



June 2, 2023

## In focus

Global equities ended the week posting positive returns, but European equities edged lower. A strong monthly U.S. jobs report and the resolution of the debt ceiling battle supported investor confidence. The U.S. Senate passed bipartisan legislation to raise the government's US\$31.4 trillion debt limit, thereby avoiding a potentially disastrous default.

U.S. labour market strength again exceeded economists' expectations; the 339,000 jobs added in May were well above the consensus forecast. Elsewhere, Bank of Japan (BoJ) Governor Kazuo Ueda said it was premature for the central bank to discuss details of an exit from its ultra-easy monetary policy, and that there was no set time frame for achieving its 2% inflation target, given uncertainty about the outlook for prices.

In commodities, oil prices fell for the week, with China's lacklustre economic recovery outweighing an optimistic U.S. jobs report. Seeking to boost flagging oil prices, Saudi Arabia pledged to make a deep cut to its output in July, on top of a broader OPEC+ deal to limit supply into 2024.

In fixed income, U.S. Treasury yields fell on news of an extended drop in new manufacturing orders and lower labour costs, while a debt ceiling bill moved forward to being passed in the U.S.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	20,024.63	0.52%	2.31%	3.30%
S&P500	4,282.37	1.83%	2.45%	11.53%
NASDAQ	13,240.77	2.04%	2.36%	26.51%
DJIA	33,762.76	2.02%	2.60%	1.86%
Russell 2000	1,830.91	3.26%	4.64%	3.96%
FTSE 100	7,607.28	-0.26%	2.16%	2.09%
Euro Stoxx 50	4,323.52	-0.32%	2.50%	13.97%
Nikkei 225	31,524.22	1.97%	2.06%	20.81%
Hang Seng	18,949.94	1.08%	3.92%	-4.20%
Shanghai Comp.	3,230.07	0.55%	0.80%	4.56%
MSCI ACWI	663.25	1.56%	2.61%	9.56%
MSCI EM	984.36	1.18%	2.69%	2.93%
MSCI ACWI ESG Leaders	2,390.18	1.37%	2.69%	11.08%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,075.52	0.91%	-0.15%	2.32%
BBG Global Agg.	453.18	1.15%	0.19%	1.63%
TSX Pref	1,595.45	2.46%	1.08%	-0.05%

Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	3.23%	-10.1	4.5	-6.8
10 yr U.S. Govt.	3.69%	-10.8	4.8	-18.4
30 yr Canada Govt.	3.17%	-12.1	2.5	-10.7
30 yr U.S. Govt.	3.89%	-7.3	2.7	-7.5

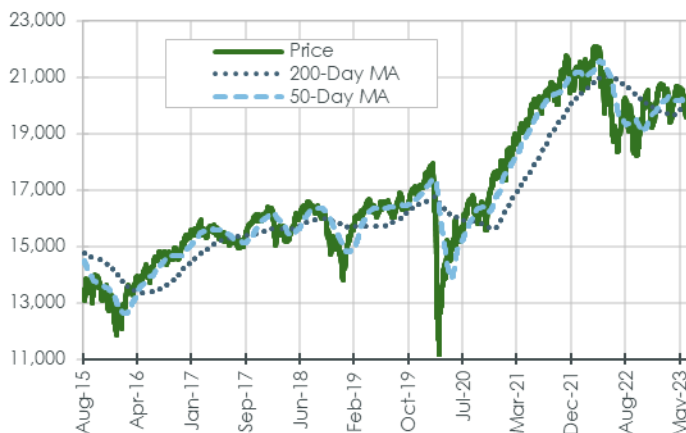
Commodities	Close	Weekly	MTD	YTD
Oil	71.74	-1.28%	5.36%	-10.13%
Natural gas	2.17	-10.14%	-4.15%	-47.75%
Gold	1,947.97	0.08%	-0.75%	6.80%
Silver	23.61	1.31%	0.51%	-1.45%
Copper	372.75	1.24%	2.49%	-2.32%

