

Keys to the market

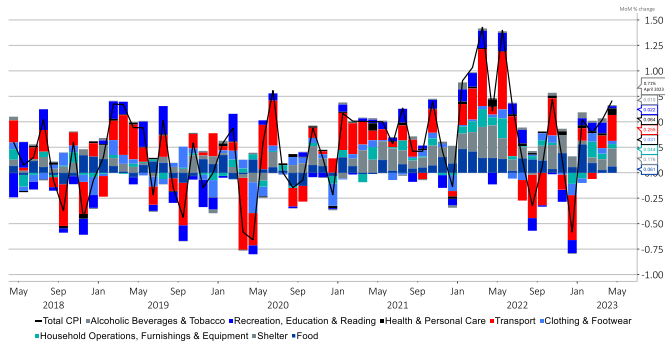
What happened last week

May 19, 2023

Market action in Canada was driven by the surprising uptick in CPI this week. April inflation accelerated to 4.4%, coming in above consensus and ending a 5-month streak of lower readings. Gasoline prices and shelter costs accelerated, with rents and mortgage costs both rising during the period. With core inflation in Canada settling at levels that are still too high for the Bank of Canada, the markets have repriced their expectations of rate cuts, although some market participants cautioned yet again about the lagged effect of the aggressive hikes of 2022. Since the start of the year, bond yields have given back almost all their compression. In the United States, news of a possible debt-ceiling deal by early this week spurred an impressive rally in stock prices, with big tech benefiting the most. As the first-quarter earnings recession fears have abated, the worst of the profit compression seems to be behind us. If the slowdown in wage growth and input costs persists, it could further stabilize margins and provide support for stock prices.

Canada: Contributions to monthly inflation

Source: StatCan



iA Global Asset Management, Macrobond

Bond market

Yields rose across the board last week, with no shortage of causes. In the United States, worries about a debt-ceiling breach and hawkish talk from a number of Fed speakers took 10s higher by 20 basis points and moved 2s up by 30+ basis points. Meanwhile in Canada, an unexpectedly strong CPI print prompted 10-year yields to jump by more than 20 basis points. Once the U.S. debt-ceiling impasse is resolved, it seems a higher-for-longer narrative will drive the market over the next while, that is until concerns about recession take hold again. Nonetheless, next week's PCE price index should keep the inflation story front and centre. The credit markets seemed to take everything in stride, with IG softer by a couple of basis points and HY out by 10 basis points. Moreover, the IG market absorbed a lot of new issuance.

Highlights

- Canadian CPI surprised on the upside, signalling that inflation is still high.
- In the United States, a potential debt-ceiling resolution pushed stocks higher, notably in the technology sector.

On our radar

- Canada: April Industrial Product Price Index and May Bloomberg Confidence Index
- United States: May U.S. Manufacturing and Services PMI and Univ. of Michigan Consumer Sentiment; April new home sales, personal income and spending, wholesale inventories

Stock market

This week marked another significant period for earnings, as numerous bellwether consumer companies reported their results. The trends continued those seen in recent quarters, with high-income consumers accounting for 60% of consumer expenditure and continuing to drive spending, as evidenced by TJX's comments about growth from affluent areas. There was also a notable shift from discretionary to staple products, contributing to Home Depot's weakest quarter in a decade, owing to unexpectedly soft demand for big-ticket items. That being said, Target and Walmart reported results that ranged from meeting to exceeding expectations, thanks in part to sales of staple products, in line with the trend noted above.

As the critical June 1 deadline approaches, the debt-ceiling discussions will take centre stage in the market. Constructive comments emerged during the week, but a resolution will be needed in the coming weeks for the market to grind higher.

Markets

(Total Return, in \$CAD)

As of May 18, 2023	WTD %	MTD%	YTD%	1Y%	3Y%	5Y%
Equity						
S&P 500	1.51	0.24	9.55	14.56	12.84	12.09
S&P/TSX	-0.58	-1.54	5.94	4.31	14.88	7.92
NASDAQ	3.36	3.85	25.86	22.05	12.63	16.11
MSCI AWCI	0.81	-0.24	9.46	14.10	11.50	8.82
MSCI EAFE	-0.71	-1.45	10.02	16.15	10.25	4.30
MSCI EM	0.24	-0.33	2.62	3.12	3.95	0.75
Commodities (USD)						
Gold	-2.65	-1.63	7.32	7.76	4.15	8.65
CRB	0.28	-0.64	-1.95	-14.08	14.19	4.10
WTI	2.60	-6.41	-10.47	-34.43	31.20	0.16
Fixed Income						
FTSE TMX Canada Universe	-1.72	-1.84	2.31	1.38	-3.13	1.03
FTSE TMX Canada Long	-2.71	-3.01	3.59	0.83	-6.79	0.23
FTSE TMX Canada Corporate Overall	-1.41	-1.49	2.63	2.71	-0.87	1.83
Currency						
DXY	0.88	1.89	0.06	-0.22	1.29	2.04
USDCAD	-0.35	-0.36	-0.38	4.76	-1.05	0.94
USDEUR	0.74	2.31	-0.60	-2.84	0.45	1.79
USDJPY	2.22	1.77	5.79	8.17	8.92	4.60
USDGBP	0.40	1.28	-2.62	-0.51	-0.58	1.65

Source: iA Global Asset Management, Bloomberg

	CA	US
Bon yields		
2Y	4.07	4.25
5Y	3.36	3.68
10Y	3.17	3.65
30Y	3.16	3.90
Credit spreads		
IG corporate bonds	169	147
HY bonds	380	469

About iAGAM

A magnet for top investment talent, iA Global Asset Management is one of Canada's largest asset managers, with over \$100 billion under management across institutional and retail mandates. We help investors achieve their long-term wealth creation goals through innovative investment solutions designed for today's complex markets. We are building upon our historic success, supporting the growth of our core strengths, and exploring innovative ways to meet investor needs. We are rooted in history and innovating for the future. Our experienced portfolio managers use a proprietary investment methodology, rooted in iAGAM's unifying commitment to strong risk management, analytical rigor and a disciplined, process-driven approach to asset allocation and security selection.

Rooted in history, innovating for the future.

General Disclosures The information and opinions contained in this report were prepared by Industrial Alliance Investment Management Inc. ("iA") and its affiliates. The information and opinions contained in this report are those of iA as of the date of this report and are subject to change, estimates and projections contained in this report were prepared by iA as of the date of this report and are subject to change. iA and its affiliates do not warrant, represent or guarantee the accuracy, completeness or timeliness of the information contained in this report, and iA and its affiliates do not accept any liability for any loss arising from any use of or reliance on this report or its contents. There is no representation, warranty, or other assurance that any loss arising from any use of or reliance on this report will be realized. There is no representation, warranty, or other assurance that any projections contained in this report will be realized. The projections and estimated financial presentation contained in this report are based on certain assumptions and are not a forecast. The projections and estimated financial presentation contained in this report are based on certain assumptions and are not a forecast. This information is not to be construed as an offer or solicitation to buy or sell any security. The reader should not rely solely on this report in evaluating whether or not to buy or sell securities of the subject company. The reader should not rely solely on this report in evaluating whether or not to buy or sell securities of the subject company. The reader should consider whether it is suitable for your particular circumstances and talk to your financial advisor.