



May 5, 2023

In focus

Global equities were mixed for the week: while U.S., Canadian and European equities declined, Asian equities ended the holiday-shortened week with gains. U.S. equities came under pressure amid uncertainty about monetary policy tightening by the Federal Reserve (the Fed), after Fed Chair Jerome Powell shut the door to rate cuts in 2023. Fears of a potential U.S. government debt default also dented sentiment.

The Fed increased interest rates by 25 basis points, taking the benchmark Fed funds rate to a target range of 5.00% to 5.25%. The European Central Bank (ECB) followed suit, raising its key deposit rate by a quarter of a percentage point, to 3.25%, after three increases of 0.5% this year. Separately, Norges Bank raised its key interest rate by a quarter of a percentage point, to 3.25%, to curb inflation.

In commodities, oil prices ended the week lower as investors dealt with recession fears in the U.S., following renewed banking turmoil and a retrenchment in China's that could be a signal of weakening demand.

U.S. Treasury yields finished higher, in a reversal from their downward trend most of the week, after the release of labour data showed April employment and wage figures had outpaced market expectations.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	20,542.03	-0.46%	-0.46%	5.97%
S&P500	4,136.25	-0.80%	-0.80%	7.73%
NASDAQ	12,235.41	0.07%	0.07%	16.90%
DJIA	33,674.38	-1.24%	-1.24%	1.59%
Russell 2000	1,759.88	-0.51%	-0.51%	-0.08%
FTSE 100	7,778.38	-1.17%	-1.17%	4.38%
Euro Stoxx 50	4,340.43	-0.43%	-0.43%	14.41%
Nikkei 225	29,157.95	1.04%	1.04%	11.74%
Hang Seng	20,049.31	0.78%	0.78%	1.35%
Shanghai Comp.	3,334.50	0.34%	0.34%	7.94%
MSCI ACWI	652.45	-0.39%	-0.39%	7.78%
MSCI EM	981.66	0.47%	0.47%	2.64%
MSCI ACWI ESG Leaders	2,343.03	-0.22%	-0.22%	8.89%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,089.52	-0.56%	-0.56%	3.65%
BBG Global Agg.	462.04	0.15%	0.15%	3.62%
TSX Pref	1,625.05	-0.72%	-0.72%	1.81%

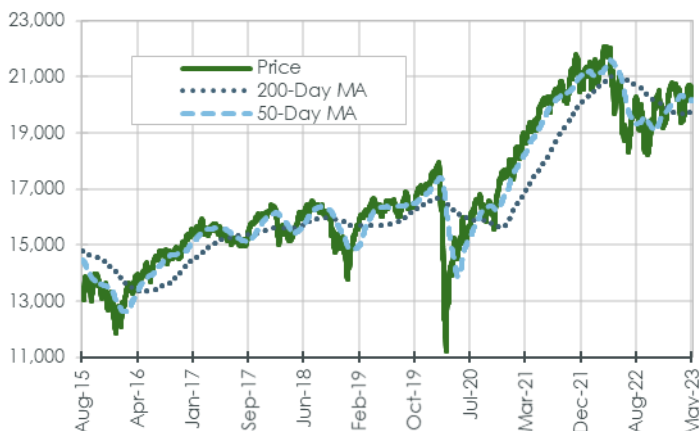
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	2.91%	6.8	6.8	-39.1
10 yr U.S. Govt.	3.44%	1.5	1.5	-43.8
30 yr Canada Govt.	3.06%	11.6	11.6	-22.2
30 yr U.S. Govt.	3.75%	8.0	8.0	-21.0

Commodities	Close	Weekly	MTD	YTD
Oil	71.34	-7.09%	-7.09%	-11.05%
Natural gas	2.14	-11.33%	-11.33%	-47.20%
Gold	2,016.79	1.35%	1.35%	10.57%
Silver	25.67	2.44%	2.44%	7.15%
Copper	388.30	-0.19%	-0.19%	1.76%