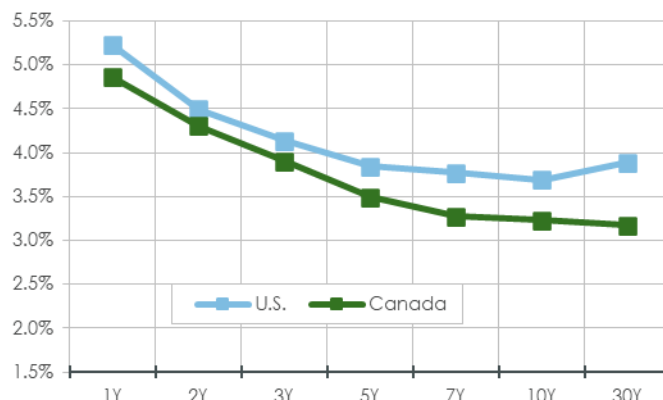
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7449	1.42%	1.11%	0.96%
USD/EUR	0.9339	0.14%	-0.17%	-0.02%
CAD/EUR	0.6955	1.55%	0.93%	0.88%
USD/JPY	139.9200	-0.48%	0.42%	6.71%
USD/CNY	7.0986	0.49%	-0.14%	2.90%
USD/MXN	17.5559	-0.40%	-0.74%	-9.97%
GBP/CAD	1.6724	-0.43%	-0.95%	2.01%
GBP/USD	1.2453	0.88%	0.10%	3.06%

\*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 quarterly GDP annualized	1Q	2.5%	3.1%	-0.1%
U.S. change in non-farm payrolls	May	195k	339k	294k
U.S. ISM manufacturing	May	47.0	46.9	47.1
U.S. Conference Board consumer confidence	May	99.0	102.3	103.7
U.S. unemployment rate	May	3.5%	3.7%	3.4%
China manufacturing PMI	May	49.5	48.8	49.2

## Canada

Canadian equities rose for the week; the passing of the U.S. debt ceiling bill boosted investor sentiment. Real estate and energy shares were among the biggest winners in a broad-based rally. The real estate sector advanced on data showing that home prices in the Greater Toronto Area increased in May from April and that sales rose sharply.

In economic news, the S&P Global Canada manufacturing PMI fell to 49.0 in May from 50.2 in the previous month as high inflation hit customer demand.

## U.S.

U.S. equity markets ended with solid gains for the holiday-shortened week after mixed economic data reinforced expectations that the Federal Reserve would likely pause its interest rate hikes. Meanwhile, the Senate's approval of the debt ceiling bill also boosted market sentiment.

Investors cheered a mixed payrolls report for May that showed an unexpected increase in the unemployment rate and weaker annual wage growth, despite a surprise rise in the number of job vacancies. Another encouraging sign for investors was the release on Thursday of the Institute for Supply Management (ISM) manufacturers PMI for May. The ISM's gauge showed a seventh straight monthly contraction in factory activity, as expected. Encouragingly, prices paid for supplies and other inputs for manufacturers contracted at the fastest pace since December, defying expectations of a modest increase.

All sectors participated in the rally, with consumer discretionary, real estate and materials leading the gains. In corporate news, chipmaker NVIDIA extended its rising momentum after reporting upbeat quarterly results and forecasts, anticipating surging demand for artificial intelligence (AI) chips. Meanwhile, car components retailer Advance Auto Parts declined after reporting disappointing results and cutting its dividend.

On the economic data front, unit labour costs in the U.S. non-farm business sector increased less than expected in the first quarter of 2023, slowing from a stronger pace in the previous period. Average hourly earnings climbed 0.3%, after rising 0.4% in April. That lowered the year-on-year increase in wages to 4.3%, after an advance of 4.4% in April. The unemployment rate surprised by rising to 3.7% in May, from 3.4% in April.

## Rest of the world

European equities declined during the week as concerns about a global slowdown, given China's weak economic data, outpaced optimism due to signs of easing inflation in some major eurozone economies.

Among economic data, the eurozone consumer price inflation rate eased in May more than expected, to 6.1%. More encouragingly, the core inflation rate also fell below expectations, to 5.3%, providing some relief to the markets despite the hawkish tone of the European Central Bank (ECB); ECB President Christine Lagarde continued to stress the need for tighter monetary policy. May's consumer price inflation data in Germany, France and Italy eased more than expected, to 6.1%, 5.1% and 7.6% year-on-year. The decline was broad based, with food, energy and core inflation all contributing. However, both the services confidence and industry confidence indicators in the eurozone fell more than expected in May, reflecting deteriorating views on demand and the business situation.

Asian markets ended the week on a high note, tracking a positive mood globally amid easing worries about a historic debt default in the U.S., after lawmakers passed a bill to raise the nation's debt ceiling. In economic data, China's official manufacturing PMI fell to a below-forecast 48.8 in May, from April's 49.2, dragged down by declines in new orders and exports. The non-manufacturing PMI also eased, falling to a weaker-than-expected 54.5 in May, from 56.4 in April.

