WEEK IN REVIEW

February 10, 2023

In focus

Global equities declined for the week as central bank officials hinted that a tight monetary policy regime would continue to be maintained to tame inflation. Japanese equities, however, ended higher, aided by robust corporate earnings and an optimistic outlook for domestic firms.

Sentiment improved when Federal Reserve Chair Jerome Powell signalled, in a highly anticipated speech, that the process of disinflation is underway. However, when asked about the recent stronger-than-expected job numbers, he indicated that the terminal rate may need to be higher in this tightening cycle to bring inflation to its 2% objective; this left investors on edge. A fresh batch of PMI surveys showed the construction sector in Germany, France and Italy remained in contractionary territory, despite a smaller fall in January. Data released on Friday showed the British economy had stalled in the fourth quarter of 2022, as expected, and had narrowly avoided a technical recession.

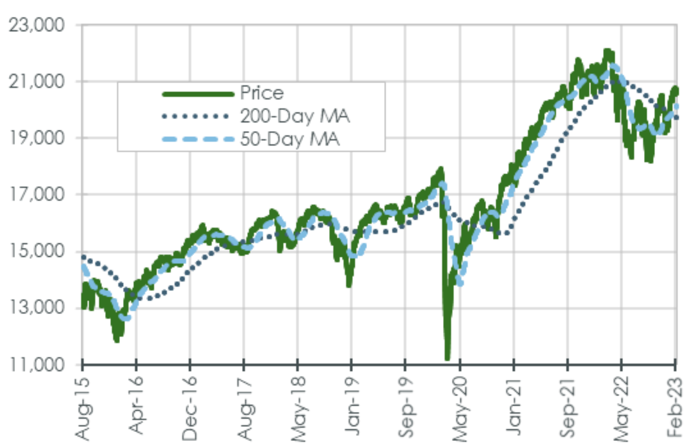
In commodities, oil prices rose as Russia announced plans to reduce crude production next month after the west imposed price caps on the country's fuel output.

In fixed income, yields on the U.S. 30-year note rose after the Treasury Department saw weak demand for a $21 billion sale, the final sale of $96 billion in coupon-bearing supply this week.

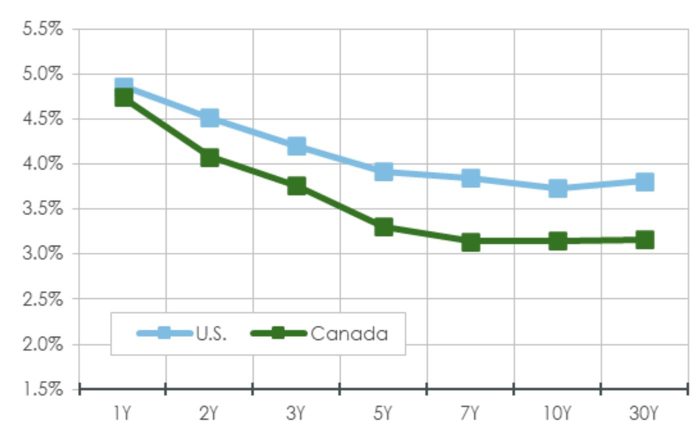
Indexes	Close	Weekly	MTD	YTD
S&P/TSX	20,612.12	-0.70%	-0.75%	6.33%
S&P500	4,090.46	-1.11%	0.34%	6.54%
NASDAQ	11,718.12	-2.41%	1.15%	11.96%
DJIA	33,869.27	-0.17%	-0.64%	2.18%
Russell 2000	1,918.81	-3.36%	-0.68%	8.95%
FTSE 100	7,882.45	-0.24%	1.43%	5.78%
Euro Stoxx 50	4,197.94	-1.41%	0.83%	10.66%
Nikkei 225	27,670.98	0.59%	1.26%	6.04%
Hang Seng	21,190.42	-2.17%	-2.98%	7.12%
Shanghai Comp.	3,260.67	-0.08%	0.15%	5.55%
MSCI ACWI	646.87	-1.43%	-0.23%	6.85%
MSCI EM	1,013.67	-2.41%	-1.73%	5.99%
MSCI ACWI ESG Leaders	2,304.29	-1.57%	-0.27%	7.09%
Fixed income	**Close**	**Weekly**	**MTD**	**YTD**
FTSE Canada Uni.	1,068.06	-1.49%	-1.44%	1.61%
BBG Global Agg.	453.94	-1.63%	-1.44%	1.80%
TSX Pref	1,721.27	0.65%	0.53%	7.83%
Bond yields	**Close**	**bps chg Weekly**	**bps chg MTD**	**bps chg YTD**
10 yr Canada Govt.	3.15%	22.4	23.7	-14.7
10 yr U.S. Govt.	3.73%	20.7	22.5	-14.3
30 yr Canada Govt.	3.17%	15.9	19.0	-11.2
30 yr U.S. Govt.	3.82%	20.2	18.4	-14.7
Commodities	**Close**	**Weekly**	**MTD**	**YTD**
Oil	79.72	8.63%	1.08%	-0.91%
Natural gas	2.51	4.32%	-6.33%	-38.74%
Gold	1,865.57	0.03%	-3.26%	2.28%
Silver	22.00	-1.56%	-7.28%	-8.14%
Copper	401.65	-0.99%	-4.96%	5.41%
Currencies	**Close**	**Weekly**	**MTD**	**YTD**
CAD/USD	0.7494	0.39%	-0.28%	1.57%
USD/EUR	0.9365	1.09%	1.74%	0.26%
CAD/EUR	0.7018	1.52%	1.43%	1.80%
USD/JPY	131.3600	0.13%	0.98%	0.18%
USD/CNY	6.8145	0.24%	0.88%	-1.22%
USD/MXN	18.6704	-1.57%	-0.89%	-4.25%
GBP/CAD	1.6095	-0.39%	-1.85%	-1.83%
GBP/USD	1.2062	0.05%	-2.09%	-0.17%

