

# Keys to the market

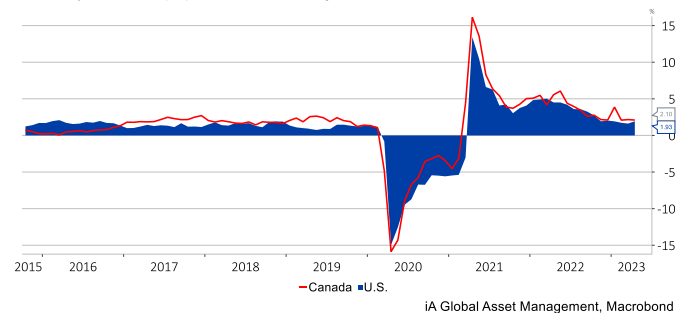
## What happened last week

May 5, 2023

Last week, global financial markets remained volatile amid renewed concerns about the banking system, with JP Morgan taking over embattled First Republic Bank in a loss-sharing agreement with federal regulators. Other regional banks are also attracting scrutiny as they scramble to find a path forward. The Fed and the ECB raised their policy rates by 25 bps, as expected. In the case of the Fed, the accompanying press conference hinted at a slowdown in economic conditions, which the market expects will lead to a pause at the June meeting. On Friday, employment data in the United States and Canada were surprisingly strong, and unemployment rates ticked down in both countries. So far this year, mixed economic data as well as resilient global growth despite higher policy rates and tighter lending conditions have baffled market observers, as big tech drives the year-to-date performance of the stock market.

### Canada & U.S.: Change in employment

U.S. Bureau of Labor Statistics (BLS), Statistics Canada, % change YoY, as at 4/2023



## Bond market

Bond yields initially plunged 20+ basis points to start the week on re-emerging concerns about U.S. regional banks, particularly those in the southwest, but later retraced half of that decrease as unexpectedly strong job numbers put inflation and a “higher for longer” Fed back into the conversation. Perhaps even more interesting, however, the Fed’s latest hike at mid-week took a back seat to all the aforementioned chatter, in what was widely expected to be its last move in the hiking cycle. Attention will now turn to the coming U.S. CPI data to see whether the renewed upward momentum on yields is sustained, provided there are no more U.S. regional bank failures. Meanwhile, IG spreads rose 10+ basis points and HY shot up 50 as the burgeoning regional bank crisis induced acute pain in the credit space. As noted for some time, we expect spreads to drift higher as the realities of slowing economic conditions and higher rates permeate the credit markets.

## Highlights

- Worries around the banking system resurface after First Republic Bank collapses.
- In Canada and the United States, employment data were better than expected, further emphasizing the economy’s resilience.

## On our radar

- Canada: March building permits
- United States: April small business optimism, CPI, PPI and University of Michigan sentiment indicator for May

## Stock market

The S&P 500 index was largely flat heading into the FOMC meeting, with the Fed widely expected to raise rates by another 25 bps, which it delivered. Additionally, the messaging remained consistent, with Jerome Powell reiterating “higher for longer” in response to the resilient economy and persistent inflation. The week’s nonfarm payroll numbers seemed to support that view, with average hourly earnings coming in higher than expected and the unemployment rate falling to a multidecade low. Additionally, 80% of the S&P 500 Index names have reported; over all, earnings remain astonishingly robust, despite the tough economic backdrop. So far, 71% have beaten on EPS, 78% on sales, and 58% on both. Most notably this week, Apple delivered a blockbuster beat on the back of strong iPhone sales in emerging markets and an improving supply chain.

Lastly, jitters continued throughout the banking system, as First Republic Bank was seized and sold off to JP Morgan over the weekend. We think the risk of contagion remains low, and the soundness of the banking system is intact. For now, we are more defensively positioned versus the market in response to the Fed’s messaging on inflation, especially given the strength of the economy and the tight labour market.

# Markets

(Total Return, in \$CAD)

As of May 4, 2023	WTD %	MTD%	YTD%	1Y%	3Y%	5Y%		CA	US
<b>Equity</b>							<b>Bon yields</b>		
S&P 500	-2.40	-2.40	6.66	1.74	13.09	11.95	2Y	3.56	3.79
S&P/TSX	-1.93	-1.93	5.52	-1.32	14.50	8.44	5Y	2.89	3.33
NASDAQ	-1.81	-1.81	19.01	1.54	12.35	15.16	10Y	2.80	3.38
MSCI AWCI	-1.79	-1.79	7.77	4.49	12.03	8.85	30Y	2.97	3.73
MSCI EAFE	-0.35	-0.35	11.24	15.70	11.48	4.77	<b>Credit spreads</b>		
MSCI EM	0.14	0.14	3.11	0.52	4.87	0.90	IG corporate bonds	169	151
<b>Commodities (USD)</b>							HY bonds		
Gold	3.03	3.03	12.40	8.99	6.40	9.30	401	495	
CRB	-0.58	-0.58	-1.89	-15.50	15.72	4.04			
WTI	-10.71	-10.71	-14.58	-36.41	49.81	-0.33			
<b>Fixed Income</b>									
FTSE TMX Canada Universe	0.15	0.15	4.38	2.81	-2.52	1.32			
FTSE TMX Canada Long	-0.39	-0.39	6.38	2.17	-6.09	0.56			
FTSE TMX Canada Corporate Overall	0.14	0.14	4.33	3.89	-0.44	2.04			
<b>Currency</b>									
DXY	-0.26	-0.26	-2.05	-1.16	0.64	1.84			
USDCAD	-0.10	-0.10	-0.11	6.21	-1.31	1.06			
USDEUR	0.07	0.07	-2.78	-3.54	-0.33	1.67			
USDJPY	-1.47	-1.47	2.42	4.03	7.95	4.24			
USDGBP	-0.05	-0.05	-3.90	0.49	-0.35	1.48			

Source: iA Global Asset Management, Bloomberg

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

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