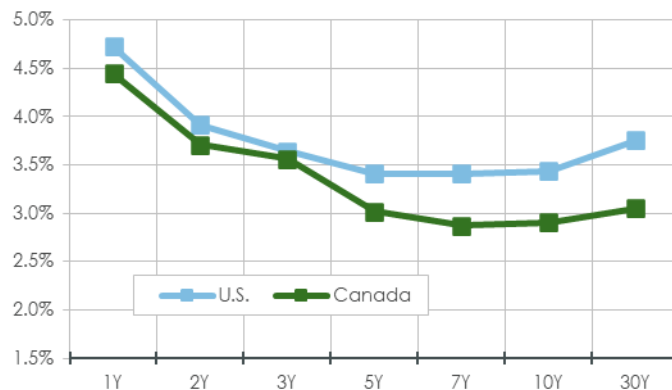
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7477	1.33%	1.33%	1.34%
USD/EUR	0.9075	0.00%	0.00%	-2.85%
CAD/EUR	0.6786	1.27%	1.27%	-1.57%
USD/JPY	134.8000	-1.10%	-1.10%	2.81%
USD/CNY	6.9094	-0.05%	-0.05%	0.16%
USD/MXN	17.7619	-1.32%	-1.32%	-8.91%
GBP/CAD	1.6910	-0.76%	-0.76%	3.14%
GBP/USD	1.2636	0.55%	0.55%	4.58%

*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	Apr	5.1%	5.0%	5.0%
U.S. change in non-farm payrolls	Apr	185K	253K	165K
U.S. ISM manufacturing	Apr	46.8	47.1	46.3
U.S. MBA mortgage applications	Apr-28	-	-1.2%	3.7%
U.S. unemployment rate	Apr	3.6%	3.4%	3.5%
Eurozone industrial production MoM	Mar	-0.4%	-1.1%	1.4%

Canada

Canadian equities declined for the week as weakness in crude oil prices dragged energy shares lower and jitters in the U.S. banking sector raised fears of tighter credit conditions. However, investor sentiment improved on Friday after data showed that the Canadian economy saw a much larger-than-expected addition of jobs in the month of April.

In economic news, Canada added a net 41,400 jobs in April, while the jobless rate stayed at 5.0% for a fifth consecutive month. Meanwhile, average hourly earnings for permanent employees in Canada increased in April by 5.2% year-on-year, to \$34.13.

U.S.

U.S. equity markets declined after PacWest's move to explore strategic options deepened fears about the health of U.S. lenders and hit shares of regional banks, as well as other major financial players. However, the market bounced back strongly on Friday, boosted by strong payrolls data, upbeat financial results from Apple and a rebound in regional banks.

U.S. Bureau of Labor Statistics data showed that non-farm payrolls increased unexpectedly to 253,000 in April, and the unemployment rate was little changed, at 3.4%. Average hourly earnings increased 0.5% month-over-month, compared with a sequential uptick of 0.3% in March. However, the number of job openings shrank for a third consecutive month in March, falling to 9.59 million, from 9.97 million, suggesting that the labour market may be cooling off.

Most of the sectors closed lower, with sharp losses for energy, financials and communication services; information technology held up the best. In corporate headlines, Apple's quarterly results cheered investors worried about a potential recession. The iPhone maker's shares hit their highest level in about nine months, and the company showed business resilience despite a challenging macroeconomic environment.

In economic news, the Institute of Supply Management (ISM) reported that the U.S. manufacturing sector contracted in April for a sixth consecutive month. The ISM PMI for services showed that activity grew in April for a fourth consecutive month, helped by a faster increase in new orders and improvement in supplier delivery performance.

Rest of the world

European equities edged lower for the week after the European Central Bank eased the pace of its interest rate hikes but signalled more tightening to come.

In economic data, the eurozone unemployment rate edged down to a fresh record low of 6.5% in March, pointing to a resilient labour market. In Germany, the jobless rate fell to 2.8%, the lowest level among bloc members. A preliminary estimate showed eurozone consumer price inflation rate had edged up to 7.0% in April, while the core index eased to 5.6%. On the corporate earnings front, sportswear maker Adidas surged after its first-quarter results topped market expectations. HSBC Holdings plc jumped on a better-than-expected tripling of quarterly profit; rising interest rates worldwide boosted the lender's income. Meanwhile, Signify, the world's biggest lighting maker, dropped on missing quarterly profit expectations.

