

# Keys to the market

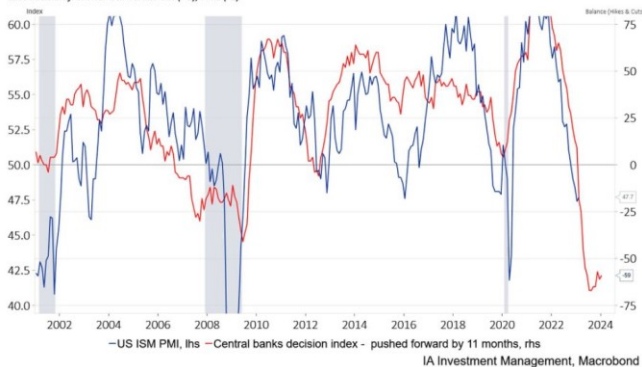
## What happened last week

March 3, 2023

The markets expressed their best version of selective listening during the week. Despite being repeatedly admonished by US central bank speakers about persistent inflation and the need to keep policy rates higher for longer, investors latched onto a key point: openness to a potential pause in the summer, as expressed by the Atlanta Fed's Raphael Bostic on Thursday. His comments bolstered sentiment and put a bid into bonds and risk assets to close out trading. Earlier in the week, the favourable impact of decent economic data from China was offset by somewhat disappointing ISM data in the United States and the ongoing strength in prices paid.

### US PMI vs Global Monetary Policy Cycle

Last decision from central banks: Cut (+1), Hike (-1)



## Bond market

Well, it finally happened last week: US 10-year Treasuries broke above 4% after being battered persistently in the previous few weeks by further sticky inflation signals and Fed comments about the need to keep rates higher for longer. In addition, the terminal rate is inching closer to 5.5%, even though Bostic's openness to pausing in the summer took some sting off the rising yields by the close of trading, such that 10s kept hovering at about 4% rather than breaking out higher. In Canada, yields drifted modestly higher as well, but investors are looking more to the coming BoC meeting for direction. In spread product, levels moved a little lower, but favourable momentum has certainly waned, as shown by fund outflow data.

## Highlights

- Stocks and bonds reacted positively to Fed speaker Bostic's openness to a pause in rate hikes.
- Somewhat disappointing ISM data underscored the ongoing expansion of economic activity and weighed on both asset classes.

## On our radar

- Canada: Bank of Canada rate decision, jobs report and unemployment rate for February
- United States: Durable goods orders for January, non-farm payrolls and unemployment rate for February

## Stock market

With the US earnings season mostly behind us, we turned our attention to Canada, focusing on the banks, which reported this week. Overall, Canadian banks' results slightly exceeded expectations, driven by their capital market operations. Loan growth and net interest margins remained strong, but we are starting to see a deceleration in the rate of change for these metrics. Although credit quality continues to normalize, loan loss provisions remain below the long-term average. In the context of slowing growth and normalizing credit, managing the cost base remains a priority for the various management teams.

Generally speaking, we are seeing growth slow somewhat faster than initially expected, which has resulted in a slight lowering of expectations. We will continue to monitor the consumer's financial health, which has been a key contributor to the stock market's resiliency.

# Markets

(Total Return, in \$CAD)

As of March 2, 2023	WTD %	MTD%	YTD%	1Y%	3Y%	5Y%
<b>Equities</b>						
S&P 500	0.05	0.24	4.44	-1.07	11.19	11.27
S&P/TSX	0.71	0.61	5.42	-1.23	10.40	9.02
NASDAQ	0.35	-0.04	10.56	-9.38	11.30	13.30
MSCI ACWI	0.23	0.15	5.16	-0.03	9.37	8.38
MSCI EAFE	0.60	-0.10	6.24	6.25	7.01	4.23
MSCI EM	0.57	1.61	3.03	-7.06	2.06	0.13
<b>Commodities (USD)</b>						
Gold	1.37	0.49	0.65	-4.81	4.92	6.78
CRB	-0.22	0.03	-1.09	-10.97	11.30	4.32
WTI	2.41	1.44	-2.62	-29.33	18.69	5.00
<b>Fixed Income</b>						
FTSE TMX Canada Universe	-0.28	-0.90	0.12	-8.13	-3.29	0.42
FTSE TMX Canada Long	-0.52	-1.80	0.22	-15.18	-7.45	-0.75
FTSE TMX Canada Corporate Overall	-0.19	-0.66	0.77	-5.61	-1.80	1.29
<b>Currencies</b>						
DXY	-0.18	0.15	1.45	7.85	2.56	3.15
USDCAD	-0.10	-0.37	0.32	7.65	0.67	1.09
USDEUR	-0.47	-0.21	1.02	4.93	1.66	3.05
USDJPY	0.21	0.44	4.31	18.40	8.08	5.28
USDGBP	-0.02	0.64	1.15	12.23	2.20	2.93

Source: iA Investment Management, Bloomberg

	CA	US
<b>Bond yields</b>		
2Y	4.29	4.89
5Y	3.65	4.31
10Y	3.47	4.06
30Y	3.32	3.99
<b>Credit spreads</b>		
IG corporate bonds	156	127
HY bonds	339	418

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ROOTED IN HISTORY, INNOVATING FOR THE FUTURE.

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