



February 24, 2023

In focus

Global equities declined for the week as investors braced for the possibility of more aggressive rate hikes from the Federal Reserve (the Fed), with U.S. economic data pointing to resilient consumers. Chinese equities, however, ended higher on hopes that the economy will gradually shift from reopening to recovery, outweighing pressure from U.S.-China tensions.

The most recent setback came on Friday with the release of U.S. personal consumption expenditures (PCE) price index data, the Fed's preferred inflation gauge: it increased by 0.6% last month, bringing the index to 5.4% for the 12 months through January. Meanwhile, Japan's annual core consumer inflation hit a fresh 41-year high of 4.2% in January as companies passes on higher costs to households, keeping the central bank under pressure to phase out its massive stimulus program. Elsewhere, eurozone consumer confidence improved for a fifth straight month in February, helped by moderating energy prices and easing fears of a deep economic recession.

In commodities, oil prices fell; prices were supported by the prospect of lower Russian exports, but pressured by rising inventories in the U.S.

In fixed income, yields on U.S. Treasury notes rose after data showed that U.S. consumer spending had rebounded sharply in January, amid strong income growth, while inflation had accelerated.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	20,219.19	-1.44%	-2.64%	4.30%
S&P500	3,970.04	-2.67%	-2.61%	3.40%
NASDAQ	11,394.94	-3.33%	-1.64%	8.87%
DJIA	32,816.92	-2.99%	-3.72%	-1.00%
Russell 2000	1,890.49	-2.87%	-2.15%	7.34%
FTSE 100	7,878.66	-1.57%	1.38%	5.73%
Euro Stoxx 50	4,178.82	-2.25%	0.37%	10.15%
Nikkei 225	27,453.48	-0.22%	0.46%	5.21%
Hang Seng	20,010.04	-3.43%	-8.39%	1.16%
Shanghai Comp.	3,267.16	1.34%	0.35%	5.76%
MSCI ACWI	628.00	-2.64%	-3.14%	3.74%
MSCI EM	971.87	-2.76%	-5.78%	1.62%
MSCI ACWI ESG Leaders	2,236.82	-2.61%	-3.19%	3.96%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,055.46	-0.45%	-2.60%	0.41%
BBG Global Agg.	444.26	-1.19%	-3.54%	-0.37%
TSX Pref	1,697.93	-1.02%	-0.84%	6.37%

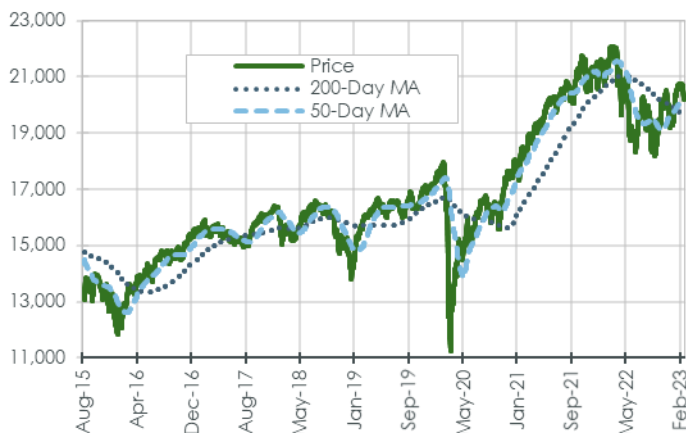
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	3.39%	9.8	47.2	8.8
10 yr U.S. Govt.	3.94%	12.8	43.6	6.8
30 yr Canada Govt.	3.27%	1.3	29.5	-0.7
30 yr U.S. Govt.	3.93%	6.2	29.9	-3.2

Commodities	Close	Weekly	MTD	YTD
Oil	76.32	-0.30%	-3.60%	-5.23%
Natural gas	2.55	8.33%	-7.04%	-34.95%
Gold	1,811.04	-1.70%	-6.08%	-0.71%
Silver	20.76	-4.45%	-12.50%	-13.32%
Copper	395.30	-3.70%	-6.65%	3.63%

