



June 30, 2023

In focus

Global equities ended the final week of June with solid gains. Investors took comfort in slower inflation in the eurozone and in the U.S., while expecting more support policies from China in response to recent data pointing to waning strength in the country's post-COVID-19 recovery. Solid economic data in the U.S. eased concerns about an economic downturn despite a prolonged tightening cycle. Meanwhile, hawkish comments from European Central Bank (ECB) President Christine Lagarde and U.S. Federal Reserve Chair Jerome Powell kept sentiment in check.

All sectors participated in the gains. Financials, and in particular U.S. banks, advanced after the Federal Reserve's annual stress test results showed the biggest U.S. lenders are resilient enough to weather a severe economic recession. Information technology, consumer discretionary and industrials also ended with solid gains.

In commodity markets, mining and energy shares rose on higher commodity prices, after a contraction in China's factory activity increased expectations of further policy support from the country to boost its slowing economic growth.

In fixed income, treasury yields fell in Canada, but rose in the U.S., where the market continues to anticipate further interest rate hikes by the Federal Reserve (the Fed) in the near term, and weighed the potential for slower growth signalled by weaker-than-expected growth in the eurozone.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	20,155.29	3.80%	2.98%	3.97%
S&P500	4,450.38	2.35%	6.47%	15.91%
NASDAQ	13,787.92	2.19%	6.59%	31.73%
DJIA	34,407.60	2.02%	4.56%	3.80%
Russell 2000	1,888.73	3.68%	3.75%	7.24%
FTSE 100	7,531.53	0.93%	1.15%	1.07%
Euro Stoxx 50	4,399.09	2.98%	4.29%	15.96%
Nikkei 225	33,189.04	1.24%	7.45%	27.19%
Hang Seng	18,916.43	0.14%	3.74%	-4.37%
Shanghai Comp.	3,202.06	0.13%	-0.08%	3.65%
MSCI ACWI	682.84	1.95%	5.64%	12.80%
MSCI EM	989.48	-0.24%	3.23%	3.46%
MSCI ACWI ESG Leaders	2,459.80	1.84%	5.68%	14.32%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,077.53	0.90%	0.04%	2.51%
BBG Global Agg.	452.30	-0.27%	-0.01%	1.43%
TSX Pref	1,598.68	-0.05%	1.28%	0.15%

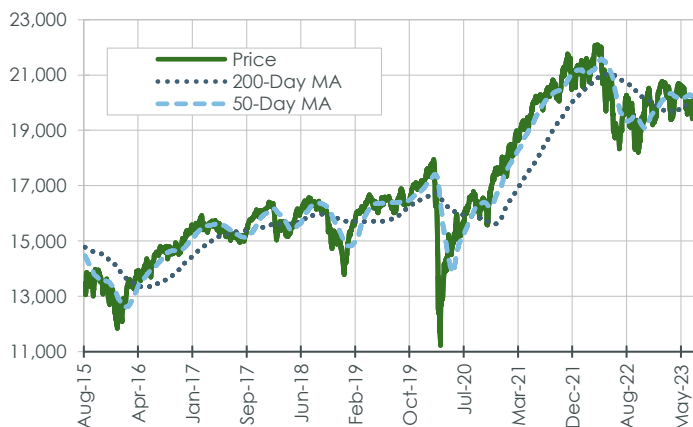
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	3.27%	-8.7	8.2	-3.1
10 yr U.S. Govt.	3.84%	10.2	19.4	-3.8
30 yr Canada Govt.	3.09%	-10.5	-5.2	-18.4
30 yr U.S. Govt.	3.86%	4.9	-0.1	-10.3

Commodities	Close	Weekly	MTD	YTD
Oil	70.64	2.14%	3.52%	-10.99%
Natural gas	2.80	-1.58%	18.66%	-32.79%
Gold	1,919.35	-0.10%	-2.21%	5.23%
Silver	22.77	1.55%	-3.03%	-4.93%
Copper	375.95	-1.47%	2.90%	-1.45%

