

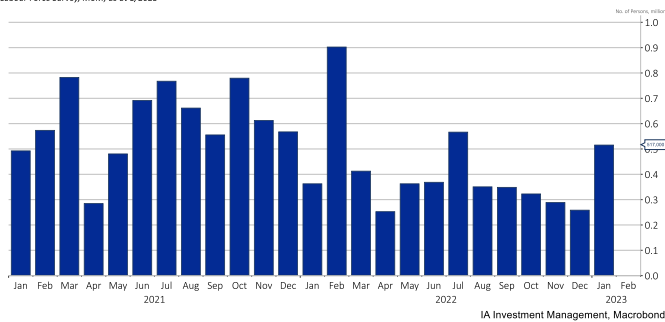
# Keys to the market

## What happened last week

February 3, 2023

The U.S. Federal Reserve raised its policy rate by 25 basis points on Wednesday, in line with market expectations. But Fed Chair Jerome Powell failed to address the extreme optimism that has buoyed financial markets since the start of 2023. Stocks and bonds alike rallied on the news, comforted by indications that very few hikes remained, and continuing a direction that had begun the day before, when January ISM Manufacturing data showed a further contraction. We remain cautious about the timeline for any central bank pivot and think the year-to-date rally is overdone. Toward the end of the week, though, sentiment soured, first on missed earnings in the tech sector and then on a blowout nonfarm payroll on Friday. The continued resiliency of the U.S. job market should put a damper on rate cuts in the second half of the year.

**U.S.: Net Change in Nonfarm Payrolls**  
Labour Force Survey, MoM, as of 1/2023



### Bond market

Bond investors took the Fed's policy move in stride last week, initially pushing yields down 10 basis points or so, despite statements that another hike or two were in the offing and that the overnight rate would remain elevated for some time. The skepticism about the Fed's vigilance was completely reversed at week's end, however, when a dramatically outsized jobs print drove yields up 10+ basis points, indicating the central bank still has some wood to chop if it's going to tamp down the economy and hence inflation. Even so, the market is still pricing in a peak rate of only 5%. Meanwhile, high-yield spreads enjoyed the market's embrace of risk assets, collapsing 30+ basis points to below 4%, before some of that was given back on the jobs number.

### Highlights

- A stronger-than-expected U.S. nonfarm payroll report suggests that the economy remains robust.
- The stock and bond markets give up some of their gains toward the end of the week amid dampened market sentiment.

### On our radar

- Canada: Balance of trade for December and unemployment rate for January
- United States: Consumer credit for December and University of Michigan Consumer Sentiment Index

### Stock market

On the equity front, all eyes were on earnings data as more than 30% of the S&P 500 by market cap reported fourth-quarter results. Over all, earnings growth for the fourth quarter is now projected to decline by 5%. The highlight of the week was Meta's shift in tone as it enters what it calls a "Year of Efficiency." The company thus sparked renewed interest in the information technology sector, as evidenced by the significant market rotation after its earnings announcement.

We think megacap tech companies will prioritize streamlining and spending discipline in a way not seen before, as well as adopt a balanced approach between investing to leapfrog competitors and generating current profitability. This approach will certainly catch investors' attention and potentially create a strong base for the group to outperform.

# Markets

(Total Return, in \$CAD)

As of February 2, 2023	WTD %	MTD%	YTD%	1Y%	3Y%	5Y%
<b>Equities</b>						
S&P 500	2.48	2.22	6.99	-2.90	11.02	12.15
S&P/TSX	0.15	-0.13	7.27	0.17	9.46	9.14
NASDAQ	5.00	5.47	14.90	-11.32	12.72	15.24
MSCI ACWI	2.01	1.94	7.49	-2.51	8.59	8.91
MSCI EAFE	0.95	1.27	7.81	1.04	5.00	4.20
MSCI EM	-0.75	1.05	7.38	-6.56	2.43	0.96
<b>Commodities (USD)</b>						
Gold	-0.79	-0.81	4.86	5.86	6.37	7.48
CRB	-0.43	0.11	0.51	-5.36	11.33	4.69
WTI	-4.77	-3.79	-5.46	-14.03	13.75	3.00
<b>Fixed Income</b>						
FTSE TMX Canada Universe	0.50	0.70	3.81	-5.31	-1.92	1.28
FTSE TMX Canada Long	0.66	1.07	6.58	-10.84	-5.40	0.63
FTSE TMX Canada Corporate Overall	0.71	0.73	3.73	-3.79	-0.78	1.97
<b>Currencies</b>						
DXY	-0.17	-0.34	-1.71	6.06	1.47	2.67
USDCAD	0.04	0.08	-1.76	5.11	0.20	1.39
USDEUR	-0.39	-0.42	-1.87	3.62	0.56	2.69
USDJPY	-0.92	-1.08	-1.86	12.42	5.90	3.15
USDGBP	1.29	0.78	-1.16	11.05	2.61	2.92

Source: iA Investment Management, Bloomberg

	CA	US
<b>Bond yields</b>		
2Y	3.66	4.10
5Y	2.93	3.49
10Y	2.83	3.39
30Y	2.93	3.54
<b>Credit spreads</b>		
IG corporate bonds	163	121
HY bonds	363	394

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ROOTED IN HISTORY. INNOVATING FOR THE FUTURE.

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