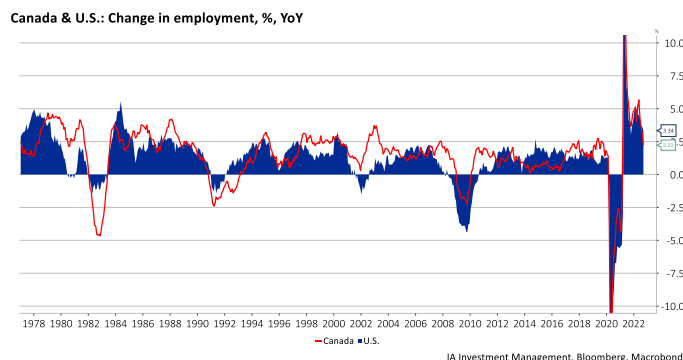


# Keys to the market

## What happened last week

October 7, 2022

The financial markets got a bit of a relief early in the week when Liz Truss, the United Kingdom Prime Minister, scrapped the tax cuts previously announced. Both equity and bond prices rallied as the US dollar settled lower and the soft PMI manufacturing and services numbers, as well as the job openings and labor turnover survey (JOLTS) contributed to the rally. Even so, on Friday, stronger non-farm payroll data in the United States renewed fears that inflation could remain sticky, causing markets to turn around on the news. The strength of the US job market confirms the divergence from the data in Canada, where the job market has been losing steam since May. The announcement by OPEC that it will cut output by two million barrels a day should put further pressure on consumer prices. All eyes are on the US CPI numbers to be published next week, which could be a major market mover.



The yo-yo in bond yields continued in earnest during the week as decent job reports in the US accentuated the curve inversion slightly, with 10-year Treasuries moving back to 3.9%. Any inklings about a pivot by the US Fed were dashed not only by a persistently healthy job market, but also by more hawkish rhetoric from central bank officials, who brought the idea of a peak 4.5% federal funds rate closer to reality, a situation that is likely to last longer than expected. Meanwhile in Canada, hawkish words from the Bank of Canada's governor Tiff Macklem about the poorly performing Canadian dollar caused some modest underperformance in the bond market on the week, with 10-years closing at about 3.4%. The coming CPI report in the United States is expected to be the biggest driver of bond yields this month. Spread product continued to benefit from a lack of new issue supply, along with risk-on action early in the week, as IG narrowed several basis points closer to 155, while HY shaved off

### Highlights

- The United Kingdom government scrapped its proposed tax cuts for the highest income earners.
- US employment data beat expectations slightly and unemployment fell to 3.5% in September.

### On our radar

- In Canada: Manufacturing and wholesale trade sales for the month of August.
- In the US: A busy week ahead with PPI, CPI, Retail sales and the University of Michigan sentiment indicator.

roughly 50 basis points to hover around 500. The start of earnings season in the next few days will help set the tone for corporate spreads during the remainder of October.

Despite the difficult backdrop, some segments of the equity market are benefiting from strong tailwinds. The energy sector is one of them, with oil inventories at one of the lowest levels in history owing to very tight production. Even though investors see oil demand falling off a cliff, given a probable recession, we think many positives offset this scenario, such as increased gasoline demand as more people go back to the office, an aggressive OPEC supply response and a lack of capex for new production. Furthermore, the valuation of Canadian oil companies is extremely cheap; some have a free cash flow yield as high as 25%. Given their strong financial position, we expect companies to announce many shareholder-friendly actions in the coming quarters, such as dividend hikes and share buybacks. The energy sector could be a contender to lead the market recovery.

# Markets

(Total Return, in CAD)

| As at October 6, 2022             | WTD % | MTD % | YTD %  | 1Y %   | 3Y %  | 5Y %  |
|-----------------------------------|-------|-------|--------|--------|-------|-------|
| <b>Equities</b>                   |       |       |        |        |       |       |
| S&P 500                           | 4.34  | 4.34  | -13.59 | -5.33  | 11.16 | 11.93 |
| S&P/TSX                           | 3.01  | 3.01  | -8.47  | -3.17  | 8.10  | 7.02  |
| NASDAQ                            | 4.55  | 4.55  | -23.55 | -15.52 | 15.14 | 15.69 |
| MSCI ACWI                         | 4.08  | 4.08  | -15.57 | -9.32  | 7.50  | 7.96  |
| MSCI EAFE                         | 3.29  | 3.29  | -18.09 | -14.32 | 0.89  | 1.66  |
| MSCI EM                           | 3.84  | 3.84  | -17.42 | -16.74 | 0.72  | 0.74  |
| <b>Commodities (USD)</b>          |       |       |        |        |       |       |
| Gold                              | 3.13  | 3.13  | -6.38  | -2.85  | 4.41  | 6.05  |
| CRB                               | 0.11  | 0.11  | -3.15  | 0.16   | 12.96 | 5.44  |
| WTI                               | 11.27 | 11.27 | 17.60  | 14.23  | 18.76 | 12.41 |
| <b>Fixed Income</b>               |       |       |        |        |       |       |
| FTSE TMX Canada Universe          | -1.01 | -1.01 | -12.67 | -11.53 | -3.15 | 0.47  |
| FTSE TMX Canada Long              | -1.88 | -1.88 | -22.44 | -18.98 | -7.19 | -0.25 |
| FTSE TMX Canada Corporate Overall | -0.77 | -0.77 | -11.45 | -10.59 | -1.93 | 1.12  |
| <b>Currencies</b>                 |       |       |        |        |       |       |
| DXY                               | 0.13  | 0.13  | 17.34  | 19.09  | 4.35  | 3.66  |
| USDCAD                            | -0.59 | -0.59 | 8.79   | 9.20   | 1.07  | 1.87  |
| USDEUR                            | 0.11  | 0.11  | 16.15  | 18.03  | 3.89  | 3.68  |
| USDJPY                            | 0.28  | 0.28  | 26.12  | 30.28  | 10.72 | 5.20  |
| USDGBP                            | 0.07  | 0.07  | 21.20  | 21.69  | 3.38  | 3.20  |

|                    | CA   | US   |
|--------------------|------|------|
| <b>Yields</b>      |      |      |
| 2Y                 | 3.99 | 4.26 |
| 5Y                 | 3.49 | 4.07 |
| 10Y                | 3.30 | 3.82 |
| 30Y                | 3.20 | 3.78 |
| <b>Spreads</b>     |      |      |
| IG corporate bonds | 178  | 158  |
| HY bonds           | 374  | 495  |

## About iAIM

A magnet for top investment talent, iA Investment Management is one of Canada's largest asset managers, with over \$100 billion under management across institutional and retail mandates. We help investors achieve their long-term wealth creation goals through innovative investment solutions designed for today's complex markets. We are building upon our historic success, supporting the growth of our core strengths, and exploring innovative ways to meet investor needs. We are rooted in history and innovating for the future. Our experienced portfolio managers use a proprietary investment methodology, rooted in iAIM's unifying commitment to strong risk management, analytical rigor, a disciplined, process-driven approach to asset allocation and security selection.

ROOTED IN HISTORY. INNOVATING FOR THE FUTURE.

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