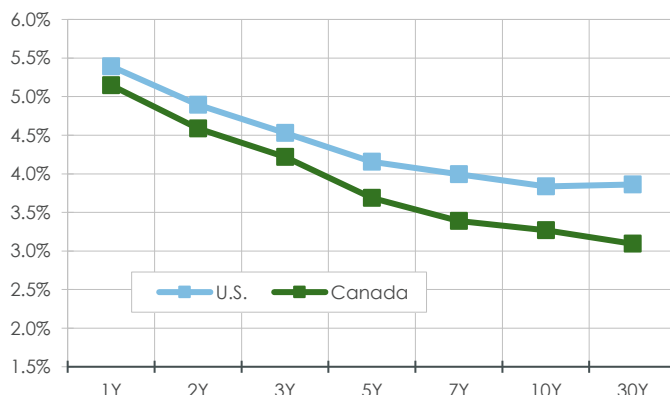
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7552	-0.45%	2.51%	2.36%
USD/EUR	0.9167	-0.13%	-2.01%	-1.86%
CAD/EUR	0.6919	-0.66%	0.41%	0.36%
USD/JPY	144.3100	0.42%	3.57%	10.06%
USD/CNY	7.2537	1.03%	2.04%	5.15%
USD/MXN	17.1248	-0.29%	-3.18%	-12.18%
GBP/CAD	1.6832	0.41%	-0.31%	2.67%
GBP/USD	1.2703	-0.09%	2.11%	5.13%

*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	May	3.4%	3.4%	4.4%
Canada GDP YoY	Apr	1.9%	1.7%	1.7%
U.S. University of Michigan sentiment	Jun	63.9	64.4	63.9
U.S. MBA mortgage applications	23-Jun	-	3.0%	0.5%
U.S. new home sales	May	676K	763K	680K
China manufacturing PMI	Jun	49.0	49.0	48.8

Canada

REITs, consumer discretionary and financials were among prominent sectors driving strong gains in Canadian equity markets. A sharp drop in Canada's consumer inflation data lifted sentiment.

U.S.

U.S. equity markets started the week on a subdued note, pressured by a sell-off in mega-cap growth stocks, with investors continuing to bet on further interest rate hikes by the Fed to fight inflation. However, encouraging data brought some relief to investors concerned about an economic downturn. New orders for U.S. manufactured durable goods increased more than expected in May, and the same was observed in the average prices of single-family houses. Consumer confidence inched up to a nearly one and a half-year high in June. U.S. GDP growth was also revised sharply higher to an annualized 2.0% for the first quarter of 2023. Separately, initial claims for unemployment benefits fell more than expected last week, reflecting resilience in the labour market.

According to a Commerce Department report, both the headline and core personal consumption expenditure (PCE) prices, inflation measures closely watched by the Fed, rose at a slower pace in May, suggesting progress attained in the central bank's fight against inflation. Adding to the cheerier atmosphere, the University of Michigan's consumer sentiment index was revised higher in June, remaining at a four-month high and reflecting a rebound in consumer confidence, supported by the resolution of the government's debt-ceiling crisis and positive signs of easing inflationary pressures.

At the European Central Bank (ECB) Forum on Central Banking on Wednesday, heads of the U.S. Fed, the ECB and the Bank of England (BoE) showed a broad consensus that continued interest rate hikes were needed to bring stubbornly high inflation down.

All the S&P sectors participated in the rally, with energy leading the gains. Rate-sensitive mega-cap growth

stocks closed sharply higher on easing Treasury yields as inflation slowed down. Meanwhile, a secular growth tailwind around the AI trend also drove relevant shares higher. Technology giant Microsoft and chipmaker NVIDIA advanced, as did Facebook's parent company Meta Platforms and e-commerce giant Amazon.com. Apple advanced on the prospect that the iPhone maker will succeed in new markets.

Rest of the world

Investors in Europe turned positive after preliminary estimates showed the consumer price inflation rate in the eurozone had eased more than expected in June, to a 17-month low of 5.5%. However, core inflation ticked up to 5.4%. Both figures remained well above the ECB's 2.0% target, backing hawkish views from policy makers that rates may need to rise higher to bring inflation down.

Among notable developments, retailers got a boost from fast-fashion giant H&M, whose share price surged after its second-quarter earnings topped market expectations. Automakers also advanced, supported by a jump in Renault after the carmaker lifted its annual guidance following the success of its recent launches.

In Asia, Hong Kong and Chinese stocks edged modestly higher; data showed factory activity had shrunk for a third straight month, while the service sector expanded the least it has in six months, reinforcing expectations of further stimulus measures to shore up the faltering economic recovery.

In Japan, the yen dipped further after Bank of Japan Governor Kazuo Ueda confirmed, at the ECB Forum on Wednesday, that the central bank's stance on keeping ultra-low interest rates was unchanged. The yen's weakness drove export-oriented shares higher, offsetting some losses driven by profit-taking.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada unemployment rate	Jun	5.3%	5.2%
Canada net change in employment	Jun	20.0k	-17.3k
U.S. change in non-farm payrolls	Jun	225k	339k
U.S. initial jobless claims	01-Jul	245k	239k
U.S. durable goods orders	May	1.7%	1.7%
U.S. factory orders	May	0.8%	0.4%

