

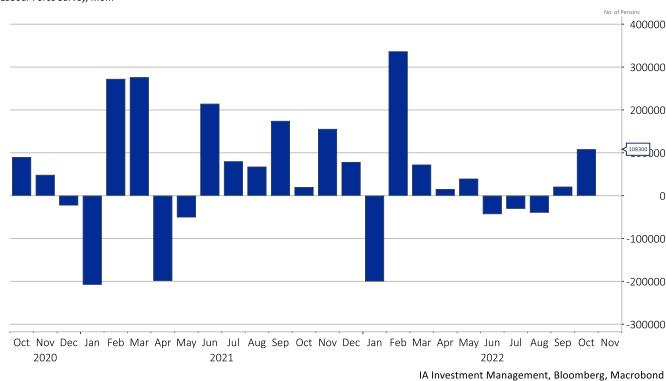
Keys to the market

What happened last week

November 4, 2022

The macroeconomic landscape was mixed last week: revised economic profile from the Canadian federal government and dovish rate hikes in Australia, the United Kingdom and Canada, but strong job gains on our side of the border. On Wednesday, risk assets and government bonds reacted negatively to the Fed's 75-basis-point rate hike, as Jerome Powell stressed that, even though the end of the cycle was approaching, rates would have to go higher than those priced in by the markets. The divergence between the US non-farm payroll, which showed strong increases in job openings, and the household survey, which registered 328,000 job losses, left the US bond market puzzled as the unemployment rate ticked higher. The strong job print in Canada has increased the risk of further rate hikes. The equity and commodity markets were buoyed by renewed rumours of the end of China's zero-Covid policy, which would provide a strong tailwind for the global economy.

Canada: Net Change in Employment
Labour Force Survey, MoM



With the Fed delivering the expected 75-bps hike, the initial market response was muted, if not slightly favourable. When the attendant words flowed, however, trouble set in and yields gapped higher. The expected US terminal rate is now about 5.25%, but Friday's mixed jobs report took some of the sting out. Meanwhile, in Canada, the upward yield move in sympathy with US Treasuries was exacerbated at week's end by a stellar jobs report. In the United States, all eyes are on the forthcoming CPI data to see how they will influence the Fed's positioning. Regardless of the CPI data, we expect yields to move higher reluctantly in the coming months as investors resign

Highlights

- The Canadian job market came in above expectations, pushing bond yields and the Canadian dollar higher.
- The equity markets pared losses, and commodities rallied on rumours that China will ease its Covid measures.

On our radar

- In the United States: October CPI and University of Michigan Sentiment

themselves to a more distant pivot. IG and HY spreads barely budged on the week, despite the volatility in rates. Overall, higher yields in HY have encouraged meaningful fund flows into that space as of late, bringing the HY credit spread down by 100 basis points in October alone.

The third-quarter results are mostly behind us, with more than 80% of the S&P 500 companies having reported. On average, this earnings season was worse than what we have become used to: only 61% of companies beat earnings estimates versus 74% in the previous four quarters. The third-quarter financial reporting also engendered the most adverse stock reaction of the past 22 years for companies that missed on both revenues and earnings, especially in the information technology sector.

In Canada, earnings reports shifted into high gear last week. Overall, the results seemed better than expected, driven in large part by the energy sector and its strong performance in terms of shareholder returns. Information technology was also a bright spot in Canada, with results that were mostly better than expected. Similarly, earnings from industrials were quite robust, with excellent results from those railway and transportation companies that have reported thus far.

Markets

(Total Return in \$CAD)

As at November 3, 2022	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	-3.79	-3.28	-14.04	-10.35	9.99	11.05
S&P/TSX	-1.14	-0.95	-7.08	-6.80	8.26	6.93
NASDAQ	-6.60	-5.65	-28.80	-26.78	11.01	12.79
MSCI ACWI	-2.78	-2.49	-15.83	-13.70	6.23	7.15
MSCI EAFE	-0.16	-0.44	-17.40	-16.80	-0.39	1.08
MSCI EM	2.72	2.19	-21.82	-22.10	-2.40	-1.14
Commodities (USD)						
Gold	-0.93	-0.25	-10.92	-7.93	2.47	5.11
CRB	-0.56	-0.06	-5.02	-3.34	12.12	5.05
WTI	0.31	1.90	17.23	9.04	16.20	9.64
Fixed Income						
FTSE TMX Canada Universe	-0.99	-0.79	-13.35	-11.09	-3.00	-0.07
FTSE TMX Canada Long	-1.53	-1.31	-24.20	-19.86	-7.12	-1.53
FTSE TMX Canada Corporate Overall	-0.66	-0.50	-11.99	-10.28	-1.82	0.66
Currencies						
USD trade-weighted index	1.97	1.26	18.04	20.31	5.11	3.53
USDCAD	1.10	0.90	8.78	10.94	1.51	1.49
USDEUR	2.22	1.36	16.66	19.11	4.63	3.55
USDJPY	0.45	-0.30	28.83	30.04	11.07	5.38
USDGBP	4.08	2.78	21.23	22.64	5.05	3.22

Source: iA Investment Management, Bloomberg

	CA	US
Bond yields		
2Y	4.06	4.71
5Y	3.59	4.37
10Y	3.41	4.15
30Y	3.41	4.18
Credit spreads		
IG corporate bonds	184	164
HY bonds	384	481

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 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.