WEEK IN REVIEW

January 13, 2023

In focus

Global equities gained for the week; risk appetite was supported by weaker momentum in U.S. consumer price inflation, which raised hopes that the U.S. Federal Reserve (the Fed) would slow the pace of its interest rate hikes. The rapid reopening of China's economy from COVID lockdowns further brightened the outlook for global investors.

Japanese equities ended the week with positive returns. However, uncertainty about the outlook for monetary policy ahead of next week's meeting of the Bank of Japan kept a lid on further gains, with investors assessing data that showed the core inflation rate in Tokyo had hit its highest level in more than four decades.

In commodities, oil prices recorded the biggest weekly gains as the U.S. dollar dropped to a seven-month low and more indicators pointed toward growing demand from top oil importer China. Recent Chinese crude purchases and a pickup in road traffic in the country fuelled hopes of a demand recovery in the world's second-largest economy following the reopening of its borders.

In fixed income, short- and longer-term U.S. Treasury yields ended lower (bond prices and yields move in opposite directions), after data showed an unexpected fall in consumer prices in December, affirming expectations that the Fed will continue to slow the pace of its rate increases.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	20,360.10	2.75%	5.03%	5.03%
S&P500	3,999.09	2.67%	4.16%	4.16%
NASDAQ	11,079.16	4.82%	5.85%	5.85%
DJIA	34,302.61	2.00%	3.49%	3.49%
Russell 2000	1,887.03	5.26%	7.14%	7.14%
FTSE 100	7,844.07	1.88%	5.26%	5.26%
Euro Stoxx 50	4,150.80	3.31%	9.42%	9.42%
Nikkei 225	26,119.52	0.56%	0.10%	0.10%
Hang Seng	21,738.66	3.56%	9.89%	9.89%
Shanghai Comp.	3,195.31	1.19%	3.43%	3.43%
MSCI ACWI	638.08	3.35%	5.40%	5.40%
MSCI EM	1,029.85	4.16%	7.68%	7.68%
MSCI ACWI ESG Leaders	2,273.47	3.57%	5.66%	5.66%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,083.37	1.54%	3.06%	3.06%
BBG Global Agg.	460.76	1.91%	3.33%	3.33%
TSX Pref	1,701.72	2.30%	6.61%	6.61%

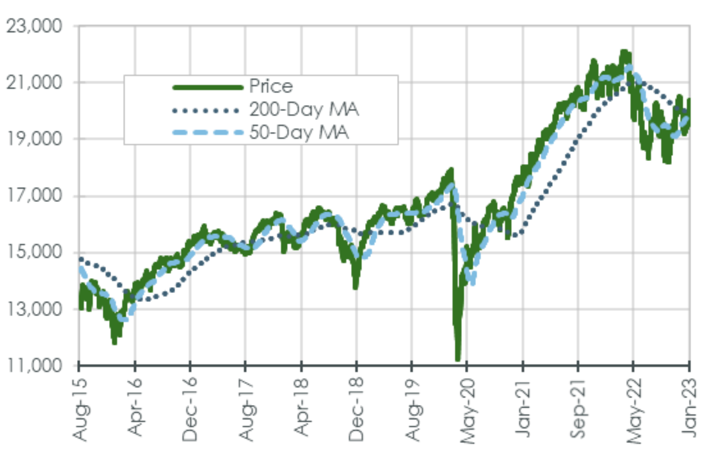
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	2.90%	-19.4	-40.3	-40.3
10 yr U.S. Govt.	3.50%	-5.5	-37.1	-37.1
30 yr Canada Govt.	2.93%	-16.7	-34.4	-34.4
30 yr U.S. Govt.	3.61%	-7.7	-35.3	-35.3

Commodities	Close	Weekly	MTD	YTD
Oil	79.86	8.26%	-0.50%	-0.50%
Natural gas	3.42	-7.84%	-23.60%	-23.60%
Gold	1,920.23	2.92%	5.27%	5.27%
Silver	24.26	1.82%	1.29%	1.29%
Copper	421.60	7.80%	10.64%	10.64%

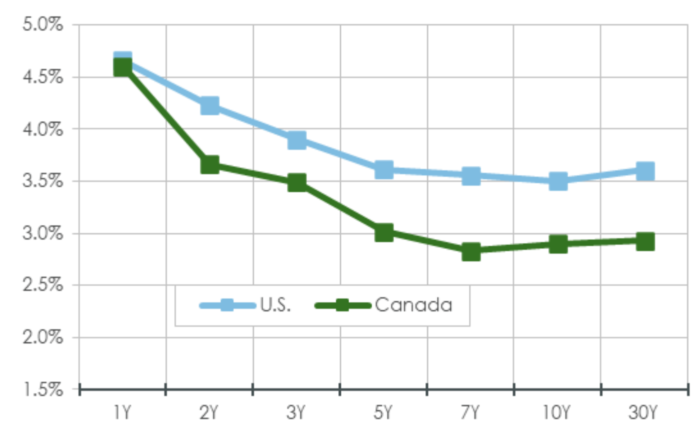
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7465	0.36%	1.18%	1.18%
USD/EUR	0.9233	-1.72%	-1.16%	-1.16%
CAD/EUR	0.6892	-1.36%	-0.03%	-0.03%
USD/JPY	127.8700	-3.19%	-2.48%	-2.48%
USD/CNY	6.7010	-1.86%	-2.86%	-2.86%
USD/MXN	18.7663	-2.01%	-3.76%	-3.76%
GBP/CAD	1.6374	0.74%	-0.13%	-0.13%
GBP/USD	1.2227	1.11%	1.19%	1.19%