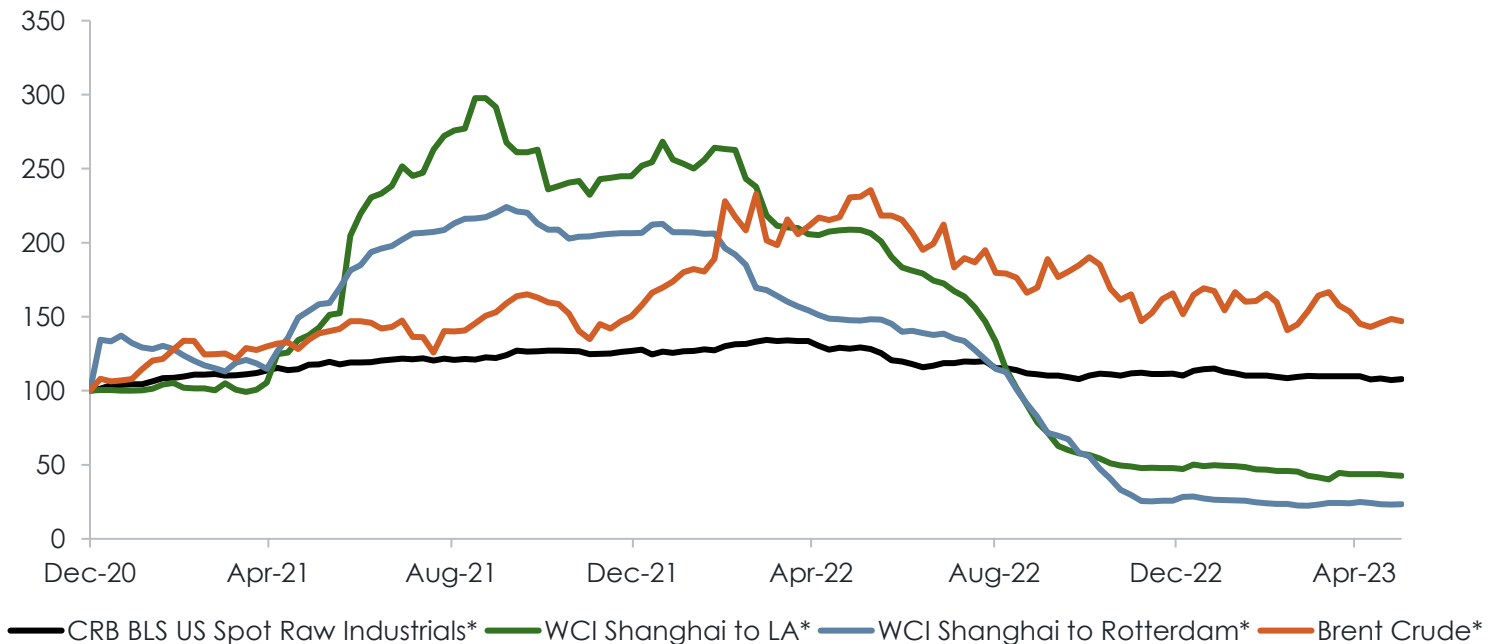
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of Japan	2-Jul-23	9.00%	-0.10%
Bank of Canada	12-Jul-23	53.70%	4.75%
Federal Open Market Committee	26-Jul-23	84.10%	5.25%
European Central Bank	27-Jul-23	91.10%	4.00%
Bank of England	3-Aug-23	172.90%	5.00%

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

Global cost pressures are rolling over.

The chart below shows a sharp decline in input cost prices, which will likely continue to result in moderating inflation for both consumers and producers. Recent inflation data, such as the Fed's preferred gauge for tracking inflation, supports the belief that we may see a consistent decline in inflation over the near term.



Source: Bloomberg, May 31, 2023. *Data indexed to 100 as of 31 December 2020.

Appendix

Global markets (Returns in Canadian dollar terms)

Indexes	Close	Weekly	MTD	YTD
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Hang Seng	18,916.43	0.30%	0.81%	-6.92%
Shanghai Comp.	3,202.06	-0.44%	-4.73%	-3.62%
MSCI ACWI	682.84	2.19%	2.73%	10.29%
MSCI EM	989.48	-0.01%	0.38%	1.16%
MSCI ACWI ESG Leaders	2,459.80	2.08%	2.77%	11.78%
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30 yr U.S. Govt.	3.86%	4.9	-0.1	-10.3
Commodities	Close	Weekly	MTD	YTD
Oil	93.54	2.60%	0.98%	-13.04%
Natural gas	3.70	-1.14%	15.75%	-34.34%
Gold	2,542.47	0.40%	-4.58%	2.86%
Silver	30.17	2.04%	-5.48%	-7.06%
Copper	497.82	-1.02%	0.38%	-3.73%
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7552	-0.45%	2.51%	2.36%
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