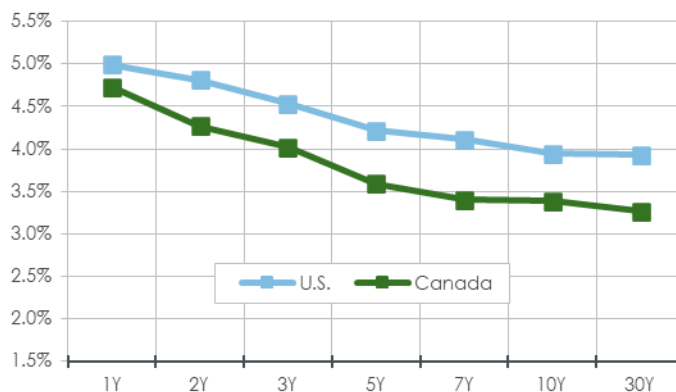
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7347	-1.01%	-2.24%	-0.42%
USD/EUR	0.9481	1.39%	3.00%	1.50%
CAD/EUR	0.6969	0.43%	0.72%	1.09%
USD/JPY	136.4800	1.74%	4.91%	4.09%
USD/CNY	6.9601	1.33%	3.03%	0.89%
USD/MXN	18.4180	0.25%	-2.23%	-5.55%
GBP/CAD	1.6259	0.26%	-0.85%	-0.83%
GBP/USD	1.1944	-0.77%	-3.05%	-1.15%

*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 CPI YoY	Jan	6.1%	5.9%	6.3%
U.S. initial jobless claims	18-Feb	200K	192K	195K
U.S. GDP annualized QoQ	4Q	2.9%	2.7%	2.9%
U.S. MBA mortgage applications	17-Feb	-	-13.3%	-7.7%
U.S. University of Michigan sentiment	Feb	66.4	67.0	66.4
Eurozone CPI YoY	Jan	8.6%	8.6%	9.2%

Canada

Canadian equities declined over the week, tracking declines on Wall Street as U.S. inflation data fuelled speculation about when the Federal Reserve will be able to stop hiking interest rates. Nevertheless, Canada's annual inflation rate eased more than expected in January, to 5.9%, owing to the so-called base-year effect, even as food and mortgage interest costs continued to soar.

On the economic front, Canadian retail sales rose by 0.5% in December from November on higher auto and general merchandise store sales.

U.S.

U.S. equity markets declined for the week. U.S. consumer spending and inflation rebounded sharply in January amid strong income growth, adding to fears that the Fed could continue raising interest rates. Cleveland Fed President Loretta Mester stated that the Fed should indeed raise interest rates – even higher than necessary – to fully control inflation.

Consumer spending, which accounts for two-thirds of U.S. economy activity, rose unexpectedly by 1.8% in January. Meanwhile, personal income rose by 0.6%, with strong wage growth accounting for most of the increase.

All sectors except energy fell, with communication services and consumer discretionary leading the losses. Following corporate earnings releases, major retailers such as Walmart and Home Depot declined, after issuing cautious forecasts and flagging weakening demand and economic uncertainty. Warner Bros. Discovery fell after reporting a greater-than-expected quarterly loss due to one-off charges related to the Warner Bros.-Discovery merger. In other corporate headlines, Boeing declined after the company paused delivery of its 787 Dreamliner planes. Adobe shares fell on reports that the U.S. Justice Department would block the Photoshop maker's \$20 billion bid for cloud-based designer platform Figma.

In other economic data, fourth-quarter GDP growth was revised down to an annualized rate of 2.7% in the second estimates, and signs of labour market tightness remained, with weekly initial jobless claims continuing to surprise markets on the downside. An S&P Global composite PMI report showed that U.S. business activity returned to growth territory in February, for the first time in eight months, helped by a modest growth in service activity and a slower decline in factory activity.

Rest of the world

European markets ended the week with negative returns after investors digested a slew of corporate earnings reports and the latest Fed meeting minutes, which reaffirmed the central bank's commitment to its rate-hiking drive to combat inflation.

Among economic data, eurozone inflation eased in January to an annual rate of 8.6%. However, the annual inflation rate in Germany showed that consumer price growth remained elevated. The German economy contracted by 0.4% in the fourth quarter of 2022; inflation and an energy crisis took a toll on household consumption and capital investment. However, business confidence in Germany and France improved further in February to multi-month highs. In earnings-driven moves, engineering company Rolls-Royce Holdings rallied on an upbeat outlook for more profit growth in 2023. Likewise, WPP's share price gained after the advertising agency's organic growth forecast for 2023 topped market estimates. German chemicals giant BASF fell after it flagged a decline in annual earnings and said it plans to cut 2,600 jobs and halt buybacks.