*Please refer to the Appendix for the above table in Canadian dollar terms. Natural gas prices subject to change post-settlement.

S&P/TSX Composite Index



Treasury yield curves



Source: Bloomberg and Refinitiv DataStream. Index returns are in local currency. All equity indexes are price returns and do not include dividends.

Economic indicators	Period	Survey	Actual	Prior period
U.S. initial jobless claims	07-Jan	215K	205K	206K
U.S. CPI YoY	Dec	6.5%	6.5%	7.1%
U.S. continuing claims	31-Dec	1710k	1634K	1697K
China CPI YoY	Dec	1.8%	1.8%	1.6%
China money supply M2 YoY	Dec	12.3%	11.8%	12.4%
Eurozone unemployment rate	Nov	6.5%	6.5%	6.5%

Canada

Canadian equity markets moved up over the week, mirroring upbeat global sentiment and aided by gains in energy stocks. At a sector level, all sectors ended posting positive returns, with the real estate and information technology sectors leading the gains.

On the economic front, Canadian factory sales rose 2.6% in November from October, driven mostly by higher sales of primary metals, petroleum and coal products, non-metallic minerals, and food products, as reported by Statistics Canada. Meanwhile, Canadian home sales rose 0.2% in December from November, even as supply fell to a record low level, according to data from the Canadian Real Estate Association.

U.S.

The U.S. equities market recorded a second consecutive week of gains as investors weighed key inflation data and as the quarterly earnings reporting season kicked off. The latest signs of cooling inflation added to hopes that the Fed could further downshift the pace of monetary policy tightening.

According to the Labor Department's report on the consumer price index (CPI) released this week, the annual inflation rate in the U.S. eased for a sixth consecutive month in December, to 6.5%, while the core inflation rate slowed to 5.7%, affirming a cooling inflationary trend and strengthening the case for a smaller 25-basis-point rate hike from the Fed next month. The optimism regarding the easing inflationary pressure prevailed over data pointing to a stubbornly tight labor market; the number of initial claims for unemployment benefits fell unexpectedly to a three-month low last week. Ongoing increases in the Department's calculation of shelter costs, which lag actual declines in home prices and rents, were largely behind the remaining inflation pressures.

In corporate headlines, Microsoft announced that it plans to invest US$10 billion in OpenAI, the creator of artificial intelligence bot ChatGPT. Separately, with quarterly results being released by major banks, sector giant JPMorgan kicked off the fourth-quarter earnings season with upbeat results. However, the bank increased its provisions in preparation for credit losses in a potential recession. Bank of America beat consensus expectations, while Wells Fargo and Citigroup missed quarterly profit estimates.

In economic data, the University of Michigan's preliminary reading of consumer sentiment jumped much more than expected, and reached its highest level since April. The survey showed that consumers expected prices to rise 4.0% over the next 12 months, down from 4.4% in December, although longer-term expectations rose a bit, from 2.9% to 3.0%.

Rest of the world

European equities ended the week posting positive returns as investors welcomed a batch of upbeat economic data. Meanwhile, further evidence that U.S. inflation is in a downward trend increased existing rising momentum in the markets.

Bank of England Chief Economist Huw Pill said that the U.K. faced the risk of persistent inflation, hinting that interest rates would probably rise again. In economic data, the seasonally adjusted unemployment rate in the eurozone held steady at a record low of 6.5% in November, highlighting the European labour market's resistance to aggressive tightening by the European Central Bank. Elsewhere, the GDP growth for Germany, the largest economy in Europe, beat estimates and came in at 1.9% for 2022.

Most Asian markets ended the week on a positive note, tracking strong performance across the international markets. Sentiment held up over the week, supported by an improving outlook for the global economy brought on by China's full reopening. Meanwhile, evidence of easing inflationary pressures in the U.S. and Europe raised hopes of a further moderation of interest rate hikes by major central banks.

