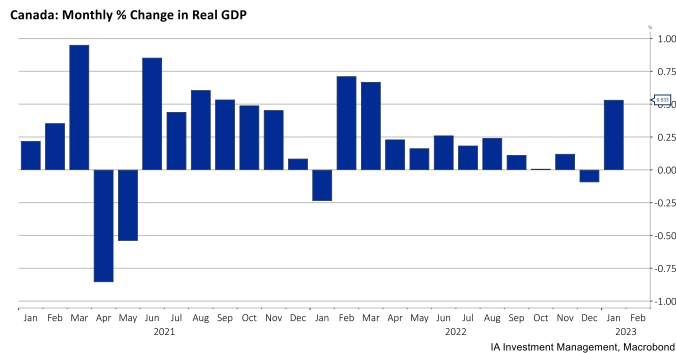


Keys to the market

What happened last week

March 31, 2023

Market sentiment improved significantly over the last week as no further banking stress hit headlines. Stock prices recovered while some Fed rate cuts were priced out, causing bond yields to rise from last Friday's levels. Otherwise, markets seem to be in a lull and both bond and stock volatility indices have retraced. In Europe, inflation numbers are coming off their highs, stoking hope that the ECB might need to do less monetary tightening. A core inflationary pressure indicator for the Fed also came in below expectations this week. PCE core deflator is showing signs that previous rate hikes are serving their intended purpose. In Canada, the economy is off to a good start this year with January GDP ticking off better than expected.



Bond market

Bond yields in both the US and Canada were relatively unchanged during the week, supported by easing fears of a regional banking crisis in the US. Attention instead shifted back towards central bank efforts to contain inflation and the growing expectation that a soft landing on either side of the border is less of a likely outcome as the year unfolds. Next week we will get a fresh set of employment data for the markets and policy makers to mull as we shift into a new month and quarter. Spread product meanwhile continued to recover from the drubbing it suffered for most of March, with HY narrowing 25+ basis points and IG moving in by closer to 10 basis points. Should mounting concerns of recession become realized, we expect both IG and HY to incur further problems as the year progresses, even though levels are well off previous lows.

Highlights

- Positive market sentiment took stocks higher, as fears around the banking sector began to fade.
- Inflation numbers appear to be improving as we start to feel the effects of previous rate hikes.

On our radar

- Canada: S&P Global Manufacturing PMI and Unemployment Rate for March
- United States: ISM Manufacturing for February and Non-Farm Payrolls for March

Stock market

This week's Canadian federal budget was the second in a row that saw new tax increases for the financial sector. Canadian banks performed very well through the pandemic, with historically low loss/impairment levels, mainly due to high levels of consumer related stimulus from the government. This was great news for investors; however, the feds are well aware of this phenomenon, and are now demanding the banks pay more tax going forward. Last year's budget added a surtax and the 'Canada recovery dividend', and this week's budget will take away favorable tax treatment for dividend related income. All told, the yearly tax hit to our financial sector will exceed \$2 billion for the next few years (per Scotiabank). These new taxes are a negative for sector sentiment and will create a small dent in the leading profitability metrics that our banks are known for.

Markets

(Total Return, in \$CAD)

As of March 30, 2023	WTD %	MTD%	YTD%	1Y%	3Y%	5Y%
Equities						
S&P 500	0.33	1.57	5.82	-2.68	15.63	11.95
S&P/TSX	2.39	-1.01	3.73	-6.72	18.73	8.63
NASDAQ	-0.15	6.99	18.34	-6.51	16.22	15.63
MSCI ACWI	0.88	1.29	6.36	-1.49	13.84	8.81
MSCI EAFE	1.89	1.45	7.90	5.70	11.16	4.45
MSCI EM	-0.19	1.98	3.41	-3.58	7.13	0.34
Commodities (USD)						
Gold	0.11	8.40	8.57	2.46	6.87	8.36
CRB	0.85	0.16	-0.97	-13.39	13.94	4.69
WTI	7.38	-3.48	-7.34	-31.02	54.69	2.75
Fixed Income						
FTSE TMX Canada Universe	-1.18	2.02	3.08	-1.81	-1.62	0.86
FTSE TMX Canada Long	-1.76	2.53	4.64	-6.60	-4.30	-0.22
FTSE TMX Canada Corporate Overall	-0.96	1.13	2.58	-0.90	0.75	1.56
Currencies						
DXY	-0.94	-2.60	-1.33	4.45	0.99	2.57
USDCAD	-1.61	-0.91	-0.23	8.35	-1.54	0.95
USDEUR	-1.33	-3.02	-1.83	2.32	0.43	2.48
USDJPY	1.51	-2.55	1.21	8.92	7.19	4.54
USDGBP	-1.25	-2.95	-2.45	6.04	0.09	2.50

Source: iA Investment Management, Bloomberg

	CA	US
Bond yields		
2Y	3.76	4.12
5Y	3.06	3.68
10Y	2.94	3.55
30Y	3.04	3.73
Credit spreads		
IG corporate bonds	177	146
HY bonds	390	474

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ROOTED IN HISTORY, INNOVATING FOR THE FUTURE.

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