

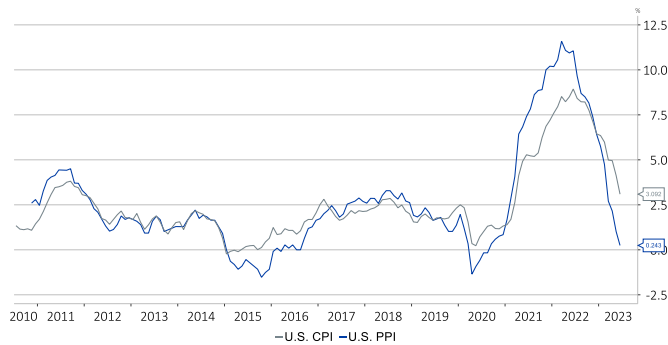
Keys to the market

What happened this week

July 14, 2023

Market sentiment remained optimistic this week. As expected, the Bank of Canada raised its policy rate by 25 basis points on Wednesday, bringing the overnight rate to its highest level since 2001. The decision came in response to persistent inflationary pressures brought on by robust demand and a tight labour market, although core inflation has seen downward momentum, mainly because of lower energy prices. In the United States, the CPI data came in below expectations, hitting a 2-year low and boosting market confidence that inflation is on a downward trajectory and that tightening measures are finally bearing fruit. This sentiment was further bolstered by PPI numbers that eased more than expected. Both stock and bond markets reacted positively to the news, as investors began to see the light at the end of the tunnel. In the coming months, the markets will assess the effectiveness of monetary policy in slowing economic activity, with the primary challenge being the excess savings accumulated by households during the pandemic.

United States: Consumer Price Index vs Production Price Index
As of 6/2023



iA Global Asset Management, Macrobond

Bond market

It was quite an eventful week in the bond market as better-than-expected U.S. CPI data spurred a sizeable rally in Treasuries, with 10s dropping 25 basis points (bps) and moving well under the 4% mark, which was only recently eclipsed on hawkish comments from Fed speakers and strong labour data. It seems that sentiment can turn on a dime these days, as we approach peak rates in the current cycle. The short end recorded an even better performance, coming down more than 30 bps, while the 2s-10s segment steepened almost 20 bps to finish at about -90 bps. As for Canada, the BoC's hike on Wednesday slowed the bond rally a little but did not materially alter the positive momentum emanating from the United States. Spread product also liked

Highlights

- The Bank of Canada raised its policy rate by 25 bps.
- U.S. CPI and PPI prints came in lower than expected, indicating a slowdown in economic activity.

On our radar

- Canada: CPI, PPI and housing starts for June
- United States: Retail sales, housing starts and existing home sales for June

the tamer U.S. CPI print, with IG and HY both enjoying a few basis points of narrowing and HY hitting 2023 lows. We expect the bond market to keep digesting the U.S. CPI data for a while because very few, material economic numbers will be released in the coming days, although Canada will announce its latest CPI figure on Tuesday.

Stock market

The S&P 500 Index rose this week, buoyed by better-than-expected CPI numbers. Nevertheless, with inflation still above the Fed's 2% target, the hiking cycle is unlikely to end anytime soon. On the earnings front, many of the largest U.S. banks, such as JP Morgan, Wells Fargo, and Citigroup, reported on Friday. As a group, they showed a profit boost thanks to higher interest rates and pointed to signs of a recovery in investment banking. On the flip side, they warned of a slowing economy and increased losses in commercial real estate. Owing to these factors, we remain cautious about their prospects. Lastly, UnitedHealth Group (UNH), a bellwether in the health care space, reported a beat on its top and bottom lines and raised its full-year guidance despite concerns about continued acceleration of the utilization of medical resources and the compression effect on margins. Most importantly, UNH said that utilization trends had stabilized at a high level, a trend likely to continue next year. Not surprisingly, this guidance led to a relief rally in managed care; sentiment had been extremely bearish, and the group had underperformed year to date. UNH continues to be a core holding in our portfolio because we believe in the long-term outlook for managed care, despite the near-term uncertainty.

Markets

(Total Return, in \$CAD)

As of July 13, 2023	WTD	MTD	YTD	1Y	3Y	5Y
Equities						
S&P 500	0.62	-0.01	14.15	20.48	12.56	11.74
S&P/TSX	1.21	-0.31	5.37	11.04	11.79	7.16
NASDAQ	0.75	0.29	35.91	31.81	11.02	15.73
MSCI ACWI	1.10	0.17	12.59	20.30	10.28	8.77
MSCI EAFE	2.09	0.50	9.60	22.58	7.49	4.51
MSCI EM	1.53	1.42	4.10	8.67	-0.24	1.60
Commodities (USD)						
Gold	1.68	1.98	7.31	13.40	2.86	9.43
CRB	0.36	1.08	-0.19	-4.51	15.07	4.89
WTI	2.56	7.23	-5.62	-20.96	23.16	1.50
Fixed income						
FTSE TMX Canada Universe	0.83	-1.03	1.45	1.65	-4.05	0.43
FTSE TMX Canada Long	1.16	-2.51	2.75	2.25	-8.12	-0.76
FTSE TMX Canada Corporate Overall	0.77	-0.63	2.32	3.25	-2.14	1.41
Currencies						
DXY	-1.71	-2.32	-2.90	-6.99	1.32	1.17
USDCAD	-0.66	-0.42	-2.71	1.27	-1.00	0.05
USDEUR	-1.46	-1.99	-3.81	-9.83	0.51	0.95
USDJPY	-2.61	-4.03	5.63	1.19	9.01	4.24
USDGBP	-1.14	-2.18	-6.96	-8.45	-0.95	0.34

	CA	US
Bond yields		
2Y	4.58	4.63
5Y	3.72	3.95
10Y	3.35	3.76
30Y	3.23	3.90
Credit spreads		
IG corporate bonds	163	127
HY bonds	356	397

Source: iA Global Asset Management, Bloomberg

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Rooted in history, innovating for the future.

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