

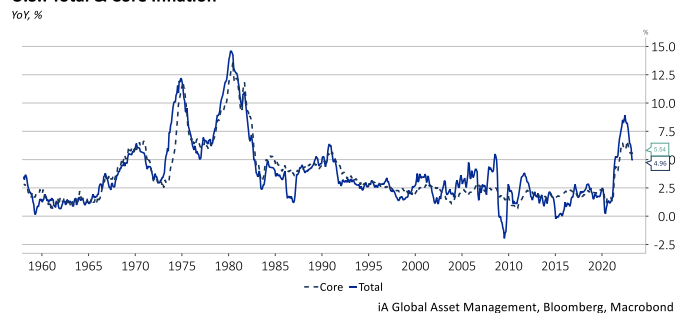
Keys to the market

What happened last week

May 12, 2023

The driver of the markets was Wednesday's U.S. CPI announcement, which saw overall annual inflation tick down to 4.9%, although core inflation remained elevated. The moderation trend thus continued, validating the markets' expectations that the Federal Reserve is on pause. Tighter lending standards, sluggish PPI data and jobless claims that are slowly climbing in the United States are all suggesting a more somber economic outlook. That being said, with stocks and bond yields whipsawing in response to the data, it looks as if the news needs to be more decisively negative for the path forward to become clearer. Central banks are still on edge about the overall level of inflation and continue to pose a risk as a volatility catalyst this year. The financial sector remained under pressure during the week amid significant deposit outflows, while investors continued to build large positions in cash, bonds and big tech.

U.S.: Total & Core Inflation



Bond market

Yields held fairly steady during the week as the bond market focused squarely on the U.S. debt ceiling standoff, which dragged on perilously. With no market-moving economic data releases in the coming week, we expect most of the chatter and action to stay centred on the debt ceiling. Spreads were also relatively unchanged, given the debt ceiling conundrum, although HY did back up a touch. Should the United States find a way to resolve the debt ceiling issue, we still think credit will come under even more pressure as the North American economy appears to be meandering toward a recession.

Stock market

The S&P 500 was mostly muted ahead of the CPI release, which was in line with expectations. The FED's favoured

Highlights

- U.S. CPI was in line with expectations, showing signs of moderating overall inflation.
- Weakening economic data reveal a murky economic outlook.

On our radar

- Canada: March retail sales, as well as housing starts and CPI for April
- United States: U.S. retail sales and housing starts for April, as well as weekly jobless claims

metric, core inflation excluding housing, rose only 0.1%. The market took this figure as a positive, with both the S&P and the Nasdaq 100 rallying.

On the earnings front, Disney reported a mixed quarter and fell nearly 9% on the day. The weakness was due mostly to the Disney+ streaming service, which reported a quarter-over-quarter drop in subscribers; moreover, the company expects a wider loss in that division owing to shifting marketing costs. Additionally, the CEO confirmed plans to raise prices for the ad-free tier once again and to combine Hulu and Disney+ content on a single app later this year, implying that the company plans to buy out Comcast's remaining one-third stake in Hulu.

Lastly, Google held its annual I/O developer conference, where it showed off a very technically impressive demo of PaLM 2, its most advanced multimodal AI model. At first glance, it appears to be at least on par with GPT-4 in most use cases, and the company is using it as a base for domain-specific applications. Google also unveiled its next-generation search engine, with built-in AI and a new conversational mode. Most important, the company is moving faster than expected; many of the newly announced products and features will be rolled out in the coming weeks and months, throwing cold water on the thesis that Microsoft will gain meaningful market share in the short term. Over all, the event was well received by the market, and we are incrementally bullish on Google's growth prospects.

Markets

(Total Return, in \$CAD)

As of May 11, 2023	WTD %	MTD%	YTD%	1Y%	3Y%	5Y%
Equity						
S&P 500	0.18	-1.52	7.63	11.20	12.43	11.74
S&P/TSX	-0.58	-1.04	6.47	6.32	13.93	8.29
NASDAQ	1.27	0.44	21.73	16.49	11.45	15.21
MSCI AWCI	0.08	-1.28	8.33	12.40	11.21	8.64
MSCI EAFE	-0.25	-1.01	10.52	17.72	10.37	4.43
MSCI EM	-0.09	-0.49	2.46	4.18	3.72	0.39
Commodities (USD)						
Gold	-0.09	1.26	10.47	8.78	5.87	8.84
CRB	-0.68	-0.49	-1.80	-13.52	14.60	4.19
WTI	-0.66	-7.70	-11.70	-32.96	43.19	0.05
Fixed Income						
FTSE TMX Canada Universe	0.65	0.09	4.32	3.49	-2.43	1.32
FTSE TMX Canada Long	1.33	-0.20	6.58	4.07	-5.65	0.58
FTSE TMX Canada Corporate Overall	0.54	0.10	4.29	4.41	-0.47	2.07
Currency						
DXY	0.83	0.39	-1.41	-1.72	0.60	1.98
USDCAD	0.87	-0.45	-0.46	3.84	-1.24	1.06
USDEUR	0.95	0.95	-1.93	-3.67	-0.33	1.81
USDJPY	-0.20	-1.30	2.60	3.51	7.71	4.22
USDGBP	1.00	0.45	-3.42	-2.12	-0.48	1.60

Source: iA Global Asset Management, Bloomberg

	CA	US
Bon yields		
2Y	3.66	3.90
5Y	2.95	3.36
10Y	2.83	3.38
30Y	2.97	3.74
Credit spreads		
IG corporate bonds	170	149
HY bonds	400	481

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Rooted in history, innovating for the future.

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