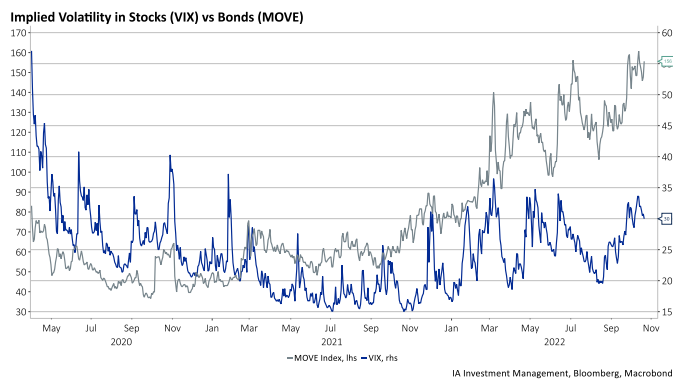


Keys to the market

What happened last week

October 21, 2022

The prevailing sentiment on the markets is unease amid mounting liquidity pressures in the bond and US-dollar swap markets. The strong greenback continues to be a headwind for emerging markets and also for developed economies, albeit in a more subdued manner. Inflation in Canada was higher than expected, especially food inflation, which accelerated. Consequently, the markets are pricing in a higher rate hike next week. The Teranet House Price Index had its biggest monthly drop in history, and OSFI's August report showed that loan growth is declining and residential mortgage growth is stalling – further proof that rate hikes are having the desired impact in the Canadian economy. Investors are holding on to cash and are underweight equities in proportions last seen during the Great Financial Crisis. We think volatility could be sustained in the mid-term, owing to a combination of factors, including quantitative tightening, the war in Ukraine, the energy crisis and the deglobalization trend.



An overall 25-basis-point move higher in the US and Canadian rate markets was the main event in fixed income, as hawkish comments from speakers at both central banks further chilled investor enthusiasm. Higher inflation in Canada and a shifting narrative toward a 5% US terminal rate sideswiped bond traders and portfolio managers, who are now facing the prospect of record annual losses. We are concerned that the piercing of the 4.5% psychological level at the short end of the curve might spread to the centre and the long end. Index spreads for US IG and HY were flattish to a touch better last week. Nonetheless, we remain cautious on credit spreads as we head into year-end.

Highlights

- High intraday volatility with bond yields rising during the week.
- Food inflation is accelerating in Canada, but overall inflation shows a downward trend.
- Higher bond yields and a strong dollar are pressuring liquidity conditions.

On our radar

- In Canada: Bank of Canada rate decision and August GDP.
- In the United States: A busy data week ahead with September retail and wholesale inventories, Q3 GDP, new home sales, durable goods, Conference Board sentiment indicator, and personal income and spending data.

The volatile week was marred by mixed earnings announcements and a stock market that sold off alongside bond yields. Netflix's results were stellar, pointing to a turnaround in their subscriber numbers. That being said, Tesla, which represents close to 2% of the S&P 500, reported mixed earnings as it braces for an economic slowdown. Even defensive sectors, such as health care, are showing cracks. Danaher and Abbott both posted contentious results on the back of difficult COVID-19 driven year-over-year comps and potentially weaker demand. With the rapid rise in interest rates, investors have put a renewed focus on capital structure, and we've seen underperformance in highly leveraged companies with significant interest rate exposure. We think 2023 earnings estimates still haven't adjusted to this dynamic and will need to come down further.

Markets

(Total Return, in \$CAD)

| As of October 20, 2022 | WTD % | MTD% | YTD% | 1Y% | 3Y% | 5Y% |
|-----------------------------------|-------|-------|--------|--------|-------|-------|
| Equity | | | | | | |
| S&P 500 | 0.84 | 1.81 | -15.68 | -8.90 | 10.31 | 11.03 |
| S&P/TSX | 1.38 | 0.84 | -10.39 | -9.71 | 7.47 | 6.40 |
| NASDAQ | 1.82 | 0.19 | -26.73 | -20.33 | 13.49 | 14.42 |
| MSCI ACWI | 0.74 | 1.67 | -17.52 | -12.99 | 6.47 | 7.11 |
| MSCI EAFE | 0.19 | 1.74 | -19.32 | -17.13 | -0.32 | 0.99 |
| MSCI EM | -1.28 | -1.70 | -21.83 | -23.80 | -1.57 | -0.77 |
| Commodities (USD) | | | | | | |
| Gold | -1.00 | -1.96 | -11.00 | -8.64 | 3.00 | 4.92 |
| CRB | -0.26 | -0.49 | -3.74 | -2.21 | 12.40 | 5.41 |
| WTI | 0.43 | 8.16 | 14.32 | 2.52 | 16.93 | 10.81 |
| Fixed Income | | | | | | |
| FTSE TMX Canada Universe | -1.48 | -3.80 | -15.13 | -13.44 | -3.47 | -0.29 |
| FTSE TMX Canada Long | -3.26 | -7.92 | -27.22 | -23.45 | -8.10 | -1.90 |
| FTSE TMX Canada Corporate Overall | -1.26 | -2.95 | -13.39 | -12.07 | -2.12 | 0.51 |
| Currency | | | | | | |
| USD trade-weighted index | -0.38 | 0.68 | 17.99 | 20.65 | 5.08 | 3.79 |
| USDCAD | -0.86 | -0.46 | 8.93 | 11.72 | 1.59 | 1.74 |
| USDEUR | -0.66 | 0.16 | 16.21 | 19.05 | 4.52 | 3.78 |
| USDJPY | 1.00 | 3.74 | 30.47 | 31.35 | 11.45 | 5.75 |
| USDGBP | -0.56 | -0.58 | 20.41 | 23.04 | 4.92 | 3.26 |

Source: iA Investment Management, Bloomberg

| | CA | US |
|-----------------------|------|------|
| Bond yields | | |
| 2Y | 4.29 | 4.61 |
| 5Y | 3.85 | 4.44 |
| 10Y | 3.68 | 4.23 |
| 30Y | 3.68 | 4.22 |
| Credit spreads | | |
| IG corporate bonds | 180 | 169 |
| HY bonds | 368 | 489 |

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ROOTED IN HISTORY. INNOVATING FOR THE FUTURE.

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