

Keys to the market

What happened last week

December 2, 2022

Markets were jittery throughout the past week. Headlines of citizen protests in China over lockdown measures induced a risk-off tone earlier in the week. Equities and bonds reacted positively and posted strong gains as Chinese authorities seemed to cave in and the Fed Chair indicated that the hiking cycle was close to an end. However, by Friday, a very resilient US job market put a dent in that optimism, on fears it could cause the central bank to reconsider. Nonetheless, the labour household survey continues to show more softness, with more than 130,000 jobs lost, which explains the stable unemployment rate. US manufacturing also faltered in the latest indicators, on par with a slowing housing sector. In Canada, lagging consumer demand in Q3 elicited cracks in the Canadian economy despite a strong headline number. Expectations are for the rates path between Canada and the US to exhibit some divergence going forward. All eyes are now on December 7 for the next rate decision by the Bank of Canada.

U.S.: Net Change in Nonfarm Payrolls

Labour Force Survey, MoM, as at 11/2022



Bond Market

Bonds rallied on the back of the comments from Chair Powell despite warnings that the duration of restrictive levels may persist for some time. Bond yields initially declined by roughly 15 basis points across the curve in the US and Canada, with a re-steepening of about 10 basis points in 2s-30s. Following the job report on Friday, bond yields gave back some of that move, anticipating the Fed will have to compensate for that strong job print. From now on, the focus will be turned to the final CPI print and the Fed meeting to determine how we will exist 2022: will the market see a dash of sunlight or ongoing cloud cover?

Highlights

- Canadian consumer spending lagged in Q3, showing cracks in economic activity.
- In the US, personal consumption expenditures and manufacturing production are moderating but the job market remains resilient.

On our radar

- In Canada: Bank of Canada rate decision
- In the United States: October durable goods orders, November PPI, and University of Michigan sentiment indicator for December

Regardless, we expect economic data to play a more prominent role next year as the rate hikes from 2022 take hold. Despite the modest rally in equities, spread products remained roughly unchanged.

Stock Market

The week started on the right foot with multiple outlets reporting stronger-than-expected consumption numbers for the Black Friday and Cyber Monday weekend, which raised hope for a strong Holiday season in the retail space. However, a slowdown in demand for business software paints the grim picture of a worsening macroeconomic landscape.

In our view, the Fed Chair's more dovish than expected comment is paving the way for an end-of-year rally. In our view, the defensive positioning of investors, the increasing probability that inflation peaked and the softening of China's zero-Covid policy create a perfect recipe for an outperformance of small caps, whose valuations are historically cheap, especially in the information technology sector.

Markets

(Total Return in \$CAD)

As at December 1, 2022	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	1.74	-1.01	-7.68	-3.29	11.29	12.19
S&P/TSX	0.80	0.39	-0.61	3.41	9.66	8.30
NASDAQ	2.87	-0.84	-21.55	-20.11	13.15	14.91
MSCI ACWI	1.85	-0.19	-8.42	-4.97	8.19	8.75
MSCI EAFE	2.13	1.72	-6.68	-4.58	3.20	3.65
MSCI EM	4.42	-0.32	-12.96	-13.13	1.09	1.24
Commodities (USD)						
Gold	2.74	1.96	-1.43	1.20	7.19	7.08
CRB	0.81	0.31	-2.13	0.21	13.57	5.61
WTI	6.48	0.83	7.99	23.87	13.76	6.83
Fixed Income						
FTSE TMX Canada Universe	0.85	1.11	-9.21	-8.19	-1.69	0.75
FTSE TMX Canada Long	1.58	2.29	-16.94	-14.88	-4.73	0.00
FTSE TMX Canada Corporate Overall	0.91	0.89	-8.12	-7.14	-0.66	1.43
Currencies						
USD trade-weighted index	-1.16	-1.15	9.47	9.06	2.14	2.43
USDCAD	0.39	0.15	6.29	4.79	0.38	1.15
USDEUR	-1.19	-1.07	8.11	7.61	1.55	2.49
USDJPY	-2.77	-1.98	17.60	19.99	7.32	3.83
USDGBP	-1.27	-1.54	10.46	8.39	1.83	1.93

Source: iA Investment Management, Bloomberg

	CA	US
Bond yields		
2Y	3.79	4.23
5Y	3.07	3.66
10Y	2.84	3.50
30Y	2.88	3.60
Credit spreads		
IG corporate bonds	177	141
HY bonds	385	448

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