

# Keys to the market

## What happened this week

June 30, 2023

A palpable sense of optimism took hold on the stock markets this week, although bond yields remained highly volatile. Bond yields were reacting to lower inflation prints in Canada and parts of Europe, while the U.S. first-quarter GDP estimate was revised higher and prompted Fed Chair Jerome Powell to warn of potentially two more rate hikes. Canada's annual inflation decelerated to its lowest level since June 2021, driven mainly by gasoline prices, which have dropped significantly since the start of the year. As a result, investors are speculating that the Bank of Canada will call a halt to the rate hikes at its July meeting. South of the border, President Biden expressed confidence in the strong labour market, suggesting that the country could avoid a recession altogether. Even though the May PCE deflator was in line with expectations, U.S. core inflation remains persistently high, and the University of Michigan sentiment indicator for June posted a strong print on Friday.

### Canada: Total and Core Inflation

Statistics Canada, % change YoY, as at 2023-05



## Bond market

The hotter-than-expected U.S. GDP data released toward week's end added 10+ basis points onto Treasury yields as the prospect of another Fed rate hike at its next meeting increased materially, even though PCE and consumer spending data on Friday flashed the opposite signal. Despite the movement of U.S. 10-year yields above 3.8% and curve inversions toward recent extremes, we still think yields are at the higher end of the expected range in the current hiking cycle, especially with the winds of pending recession starting to blow a little more firmly. Next week the bond market will be watching U.S. labour and ISM data for any wavering from current economic strength, even though an upward move at the next Fed meeting seems a foregone conclusion. Regardless of any coming Fed action, risk assets drew their conclusion: it was full steam ahead as IG credit

## Highlights

- Canadian CPI decelerated in May, reaching its lowest level since June 2021.
- In the United States, inflation remains sticky despite favourable PCE data for May.

## On our radar

- Canada: S&P Global Manufacturing PMI and unemployment and employment Rates for June
- United States: ISM Manufacturing, ADP Employment, and minutes of the June FOMC meeting

plunged another 5+ basis points (bps) to move below 130 bps and HY dropped 30 to about 400 bps, pricing in no potential adversity for the North American economy.

## Stock market

The S&P 500 Index was largely flat until the end of the week but is now on track for a third straight quarter of gains as a result of Friday's encouraging economic data. On the earnings front, two bellwether stocks, Micron, and Nike, both offered a weaker near-term outlook. Micron, a leading indicator in the semiconductor space and the broader economy, reported better-than-expected quarterly results but warned of a protracted recovery that will take at least a full year. The company sees continued broad-based weakness in demand in key end markets, including industrials, PCs and smartphones but thinks we've reached the bottom of the cycle. Nike, on the other hand, reported a largely in-line fourth quarter, but its first-quarter guidance came in below estimates. The company's full-year guidance was within sell-side expectations, and it assured investors of generally strong consumer momentum into next year.

These earnings provide further anecdotal support for expectations of a mild but relatively short recession in the United States. We remain cautious, however, for it is difficult to time such events. Consequently, we continue to prefer secular themes that will grow despite economic downturns.

# Markets

(Total Return, in \$CAD)

As of June 29, 2023	WTD%	MTD%	YTD%	1Y%	3Y%	5Y%
<b>Equities</b>						
S&P 500	1.58	2.65	12.92	20.52	13.45	12.19
S&P/TSX	2.69	2.11	4.43	7.86	12.27	7.36
NASDAQ	0.79	2.16	33.54	31.86	13.20	16.40
MSCI ACWI	1.57	2.22	11.29	19.28	10.95	8.98
MSCI EAFE	1.26	1.04	8.27	19.42	7.52	4.36
MSCI EM	0.14	0.94	2.44	3.58	1.52	1.40
<b>Commodities (USD)</b>						
Gold	-0.68	-2.78	4.62	4.98	2.48	8.78
CRB	-1.18	0.74	-1.68	-9.10	14.97	4.43
WTI	1.01	2.60	-12.96	-36.36	20.73	-1.18
<b>Fixed income</b>						
FTSE TMX Canada Universe	0.10	-0.75	1.70	2.73	-3.97	0.49
FTSE TMX Canada Long	0.32	-0.56	3.68	4.94	-7.94	-0.59
FTSE TMX Canada Corporate Overall	0.04	-0.39	2.36	3.93	-2.07	1.43
<b>Currencies</b>						
DXY	0.43	-0.94	-0.17	-1.68	1.95	1.81
USDCAD	0.52	-2.37	-2.23	2.78	-1.00	0.18
USDEUR	0.27	-1.61	-1.47	-3.89	1.14	1.47
USDJPY	0.74	3.89	10.40	5.98	10.40	5.50
USDGBP	0.79	-1.37	-4.20	-3.90	-0.84	0.92

Source: iA Global Asset Management, Bloomberg

	CA	US
<b>Bond yields</b>		
2Y	4.67	4.86
5Y	3.78	4.13
10Y	3.36	3.84
30Y	3.19	3.90
<b>Credit spreads</b>		
IG corporate bonds	164	131
HY bonds	358	414

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### Rooted in history, innovating for the future.

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