

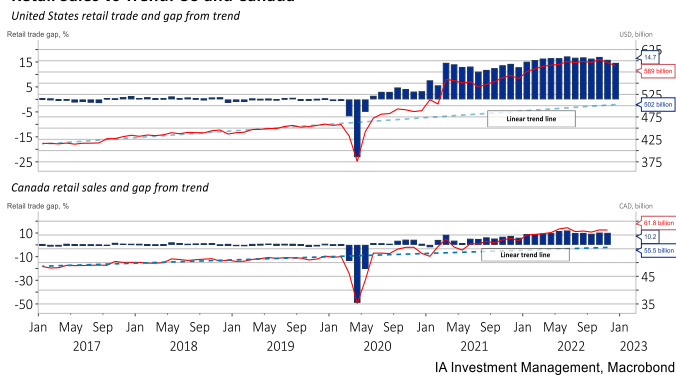
Keys to the market

What happened last week

January 20, 2023

Volatility is again front and centre in the financial markets. The week started on a somewhat positive note when Canadian inflation came in slightly below expectations. On Wednesday, however, December retail sales in the United States disappointed, sending equity prices down. The long-term trend for US retail sales is deteriorating. It seems that bad economic data are finally having the expected impact, with bond yields also retreating on the news. This week, the US government hit the borrowing limit set in the fall of 2021. Debt-ceiling crises have become more frequent in the United States in the past decade owing to political brinkmanship. This situation could lead to further asset-price volatility, should it be prolonged. The 2011 debt-ceiling crisis during the Obama administration caused the S&P 500 Index to tumble by more than 15%. With announcements of the latest earnings data and further job cuts, market sentiment soured at the end of the week, in line with recession calls. Once again, the S&P 500 flirted with its 200-day moving average before heading back down. The bear market continues!

Retail Sales vs Trend: US and Canada



Bond Market

Bond yields enjoyed a decent rally of 15 basis points or so in the first half of the week after the Bank of Japan decided not to alter its yield curve control target. However, this issue is likely to be top of mind for the next governor of the BoJ. Nonetheless, unfriendly inflation prints in Europe and ongoing hawkish sentiment voiced by various US Fed officials dampened the early enthusiasm, and by week's end yields gave up all but a few basis points of the early gains. Moreover, despite ongoing retail fund flows into bonds, credit spreads were a touch softer, partially because of the vigilance expressed by Fed officials, as well as mixed economic data.

Highlights

- Volatility resurfaced amid disappointing US retail sales data and persistently hawkish sentiment
- The latest earnings data and the massive layoffs announced this week also weakened market sentiment

On our radar

- In Canada: Bank of Canada interest rate decision
- In the United States: Q4 2022 GDP, December retail inventories, durable goods orders, new home sales and University of Michigan sentiment indicators for January

Stock Market

The S&P 500 came under pressure this week after rejecting key resistance at the 4000 level. In terms of earnings, we would highlight Procter and Gamble, whose results showed that price elasticity of demand for the staples group is increasing and put downward pressure on one of the most crowded sectors to start the year.

We think the announcements of massive layoffs by Microsoft and Google are also noteworthy. They mark a change of tone for mega technology stocks, whose current focus is on maintaining their earnings power instead of growing at all costs, and will certainly raise investor interest. We would highlight the outperformance of Amazon and Meta (Facebook) after similar announcements in recent months.

Markets

(Total Return in \$CAD)

As at January 19, 2023	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	-1.83	1.17	1.17	-5.74	8.29	10.42
S&P/TSX	-0.08	5.06	5.06	-1.06	8.25	7.70
NASDAQ	-1.46	2.80	2.80	-19.09	8.35	12.35
MSCI ACWI	-1.17	2.77	2.77	-5.04	6.35	7.49
MSCI EAFE	0.18	6.05	6.05	-0.30	3.77	3.48
MSCI EM	0.50	7.05	7.05	-7.59	0.17	0.77
Commodities (USD)						
Gold	0.63	5.93	5.93	4.98	7.46	7.73
CRB	-0.50	0.34	0.34	-5.26	10.67	4.96
WTI	0.59	0.09	0.09	-7.62	11.12	4.86
Fixed Income						
FTSE TMX Canada Universe	0.89	3.99	3.99	-4.96	-1.22	1.22
FTSE TMX Canada Long	1.17	7.09	7.09	-10.38	-4.12	0.55
FTSE TMX Canada Corporate Overall	0.95	3.43	3.43	-4.23	-0.35	1.85
Currencies						
USD trade-weighted index	-0.14	-1.41	-1.41	6.86	1.50	2.42
USDCAD	0.52	-0.65	-0.65	7.60	1.01	1.51
USDEUR	-0.02	-1.18	-1.18	4.71	0.79	2.44
USDJPY	0.44	-2.05	-2.05	12.33	5.25	3.00
USDGBP	-1.31	-2.48	-2.48	9.87	1.64	2.26

Source: iA Investment Management, Bloomberg

	CA	US
Bond yields		
2Y	3.51	4.13
5Y	2.83	3.48
10Y	2.75	3.39
30Y	2.85	3.56
Credit spreads		
IG corporate bonds	172	130
HY bonds	387	439

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