## Looking ahead

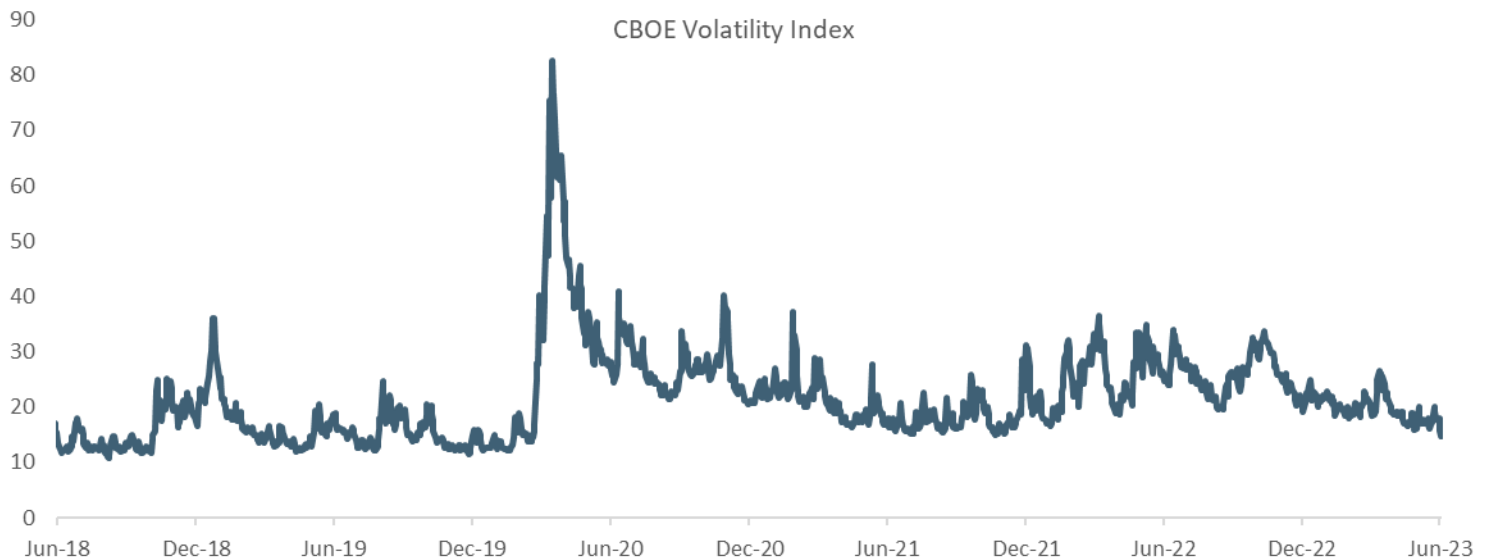
Economic indicators	Period	Survey	Prior period
Canada unemployment rate	May	5.1%	5.0%
Canada net change in employment	May	25.0k	41.4k
U.S. durable goods order	Apr	1.1%	1.1%
U.S. factory orders	Apr	0.8%	0.4%
U.S. ISM services index	May	52.4	51.9
U.S. initial jobless claims	03-Jun	237k	232k

Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of Canada	7-Jun-23	41.10%	4.50%
Federal Open Market Committee	14-Jun-23	29.30%	5.25%
European Central Bank	15-Jun-23	87.70%	3.75%
Bank of Japan	16-Jun-23	22.20%	-0.10%
Bank of England	22-Jun-23	103.00%	4.50%

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 Fading volatility

The CBOE Volatility Index (VIX), a measure of implied risk in the equity market, fell by about 19% for the week, dropping to its lowest level in more than three years. An important indicator of investor risk appetite, the VIX rises when investors fear higher equity market volatility and falls when they become more bullish. The CBOE Volatility Index sank on Friday to 14.6, just above its level before the start of the COVID-19 pandemic in February 2020. The approval of the debt ceiling bill by Congress this week, as well as signs of a soft landing for the U.S. economy, weighed on volatility.



Source: Chicago Board Options Exchange, as at June 2, 2023.

## Appendix

### Global markets (Returns in Canadian dollar terms)

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Oil	96.31	-2.66%	4.20%	-10.99%
Natural gas	2.92	-11.39%	-5.20%	-48.25%
Gold	2,615.69	-1.27%	-1.83%	5.82%
Silver	31.70	-0.13%	-0.69%	-2.35%
Copper	500.40	-0.18%	1.36%	-3.25%
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