*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
Canada unemployment rate	Jan	5.1%	5.0%	5.0%
U.S. initial jobless claims	04-Feb	190K	196K	183K
U.S. University of Michigan sentiment	Feb	65.0	66.4	64.9
U.S. MBA mortgage applications	03-Feb	-	7.4%	-9.0%
China CPI YoY	Jan	2.1%	2.1%	1.8%
China PPI YoY	Jan	-0.5%	-0.8%	-0.7%

Canada

Canadian equities ended the week lower as solid domestic jobs data raised worries that the Bank of Canada would reconsider its pause in raising interest rates. The Canadian economy added a surprising net 150,000 jobs in January. Meanwhile, the unemployment rate remained unchanged, at 5.0%, indicating that the labour market remains tight.

On the economic front, Canada posted a trade deficit of CDN$160 million in December: exports fell, largely on energy products, while imports were driven down, mainly by consumer goods.

U.S.

U.S. equity markets declined for the week as investors digested mixed corporate earnings and weighed prospects of further interest rate hikes. Adding to the cautious mood, Federal Reserve officials on Wednesday said more interest rate rises are in the cards as the U.S. central bank moves ahead with efforts to control inflation.

All sectors except energy finished with negative returns. Energy stocks rebounded strongly on an increase in underlying commodity prices. In corporate headlines, Alphabet shares fell after the Google parent's new chatbot shared inaccurate information on Wednesday, feeding worries that it is losing ground to rival Microsoft. Microsoft shares jumped after the company launched a new version of its Bing search engine that is integrated with ChatGPT, a chatbot from OpenAI. U.S.-listed Chinese search engine leader Baidu said it too is on track to unveil a ChatGPT-like service in March. Ride-hailing company Lyft fell after issuing a downbeat profit guidance, while travel agency Expedia Group declined after posting disappointing quarterly results.

In other economic data, weekly jobless claims rose to 196,000, above the forecast of 190,000 claims. Although the latest data showed a slight increase in the number of jobless claims, the increase is from a low base, and claims continue to indicate a tight labour market, despite all the news about layoffs in recent weeks. Preliminary data for the University of Michigan sentiment index showed that consumer sentiment continued to improve in February, with one-year inflation expectations going up.

Rest of the world

European markets fell for the week due to fears that overly aggressive central bank policy would prolong an economic crisis. However, cooling inflation in Germany and a slew of upbeat earnings somewhat helped offset these concerns.

German government bond yields edged higher as European Central Bank policy makers fought back against expectations of a quick end to the monetary tightening cycle. In economic data, retail sales in the eurozone fell in December 2022 by the most they have since April 2021, due to continued strain on consumer spending amid high inflation and rising interest rates. Meanwhile, preliminary data showed that German consumer prices rose by a less-than-expected 9.2% year-on-year in January, compared with the rest of the E.U. In earnings-driven moves, Adidas declined after the sportswear maker warned it could see a loss this year, for the first time in three decades. Meanwhile, Swedish defence equipment maker Saab jumped after reporting a rise in fourth-quarter operating profit.

