Keys to the market

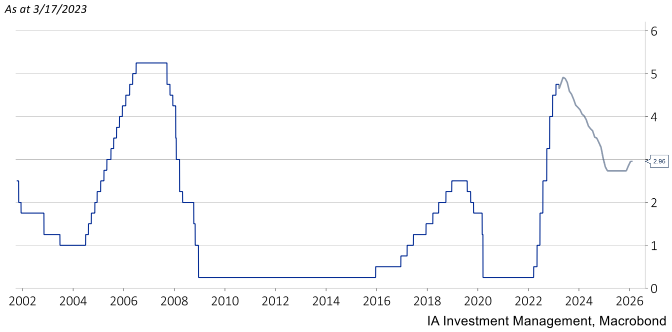
What happened last week

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

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