DXY	-0.15	-0.43	0.87	5.88	2.11	2.96
USDCAD	-0.80	0.54	1.23	8.24	-0.71	0.94
USDEUR	0.31	-0.33	0.90	4.01	1.76	2.98
USDJPY	-0.96	-1.78	2.00	12.64	8.11	4.76
USDGBP	-0.66	-0.72	-0.22	8.59	0.44	2.86

Source: iA Investment Management, Bloomberg

	CA	US
Bond yields		
2Y	3.75	4.16
5Y	3.06	3.74
10Y	2.92	3.58
30Y	2.99	3.70
Credit spreads		
IG corporate bonds	166	161
HY bonds	383	493

About iAIM

A magnet for top investment talent, iA Investment Management is one of Canada's largest asset managers, with over \$100 billion under management across institutional and retail mandates. We help investors achieve their long-term wealth creation goals through innovative investment solutions designed for today's complex markets. We are building upon our historic success, supporting the growth of our core strengths, and exploring innovative ways to meet investor needs. We are rooted in history and innovating for the future. Our experienced portfolio managers use a proprietary investment methodology, rooted in iAIM's unifying commitment to strong risk management, analytical rigor and a disciplined, process-driven approach to asset allocation and security selection.

ROOTED IN HISTORY, INNOVATING FOR THE FUTURE.

General Disclosures The information and opinions contained in this report were prepared by Industrial Alliance Investment Management Inc. ("iAIM"). The opinions, estimates and projections contained in this report are those of iAIM as of the date of this report and are subject to change without notice. iAIM endeavours to ensure that the contents have been compiled or derived from sources that we believe to be reliable and contain information and opinions that are accurate and complete. However, iAIM makes no representations or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. There is no representation, warranty, or other assurance that any projections contained in this report will be realized. There is no representation, warranty, or other assurance that any projections contained in this report will be realized. The pro forma and estimated financial information contained in this report, if any, is based on certain assumptions and analysis of information available at the time that this information was prepared, which assumptions and analysis may or may not be correct. This report is not to be construed as an offer or solicitation to buy or sell any security. The reader should not rely solely on this report in evaluating whether or not to buy or sell securities of the subject company. The reader should consider whether it is suitable for your particular circumstances and talk to your financial advisor.