

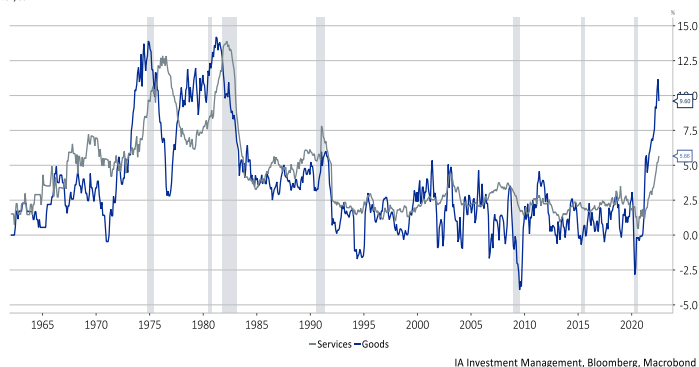
Keys to the market

What happened last week

September 9, 2022

After raising the overnight rate to 3.25% on Wednesday, the Bank of Canada clearly stated that inflation in services, which has outpaced goods, will henceforth be its focus, given the continued momentum in consumer spending and business investment. On Friday, we learned that Canada lost about 40,000 jobs in August, which raised the unemployment rate to 5.4%. The Canadian labour market recovered its Covid-19 job losses in October 2021, 7 to 8 months before the US market. This uptick in job losses could, therefore, foreshadow developments south of the border. In Europe, Russia shut down the Nordstream 1 pipeline indefinitely, causing a spike in energy futures prices. As European governments scrambled to find mitigating measures for households and businesses, the renewed pressure on energy prices increased the likelihood of sustained inflation and a deep recession in Europe.

Canada: Inflation in Goods vs Services
YoY, %



The European Central Bank (ECB) followed the Bank of Canada when it too raised its rate by 75 basis points this week, as both monetary authorities reiterated that they intend to get a better handle on inflation and bring it back toward the target. Various US Fed officials also chimed in on rates, with their more hawkish tone reinforcing the idea that the Fed's next move on September 21 will probably be a 75-basis-point hike, which is already mostly priced into the market. Despite the hawkish sentiment, bonds in Canada and the United States rallied, as 10-year yields shaved off about 5 basis points in each country. Indeed, investors had already priced in more stringent policy actions last month. The next catalyst for rates is the US CPI report on September 13, which we expect will underpin the market's expectation of a 75-basis-point hike. As for spread products, both IG and HY narrowed modestly, retracing some of the damage from late

Highlights

- The Bank of Canada refocused on services inflation and the Fed vowed to forge ahead with rates hikes.
- The US dollar strength puts stress on the earnings of large cap stocks.
- Bear sentiment set in across global markets, with a deep recession looming in Europe.

On our radar

- Heavy US news calendar: CPI, PPI, Average Earnings and Retail Sales.
- Housing Starts and Existing Home Sales in Canada.

August, despite the strong start to the fall's new issuance season as money was obviously being put back to work.

We witnessed a rebound in equity performance this week. The stock market had been in a downward trend since Jerome Powell's hawkish speech at Jackson Hole. The rally was driven by the crude oil and natural gas price correction, combined with a cheaper and oversold market.

The CPI number will also be a key focus for the stock markets next week as an indication of how successful the Fed's hawkish policy has been so far and how close we are to the end of this rate cycle. The economic news could drive equity performance meaningfully if it surprises the market.

We are monitoring the strength of the US dollar, which the broad consensus deems overvalued at this point. With earnings season looming, large caps with significant overseas earnings exposure could come under pressure. Furthermore, emerging markets, with their high exposure to dollar-denominated debt, could also feel the pain as financial conditions tighten.

Markets

(Total Return, in CAD)

As of September 8, 2022	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %		CA	US
Equities							Yields		
S&P 500	2.48%	1.60%	-11.67%	-7.03%	12.08%	13.96%	2Y	3.67	3.50
S&P/TSX	0.78%	0.50%	-6.72%	-3.69%	8.70%	8.55%	5Y	3.32	3.42
NASDAQ	2.21%	0.65%	-21.53%	-18.62%	16.06%	17.62%	10Y	3.20	3.32
MSCI ACWI	1.58%	0.65%	-14.20%	-12.23%	8.09%	9.56%	30Y	3.20	3.48
MSCI EAFE	-0.85%	-1.78%	-18.10%	-19.84%	0.83%	2.54%	Spreads		
MSCI EM	-1.13%	-3.42%	-17.12%	-22.29%	0.89%	1.69%	IG corporate bonds	166	149
Commodities (USD)							HY bonds	352	480
Gold	-0.22%	-0.15%	-6.60%	-4.52%	4.28%	4.88%			
CRB	0.10%	-1.89%	-0.76%	3.52%	14.04%	5.74%			
WTI	-3.83%	-6.71%	11.08%	20.55%	13.91%	11.96%			
Fixed Income									
FTSE TMX Canada Universe	-0.81%	-0.70%	-11.93%	-12.12%	-2.62%	0.55%			
FTSE TMX Canada Long	-2.00%	-2.17%	-21.51%	-20.38%	-6.37%	-0.29%			
FTSE TMX Canada Corporate Overall	-0.62%	-0.50%	-10.33%	-10.53%	-1.24%	1.31%			
Currencies									
DXY	0.16%	0.93%	14.67%	18.41%	3.69%	3.73%			
USDCAD	-0.32%	-0.29%	3.60%	3.16%	-0.21%	1.49%			
USDEUR	-0.44%	0.56%	13.76%	18.20%	3.33%	3.78%			
USDJPY	2.79%	3.71%	25.23%	30.71%	10.46%	5.97%			
USDGBP	0.03%	1.02%	17.59%	19.71%	2.22%	2.78%			

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