In Asia, Chinese equities concluded the week on a downbeat note, driven down by escalating Sino-U.S. tensions and diminishing optimism about a post-COVID recovery. China's January factory gate prices fell more than economists expected, suggesting manufacturers are not yet running at full speed, even after the scrapping of tough COVID measures late last year. The consumer price index in January was 2.1% higher than a year earlier, in line with estimates, while producer prices fell more than expected, due to lower commodity costs.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada housing starts	Jan	245.0K	248.6K
Canada manufacturing sales MoM	Dec	-1.5%	0.0%
U.S. CPI YoY	Jan	6.2%	6.5%
U.S. housing starts	Jan	1353K	1382K
U.S. industrial production MoM	Jan	0.5%	-0.7%
Eurozone unemployment rate	Jan	-	3.5%

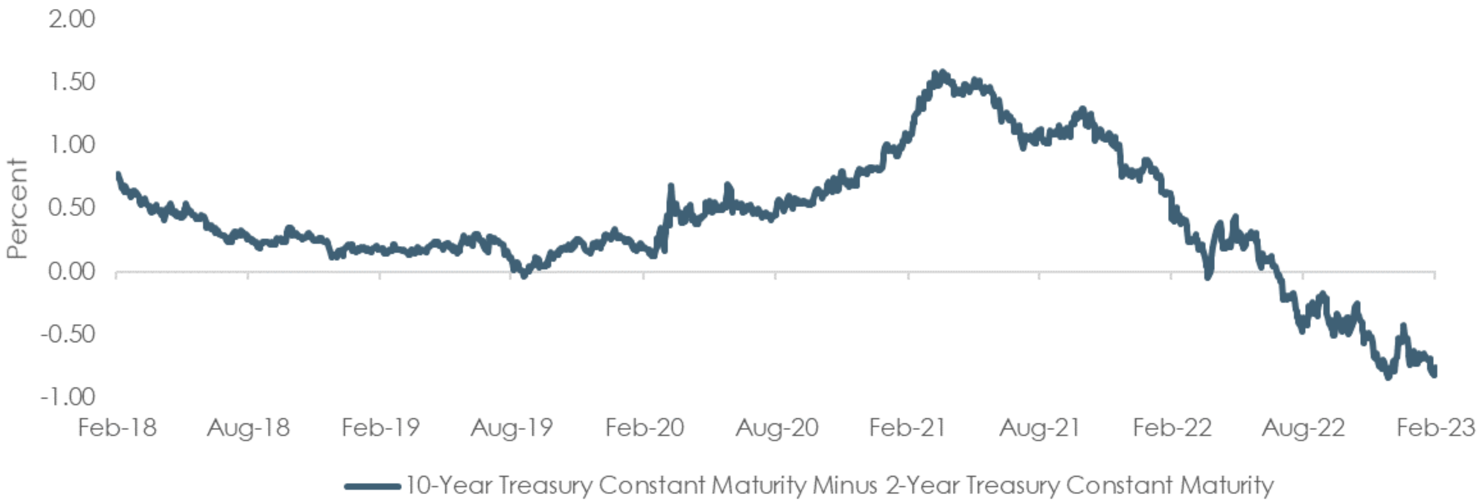
Central bank meetings			
Central banks	**Date**	**Probability of change**	**Current rate**
Bank of Canada	8-Mar-23	22.00%	4.50%
Bank of Japan	10-Mar-23	12.30%	-0.10%
European Central Bank	16-Mar-23	195.30%	3.00%
Federal Open Market Committee	22-Mar-23	104.30%	4.75%
Bank of England	23-Mar-23	102.40%	4.00%

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

Treasury yield curve inverts further, by the widest margin since the early 1980s

Treasury yields are reflecting growing concerns that the Federal Reserve will likely push the U.S. economy into a recession. The yield curve (which maps the difference between the yields on two-year and yen-year Treasury bonds) has remained inverted, with the yield on two-year bonds higher than the yield on ten-year bonds, for months as the economy decelerates towards a hard landing – clear evidence of those concerns. The two-year Treasury yield exceeded the ten-year Treasury yield by up to 85 basis points at one point this week, the deepest inversion since the early 1980s. The notable inversion in this part of the yield curve indicates flagging confidence in the economy's ability to withstand additional Federal Reserve interest rate hikes.



Source: Bloomberg Economics and Federal Reserve Bank of St. Louis, as at February 10, 2023.

Appendix

Global markets (Returns in Canadian dollar terms)				
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MSCI EM	1,013.67	-2.65%	-1.44%	4.67%
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Commodities	**Close**	**Weekly**	**MTD**	**YTD**
Oil	106.38	8.20%	1.36%	-2.44%
Natural gas	3.35	3.91%	-6.07%	-39.69%
Gold	2,489.28	-0.39%	-2.99%	0.71%
Silver	29.37	-1.93%	-6.96%	-9.51%
Copper	535.96	-1.37%	-4.69%	3.77%
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