In Asia, Chinese equities ended with positive returns amid mixed economic figures. Domestic trips and spending during the Golden Week holiday saw a significant increase from a year earlier. China's official manufacturing PMI fell to 49.2 in April from 51.9 in March, marking a return to contraction for the first time since December. Separately, the private Caixin/S&P Global survey of manufacturing activity eased to 49.5 in April, from 50.0 in March, amid softening global demand. The Caixin/S&P Global services PMI fell to 56.4 in April, from 57.8 in March.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada building permits MoM	Mar	-2.2%	8.6%
U.S. CPI MoM	Apr	0.4%	0.1%
U.S. continuing claims	29-Apr	1820K	1805K
U.S. initial jobless claims	06-May	245K	242K
China CPI YoY	Apr	0.3%	0.7%
Eurozone unemployment rate	Apr	-	6.0%

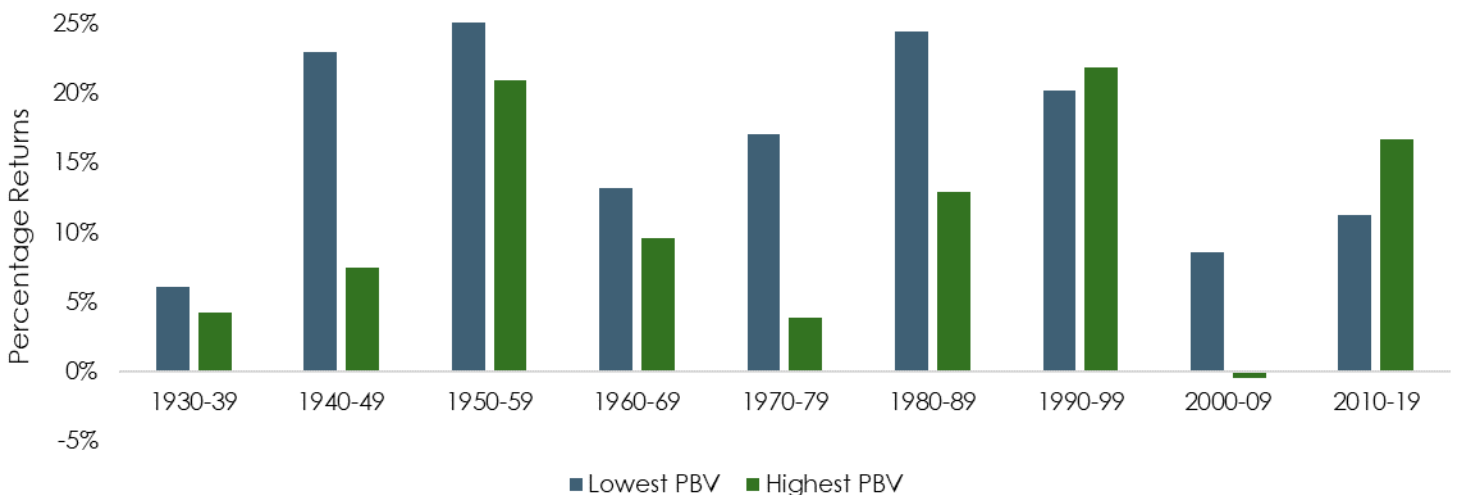
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of England	11-May-23	90.90%	4.25%
Bank of Canada	7-Jun-23	7.30%	4.50%
Federal Open Market Committee	14-Jun-23	9.70%	5.25%
European Central Bank	15-Jun-23	102.10%	3.75%
Bank of Japan	16-Jun-23	44.30%	-0.10%

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

A decade of growth, but a century of value

After strong relative performance in 2022, value stocks have given back some of their gains during the first quarter of 2023. The chart below shows that value plays have outperformed growth ideas in every decade, bar two, since the 1930s, in a variety of growth, interest rate and inflation environments. The chart looks at U.S. stock performance by decade from 1930 to 2020, and shows that the stocks with the lowest price-to-book (PB) ratios earned approximately 5.22% more per year, on average, than stocks with the highest PB ratios. The exceptions were the 2010s, with their ultralow rates, and the “dotcom boom” era of the 1990s.



Source: Fidelity Investments Canada ULC, April 2022. From UBS Quant, Aswath Damodaran's "Where is the 'value' in value investing?". Illustrative purposes only.

Appendix

Global markets (Returns in Canadian dollar terms)				
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Natural gas	2.86	-12.49%	-12.49%	-47.89%
Gold	2,697.62	0.08%	0.08%	9.14%
Silver	34.33	1.13%	1.13%	5.77%
Copper	519.33	-1.50%	-1.50%	0.41%
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