

Keys to the market

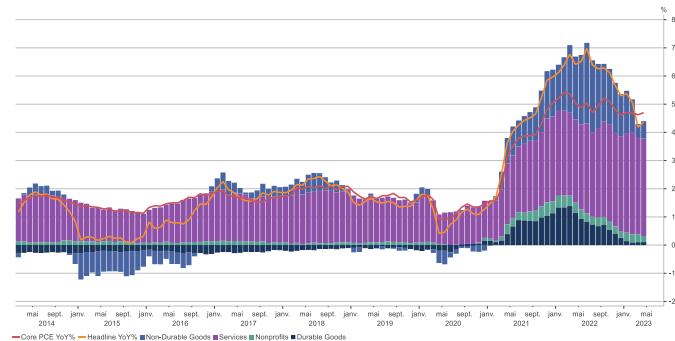
What happened last week

May 26, 2023

The financial markets were primarily focused on the U.S. debt-ceiling negotiations throughout the week. Despite talks of a 2-year deal, the lack of a resolution caused significant volatility in both stock and bond markets. Even so, the one sector that stood out was technology, led by favorable guidance from Nvidia (NVDA), a supplier of artificial intelligence hardware and software. As well, U.S. economic data came in much stronger than expected, be it new home sales, durable goods orders, or personal consumption and spending, further emphasizing the sticky nature of inflation. In Canada, the focus was on bank earnings. RBC and TD, two of the largest Canadian banks, missed profit estimates, following in the footsteps of BMO and Scotiabank. Meanwhile, Germany, the largest economy in Europe, officially entered a technical recession after a downward revision of its first-quarter GDP led to two consecutive quarters of negative growth. We continue to monitor economic indicators and debt-ceiling discussions for guidance on the trajectory of the overall economy.

U.S.: Contributions to PCE Inflation

YoY Change



iA Global Asset Management, Macrobond

Bond market

In a case of Much Ado About Nothing, bond yields increased by another 10 to 20 basis points as the U.S. government did nothing to resolve its debt-ceiling impasse as it inched closer to potential default and other non-payments of obligations. It did not help market sentiment that Fitch placed the country's AAA rating on negative watch. Add some sticky inflation results from U.S. PCE, and it's remarkable that the damage during the week was rather limited. To no one's surprise, the U.S. debt ceiling will drive market sentiment, with a resolution bringing spending down or a possible default taking us where no one wants to go. Meanwhile, spread

Highlights

- U.S. debt-ceiling discussions continued, with no deal reached.
- Strong U.S. economic data released during the week served as a reminder of the tenacity of inflation.

On our radar

- Canada: March GDP growth and May S&P Global Manufacturing PMI
- United States: May Conference Board Consumer Confidence Index, employment report and ISM Manufacturing Index

product did not care about any of it and remained relatively unchanged.

Stock market

At the beginning of the week, the S&P 500 Index was trending down amid market trepidation due to the debt-ceiling crisis. Moreover, cold water was thrown on the China reopening thesis as news emerged of a new COVID wave caused by yet another Omicron variant. Estimates put the peak infection rate at a staggering 65 million cases a week by the end of June. Near-term consumer spending will probably be dampened somewhat, although it is unlikely that the Chinese government will reinstate lockdowns because the public has become apathetic about the virus.

On the earnings front, NVDA had what can only be described as a blockbuster event. Even though the quarter itself was unimpressive, the company's second-quarter revenue guidance was a staggering 53% higher than the Street's, driven almost entirely by its data center offerings for the AI boom. As a result, its stock price surged nearly 30% on the day and drove the S&P's overall rally in the second half of the week, with semiconductor stocks advancing the most. That being said, the sustainability of its growth remains to be seen versus just a pull forward in demand. AI remains an important theme for us. We are in the early phases of the hype cycle, so we are partial to the pick-and-shovel providers. Consequently, we have a core position in hardware enablers, such as NVDA, AMD and AVGO.

Markets

(Total Return, in \$CAD)

As of May 25, 2023	WTD %	MTD%	YTD%	1Y%	3Y%	5Y%
Equity						
S&P 500	-0.08	0.20	9.50	12.74	4.08	11.82
S&P/TSX	-2.80	-4.04	3.24	0.21	0.07	7.47
NASDAQ	1.87	5.74	28.15	23.93	7.41	16.02
MSCI AWCI	-0.71	-0.68	8.98	11.89	3.82	8.63
MSCI EAFE	-1.97	-2.52	8.82	13.21	4.22	4.21
MSCI EM	-0.45	-0.67	2.27	3.80	1.25	0.51
Commodities (USD)						
Gold	-1.84	-2.44	6.44	4.75	1.56	8.31
CRB	-1.31	-2.02	-3.32	-15.04	-5.29	3.82
WTI	0.39	-6.45	-10.50	-34.90	-13.33	1.14
Fixed Income						
FTSE TMX Canada Universe	-1.14	-2.65	1.47	-0.82	-0.27	0.71
FTSE TMX Canada Long	-1.92	-4.62	1.87	-3.18	-1.07	-0.41
FTSE TMX Canada Corporate Overall	-0.95	-2.15	1.95	0.99	0.33	1.55
Currency						
DXY	1.02	2.55	0.70	2.15	0.71	2.04
USDCAD	1.01	0.66	0.65	6.45	2.10	1.01
USDEUR	0.75	2.74	-0.18	-0.43	-0.14	1.67
USDJPY	1.51	2.76	6.82	10.01	3.23	5.06
USDGBP	1.01	2.00	-1.93	2.08	0.69	1.54

	CA	US
Bon yields		
2Y	4.24	4.53
5Y	3.52	3.91
10Y	3.31	3.82
30Y	3.31	4.00
Credit spreads		
IG corporate bonds	168	142
HY bonds	371	458

Source: iA Global Asset Management, Bloomberg

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Rooted in history, innovating for the future.

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