Asian markets ended the week on a mixed note as investors continued to focus on the implications of monetary policy tightening. Japanese shares fell during the week; on Friday, however, comments perceived as dovish from incoming Bank of Japan Governor Kazuo Ueda aided markets somewhat.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada quarterly GDP annualized	4Q	1.6%	2.9%
Canada building permits MoM	Jan	1.0%	-7.3%
U.S. Conference Board consumer confidence	Feb	108.5	107.1
U.S. ISM manufacturing	Feb	48.0	47.4
U.S. continuing claims	18-Feb	1672K	1654K
China manufacturing PMI	Feb	50.7	50.1

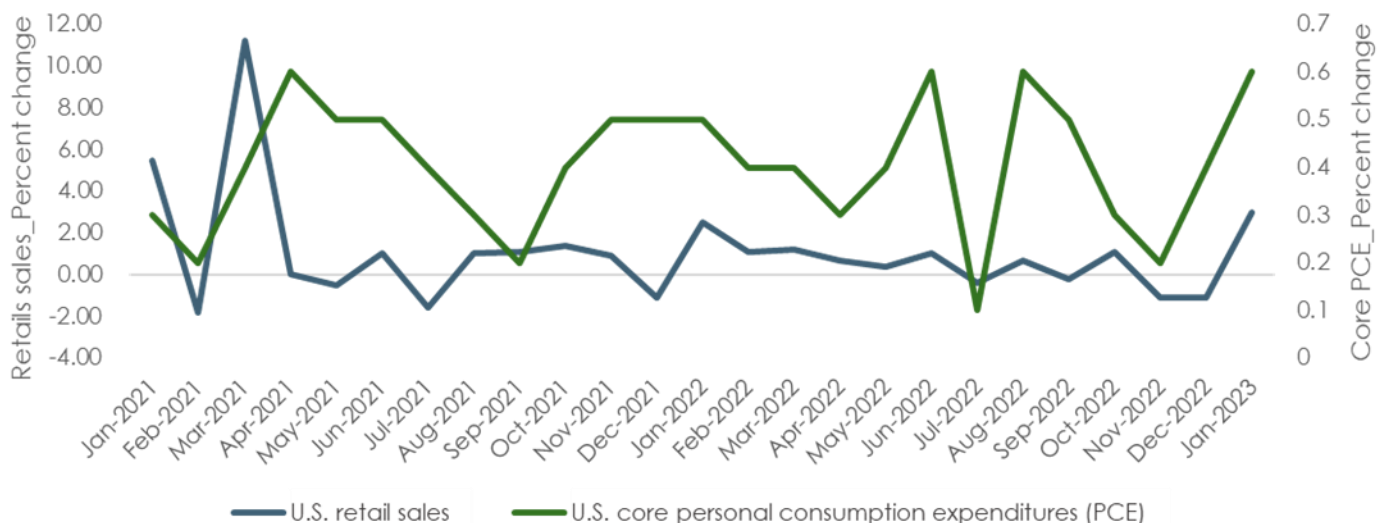
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of Canada	8-Mar-23	7.00%	4.50%
Bank of Japan	10-Mar-23	-0.20%	-0.10%
European Central Bank	16-Mar-23	197.10%	3.00%
Federal Open Market Committee	22-Mar-23	121.90%	4.75%
Bank of England	23-Mar-23	106.90%	4.00%

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

Strong retail sales and personal consumption expenditure in January indicate more work for the Fed.

The release of the U.S. core personal consumption expenditures (PCE) price index data, the Fed's preferred inflation gauge, was the highlight of the week, with the index increasing by 0.6% in January from December. The year-on-year result was 4.7%, which was significantly higher than expected. Nevertheless, headline U.S. retail sales increased 3.0% in January, the highest since March 2021, according to data released in the week ending February 17. The increase was driven by rising vehicle sales, as well as increased spending at restaurants and furnishings stores. These results come on the heels of recent strong labour market and consumer price data, prompting fears that the Fed will need to do more to raise borrowing rates to tame rising inflation.



Source: U.S. Census Bureau and U.S. Bureau of Economic Analysis, as at January, 2023.

Appendix

Global markets (Returns in Canadian dollar terms)				
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Oil	103.88	0.72%	-1.40%	-4.83%
Natural gas	3.47	9.44%	-4.92%	-34.68%
Gold	2,464.22	-0.76%	-3.96%	-0.30%
Silver	28.26	-3.50%	-10.50%	-12.95%
Copper	538.04	-2.72%	-4.51%	4.07%
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