

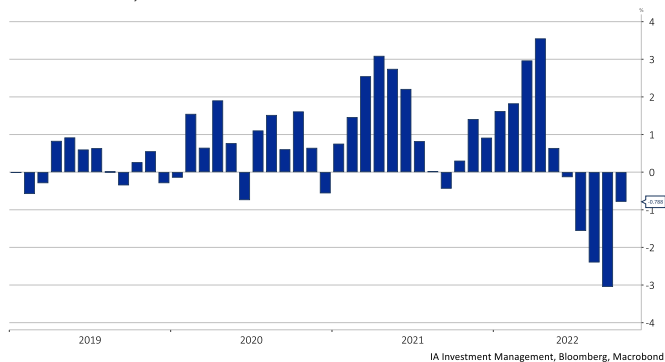
# Keys to the market

## What happened last week

November 18, 2022

Risk markets appeared to be oblivious to the Fed earlier in the week. Despite repeated warnings that further rate hikes were on the way, enthusiasm returned to the markets after encouraging US CPI numbers were announced last week. Receding oil prices are also fuelling disinflation expectations. The Bank of America's 4-week moving average of fund flows showed renewed interest in equity and credit funds, as market sentiment improved. Even so, hawkish comments by St. Louis Fed President James Bullard seemed to have finally slowed the stock market rally by the end of the week. Looking deeper into the higher US retail numbers, we see that they are being driven by price increases but that volumes are stable, which warrants caution concerning the health of the US consumer. In Canada, October inflation was in line with expectations, and the Teranet home price index decelerated further, with interest rate hikes having the intended impact.

Canada: Monthly Change in Housing Prices  
Teranet-National Bank Index as of 2022-10



## Bond Market

Bond yields in North America shaved off a few basis points to start the week on building sentiment that central banks were about to pivot, an expectation supported by the in-line CPI print in Canada. That being said, sentiment cooled after Fed speakers hinted at a 5.25% terminal rate in the United States. The shorter end of the yield curve rose by 10+ basis points, causing the 2s-30s curves to invert further. We expect continued volatility in the bond market for the rest of 2022 but we think yields will nonetheless push steadily higher as central bankers keep reaffirming their conviction. In credit markets, levels were little moved with IG narrowing by a few basis points and HY widening by a similar amount.

## Highlights

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

## On our radar

- In Canada: September retail sales.
- In the United States: University of Michigan sentiment indicators, October new home sales and the FOMC minutes from the November 2 meeting.

Credit has certainly not bought into the pronounced optimism exhibited by equities after the last CPI print down south.

## Stock Market

On the equity side, earnings from Walmart and Target raised questions about consumer spending during the holiday season; both saw softening sales trends in non-general merchandise early in the fourth quarter. This is similar to trends at Amazon. Several diverging factors are affecting stock prices in the energy and materials sectors. The situation in Ukraine has recently taken a turn for the better, and market participants are increasingly pricing in the impact of a recession on oil and commodity demand, putting pressure on the oil price and stocks in the sector. In contrast, we've seen some encouraging signs that China may not be too far away from a reopening, which would boost demand, driving prices up and fuelling growth and profitability in the energy and materials sectors. Moreover, extremely tight distillate inventories will be exacerbated by Europe's embargo on Russian refined products, which takes effect soon. We will be keeping a keen eye on the situation; we see an increased probability that the energy sector will start to outperform, given its depressed valuations.

# Markets

(Total Return in \$CAD)

As at November 17, 2022	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
<b>Equities</b>						
S&P 500	-0.45	-0.10	-11.22	-9.34	10.29	11.74
S&P/TSX	-1.03	2.49	-3.86	-5.36	8.53	7.67
NASDAQ	-0.55	0.20	-24.38	-24.10	12.34	14.01
MSCI ACWI	-0.50	1.61	-12.29	-11.64	6.98	8.07
MSCI EAFE	-0.20	6.47	-11.67	-11.90	1.46	2.58
MSCI EM	1.37	8.79	-16.77	-19.82	-0.53	-0.15
<b>Commodities (USD)</b>						
Gold	-0.61	7.77	-3.76	-5.73	6.24	6.38
CRB	0.16	2.67	-2.43	-0.76	13.03	5.66
WTI	-8.23	-5.65	8.55	4.19	12.25	7.62
<b>Fixed Income</b>						
FTSE TMX Canada Universe	0.42	1.21	-11.60	-9.39	-2.37	0.31
FTSE TMX Canada Long	1.25	2.32	-21.41	-17.07	-6.02	-0.84
FTSE TMX Canada Corporate Overall	0.38	1.17	-10.50	-8.83	-1.32	0.96
<b>Currencies</b>						
USD trade-weighted index	0.38	-4.33	11.52	11.34	2.87	2.64
USDCAD	0.40	-2.17	5.47	5.69	0.26	0.87
USDEUR	-0.14	-4.64	9.75	9.22	2.17	2.62
USDJPY	1.00	-5.72	21.83	22.90	8.82	4.58
USDGBP	-0.28	-3.33	14.03	13.72	2.84	2.18

Source: iA Investment Management, Bloomberg

	CA	US
<b>Bond yields</b>		
2Y	3.93	4.45
5Y	3.34	3.94
10Y	3.11	3.77
30Y	3.19	3.88
<b>Credit spreads</b>		
IG corporate bonds	183	147
HY bonds	387	475

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ROOTED IN HISTORY. INNOVATING FOR THE FUTURE.

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