Looking Ahead

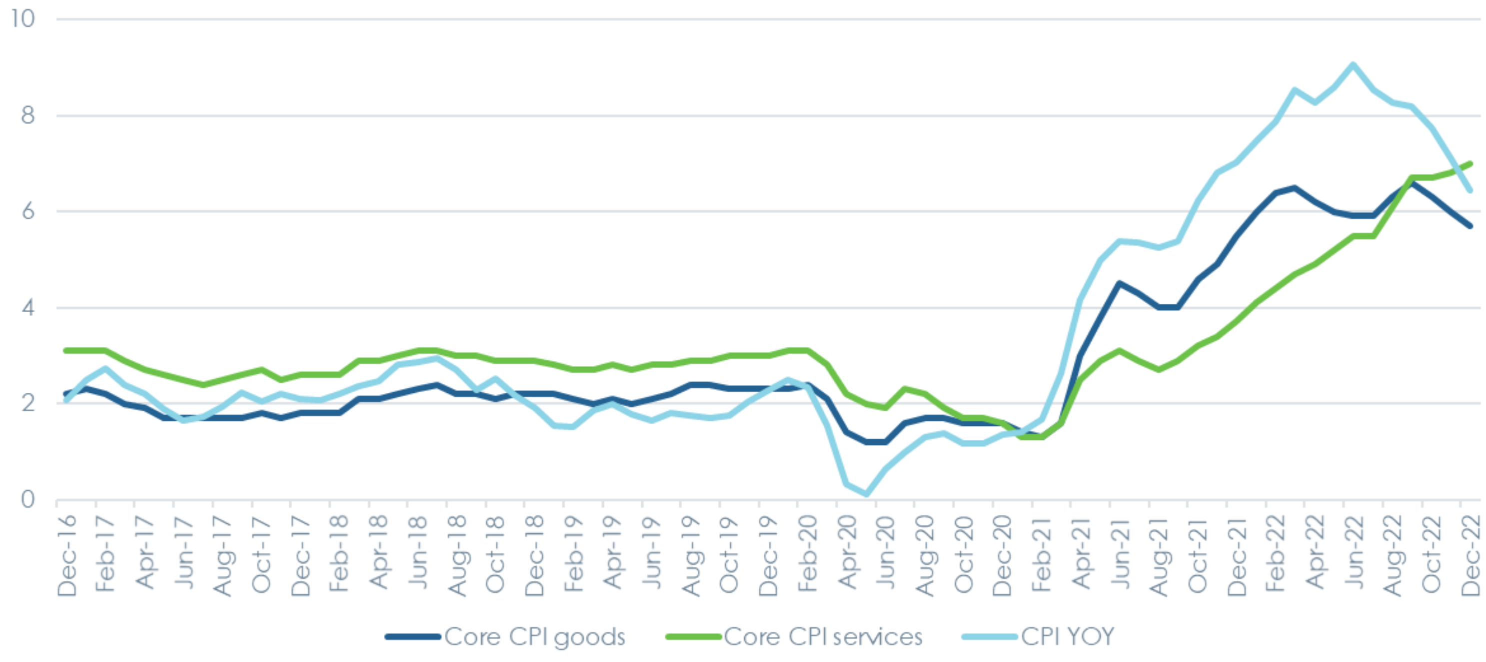
Economic indicators	Period	Survey	Prior period
Canada CPI YoY	Dec	6.4%	6.8%
Canada housing starts	Dec	-0.5%	0.1%
Canada retail sales MoM	Nov	-0.5%	1.4%
U.S. initial jobless claims	14-Jan	214k	205k
U.S. housing starts	Dec	1357k	1427k
China GDP YoY	Q4	1.6%	3.9%

Central bank meetings			
Central banks	**Date**	**Probability of change**	**Current rate**
Bank of Japan	18-Jan-23	21.00%	-0.10%
Bank of Canada	25-Jan-23	76.60%	4.25%
Federal Open Market Committee	1-Feb-23	109.80%	4.50%
Bank of England	2-Feb-23	179.10%	3.50%
European Central Bank	2-Feb-23	199.40%	2.50%

Source: Bloomberg. Probability of change implies the possibility of a central bank hiking interest rates during their upcoming meeting. A negative number in this case means chances of a rate cut rather than a hike.

Spotlight

Service costs a worrisome note in subdued CPI print
December's CPI offers a third straight month of good news on inflation, with outright deflation in the headline measure. With annualized measures of headline CPI running at a pace below the Fed's 2% price target, the central bank has the scope to further slow the pace of its rate hikes to 25 basis points at its upcoming meeting. Still, persistent price pressures in service categories mean officials will likely conclude they have more work to do.



Sources: Bloomberg. Data as at December 31, 2022.

Appendix

Global markets (Returns in Canadian dollar terms)				
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Commodities	**Close**	**Weekly**	**MTD**	**YTD**
Oil	106.98	7.86%	-1.66%	-1.66%
Natural gas	4.58	-8.18%	-24.49%	-24.49%
Gold	2,572.07	2.53%	4.06%	4.06%
Silver	32.52	1.50%	0.18%	0.18%
Copper	564.77	7.41%	9.35%	9.35%
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