

Keys to the market

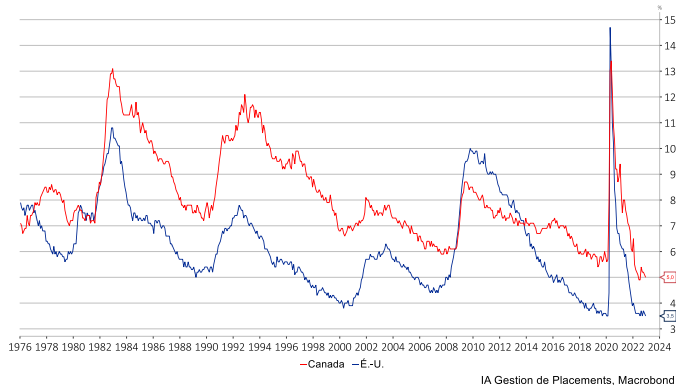
What happened last week

January 6, 2023

We began the new year with a slate that was clean, or almost. The dominating macro drivers of 2022 are still topical for 2023. This week, the markets were yet again disappointed by stronger job openings in the United States as well as the FOMC minutes that showed a higher terminal rate, further pushing the timeline of the elusive Fed pivot. Even so, Jerome Powell did indicate that the tightening cycle was close to an end. On Friday, the jobs data came in above expectations in Canada and the United States, with fresh lows in the unemployment rates. The strength of the labour market, on both sides of the border, continues to be a key driver of the Fed's and Bank of Canada's decisions. The November ISM services indicators, released on Friday, disappointed, coming in well below expectations and spurring a fresh rally in bond and equity prices. In Europe, inflation seems to have abated, probably because of lower natural gas prices owing to warm weather and governments' energy-price support.

Unemployment Rate: Canada vs U.S.

Data from Statistics Canada & BLS



Bond Market

Bond investors finally got what they were looking for at week's end when wage growth in the United States and ISM data that were below expectations spurred an across-the-curve rally that shaved off 10+ basis points. That being said, a strong jobs number in Canada did nudge 2-year GoCs back above 4% as the consensus shifted back toward another hike at the BoC's next meeting. All eyes are on the coming release of US CPI data. In credit, the IG new-issue market in the United States exploded out of the gate, putting pressure on spreads to start the year.

Highlights

- The FOMC's hawkish tone and a strong US labour market erased hopes of a near-term Fed pivot.
- The ISM reading came in negative for the first time since the pandemic, revealing an economic slowdown.

On our radar

- In Canada: November manufacturing sales as well as housing starts and CPI for December.
- In the United States: November consumer credit, CPI for December and the weekly initial jobless claims report.

Stock Market

The first week of the new year was volatile on the equity markets; the Fed's newly released minutes showed its determination to continue combatting inflation and signalled little chance of rate cuts later in 2023. In company-specific news, Tesla continued to come under significant pressure, with its shares down almost 50% in the past month. The company appears to be struggling with falling demand; it recently announced several price cuts and incentives. Moreover, there is concern that its CEO Elon Musk has diverted his attention to fixing Twitter, the social media company he bought in 2022.

China continues to relax its COVID restrictions, even as other countries reimpose mandatory testing for air travellers from that country amid a spike in cases. China will open to some international travel on January 8 without a quarantine requirement. Even though the reopening will be bumpy, we continue to think it will benefit the global economy in 2023. Another factor we are monitoring is natural gas prices, which have plummeted in recent weeks on warm weather in Europe and North America. This is a very positive development for the European economy; it will decrease the threat of shortages, as stored gas is depleted more slowly than originally forecast, and governments may need to spend less on price subsidies for consumers.

Markets

(Total Return in \$CAD)

As at January 5, 2023	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	-0.51	-0.51	-0.51	-11.87	8.97	10.70
S&P/TSX	0.74	0.74	0.74	-4.32	7.80	6.82
NASDAQ	-1.53	-1.53	-1.53	-27.13	8.54	12.09
MSCI ACWI	0.00	0.00	0.00	-11.89	6.38	7.50
MSCI EAFE	1.20	1.20	1.20	-8.79	2.63	3.11
MSCI EM	3.20	3.20	3.20	-10.96	-0.17	0.65
Commodities (USD)						
Gold	0.49	0.49	0.49	1.24	5.70	6.79
CRB	-0.30	-0.30	-0.30	-5.26	11.31	4.85
WTI	-8.21	-8.21	-8.21	-5.37	5.33	3.70
Fixed Income						
FTSE TMX Canada Universe	0.92	0.92	0.92	-9.57	-2.26	0.58
FTSE TMX Canada Long	1.97	1.97	1.97	-17.94	-5.88	-0.50
FTSE TMX Canada Corporate Overall	0.68	0.68	0.68	-8.22	-1.19	1.33
Currencies						
USD trade-weighted index	1.47	1.47	1.47	9.22	2.75	2.70
USDCAD	0.12	0.12	0.12	6.38	1.44	1.80
USDEUR	1.74	1.74	1.74	7.52	1.98	2.71
USDJPY	1.75	1.75	1.75	14.90	7.27	3.37
USDGBP	1.47	1.47	1.47	13.86	3.19	2.65

Source: iA Investment Management, Bloomberg

	CA	US
Bond yields		
2Y	4.04	4.46
5Y	3.33	3.91
10Y	3.18	3.72
30Y	3.16	3.79
Credit spreads		
IG corporate bonds	174	140
HY bonds	370	458

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