

Keys to the market

What happened last week

November 11, 2022

The week's highlight was a surprise inflation print in the United States that came in below market expectations. All asset classes responded positively to the news and staged a strong rally to close a week cut short by Remembrance Day. Inflation has come down significantly from its summer high, and core goods inflation has turned negative. The market now expects a lower terminal rate in both Canada and the United States. Oil prices jumped and the US dollar weakened on hopes that the Fed will slow its rate hikes as well as signs of reopening in China. As inflation softens, the market expects liquidity conditions to loosen gradually, which could provide good support for risk assets.

Terminal Rates
OIS Implied as of 11/10/2022



Bond Market

What an eventful week on the bond market! Yields went down dramatically with the better-than-expected CPI print, shaving off 30 to 40 basis points across the curve in Canada and the United States and taking terminal rate expectations below 5% south of the border. The curve also steepened by 10 to 15 basis points. Admittedly, the outsized moves most likely entailed a fair bit of short covering, but the market was obviously primed for a relief rally. Nonetheless, as has been our position all along, we see no reason not to take the US Fed at face value and we think the current rally will fizzle out as slowing economic conditions take hold further and restrictive monetary policies last longer than expected. But that is more a story for 2023. Interestingly, unlike equities, corporate bond spreads barely budged on the CPI news, perhaps suggesting a more cautious outlook for the underlying fundamentals. At the same time, a flurry of new issues hit

Highlights

- US inflation for October came in below expectations, setting off a strong rally in stocks and bonds.

On our radar

- In Canada: October CPI, housing starts and price index
- In the United States: a very busy calendar with October retail sales, industrial production, housing starts and home sales.

the primary market and probably contributed to the more muted response.

Stock Market

The US midterm elections and the lower CPI print were the two main drivers of the stock market during the week. The midterms did not deliver the GOP sweep that had been priced into the market, and equities fell in their wake. Even so, the surprise CPI number touched off an impressive rally on the stock market. Investors view the CPI print as a sign that peak inflation is behind us and a Fed pivot is more likely.

If that proves to be true, we think the stock markets could rally further, given that financial conditions are improving, possibly warranting higher multiples on equity valuations. We are cautiously optimistic for but acknowledge the market rally may be short lived because the current data are pointing to a slowdown in consumer spending in the fourth quarter, a factor that is not priced into current estimates or next year's forecasts.

Markets

(Total Return in \$CAD)

As at November 10, 2022	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	3.48	-0.02	-11.15	-7.30	10.67	11.99
S&P/TSX	2.81	2.93	-3.44	-4.04	9.03	7.72
NASDAQ	5.39	-0.50	-24.91	-22.18	12.37	14.12
MSCI ACWI	3.70	1.24	-12.62	-10.32	7.10	8.16
MSCI EAFE	4.28	4.63	-13.20	-12.50	0.92	2.33
MSCI EM	-0.89	2.58	-21.52	-22.72	-2.93	-0.96
Commodities (USD)						
Gold	4.37	7.46	-4.03	-5.09	6.36	6.60
CRB	0.40	2.17	-2.91	-1.57	12.85	5.41
WTI	-6.63	-0.07	14.97	6.31	14.74	8.79
Fixed Income						
FTSE TMX Canada Universe	2.33	0.79	-11.97	-9.93	-2.22	0.27
FTSE TMX Canada Long	4.03	1.06	-22.38	-18.47	-5.83	-0.99
FTSE TMX Canada Corporate Overall	1.83	0.79	-10.84	-9.34	-1.22	0.92
Currencies						
USD trade-weighted index	-2.41	-2.98	13.10	14.08	3.23	2.77
USDCAD	-1.15	-2.20	5.44	6.67	0.24	0.99
USDEUR	-2.47	-3.21	11.40	12.42	2.57	2.70
USDJPY	-3.85	-5.20	22.51	23.76	8.87	4.43
USDGBP	-2.87	-2.10	15.48	14.42	2.93	2.40

Source: iA Investment Management, Bloomberg

	CA	US
Bond yields		
2Y	3.83	4.33
5Y	3.31	3.94
10Y	3.15	3.81
30Y	3.27	4.05
Credit spreads		
IG corporate bonds	184	158
HY bonds	394	480

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