

Keys to the market

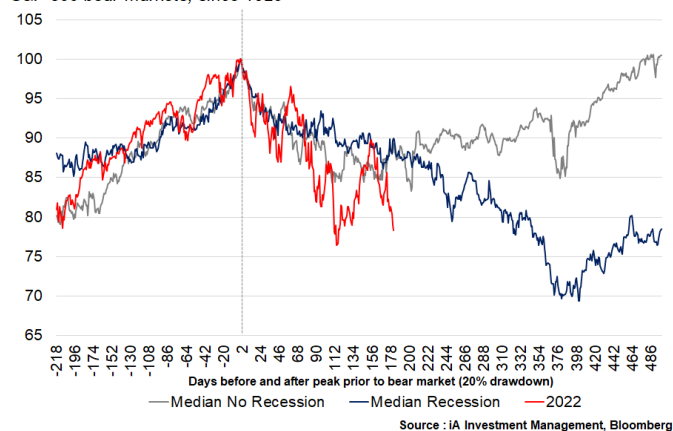
What happened last week

September 23, 2022

Financial assets continued their relentless slide lower this week as global central banks piled on the rate hikes. The press conference that followed the Fed's expected 75-bp hike was decidedly hawkish. Jerome Powell confirmed that, in its war against inflation, the Fed would not hesitate to inflict pain on the economy, prompting a renewed selloff in stocks and bonds. Equities are now flirting with their June lows and global bond yields are up sharply. Global government bond returns are on track for their worst year since the Plan Marshall in 1949. In Canada, we got confirmation that inflationary pressures were abating, with August core and headline CPI both lower than forecast. Retail sales in July were also markedly lower, a further sign of an economic slowdown. Will this be enough for the Bank of Canada to take its foot off the pedal? The USD reached a 20-year high, rattling the United States' trading partners and putting further stress on the financial system. Overall, investor sentiment remains bearish, and there is no appetite for risk.

It's all about recessions now...

S&P 500 bear markets, since 1929



The bond market performances in Canada and the US diverged quite noticeably last week. The unexpectedly low CPI print up north caused 10-year Canada yields to decline a few basis points to just under 3.1%, while down south a hawkish Fed triggered a massive selloff, with 10-year Treasury yields shooting up 25 basis points to just under 3.8% and a similar move taking 2s to just below 4.2%. The terminal federal funds rate in the U.S. is now expected to go above 4.7%. And while the 2s-10s curve in the US flirted with -50 basis points, the 3-month-10-year curve,

Highlights

- In Canada, July retail sales and August inflation came down more than expected, fueling speculation that the BOC may slow the pace of its rate hikes.
- On the back of stronger US CPI, the Fed indicated it won't hesitate to cause a recession to get inflation under control.
- There's nowhere to hide: equities are flirting with their June lows while bond yields are up sharply.

On our radar

- In Canada: July GDP
- In the US: August goods orders and new home sales; latest initial and continuing jobless claims; and the third reading of Q2 GDP

historically a better recession signal, has not yet inverted. Meanwhile, spread product was very tame; IG spreads inched modestly closer to 150 basis points and HY stayed at about 500 basis points. Nonetheless, we expect spreads to widen further as we head toward year-end, with IG most likely tacking on another 20 basis points or so.

It was another difficult week for the stock market after the Fed's comments at the press conference. Equity investors have taken note and are lowering their 2023 earnings expectations and valuation multiples. Looking ahead, we think investors will shift their attention from the macroeconomic environment to the coming Q3 earnings season, with the market expecting EPS growth of 4% on the S&P 500. On our end, we will focus more on company guidance to try to get a better reading of the economy and what lies ahead. Already, some off-quarter results are coming in, such as Costco, which posted better-than-expected results and guidance across the board, in sharp contrast to FedEx last week. Next week, Nike's results could also provide some insight into consumer sentiment.

Markets

(Total Return, in CAD)

As at September 22, 2022	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	-1.41	-2.00	-14.80	-8.15	10.29	12.48
S&P/TSX	-1.96	-1.51	-8.59	-4.13	7.15	7.42
NASDAQ	-1.48	-3.44	-24.72	-19.82	14.34	16.29
MSCI ACWI	-1.54	-2.28	-16.70	-12.98	6.47	8.31
MSCI EAFE	-1.47	-2.75	-18.91	-19.31	-0.28	1.83
MSCI EM	-0.67	-4.20	-17.80	-20.09	-0.10	1.06
Commodities (USD)						
Gold	-0.23	-2.33	-8.64	-5.48	3.28	5.20
CRB	-0.12	-2.90	-1.77	3.36	13.79	5.78
WTI	-1.90	-6.77	11.01	15.59	12.85	10.51
Fixed Income						
FTSE TMX Canada Universe	0.38	0.16	-11.16	-11.29	-2.24	0.82
FTSE TMX Canada Long	0.91	0.25	-19.57	-18.41	-5.48	0.43
FTSE TMX Canada Corporate Overall	0.23	0.02	-9.86	-10.02	-1.02	1.51
Currencies						
DXY	1.45	2.44	16.39	19.14	4.17	3.85
USDCAD	1.68	2.72	6.73	5.60	0.56	1.80
USDEUR	1.82	2.20	15.61	18.82	3.85	3.97
USDJPY	-0.37	2.47	23.73	29.70	9.80	4.92
USDGBP	1.42	3.21	20.13	20.92	3.48	3.69

	CA	US
Yields		
2Y	3.78	4.12
5Y	3.33	3.94
10Y	3.12	3.71
30Y	3.01	3.64
Spreads		
IG corporate bonds	166	148
HY bonds	364	491

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ROOTED IN HISTORY. INNOVATING FOR THE FUTURE.

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