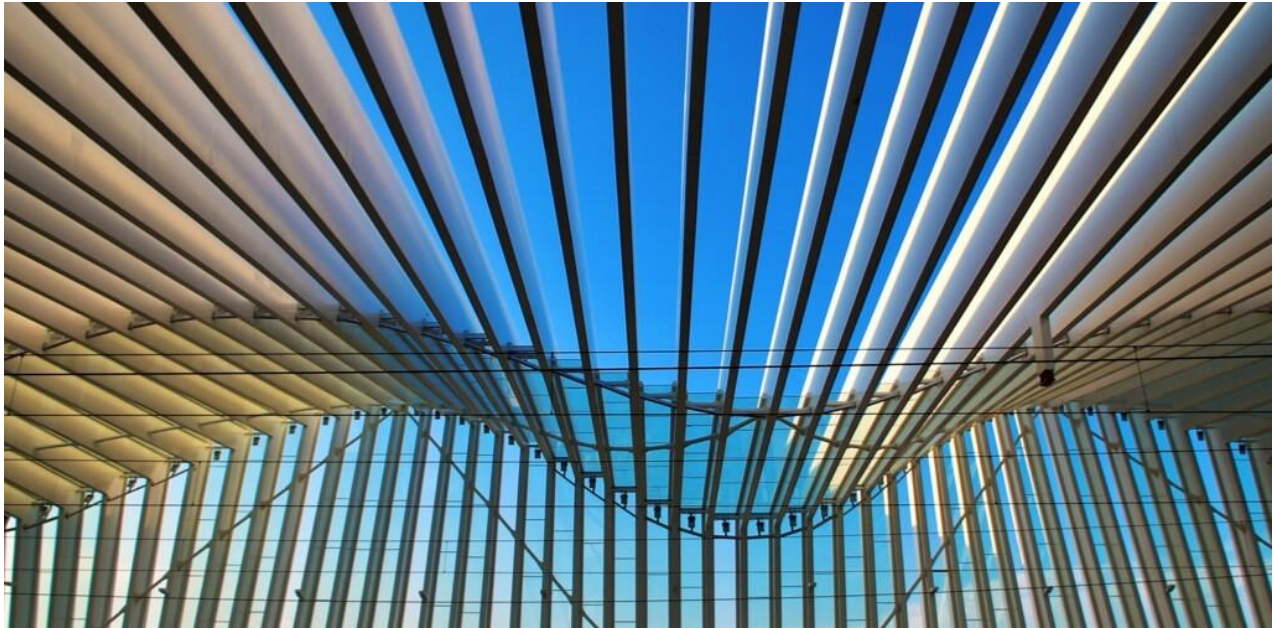


## February 2023 market update

### Central banks continue the fight against inflation

March 7, 2023



#### **Introduction**

Global equity markets ticked lower in February as economic data pointed to more interest rate increases by global central banks, including the U.S. Federal Reserve Board (“Fed”). The Fed, European Central Bank (“ECB”) and Bank of England (“BoE”) all started the month by raising interest rates and suggested more are on the way. Expectations of further rate increases heightened as inflationary pressures persisted despite easing over the last few months. In the U.S., the personal consumption expenditures price index, which is the preferred inflation gauge of the Fed, was higher than expected in January. The Bank of Canada appears poised to pause interest rate hikes in Canada as it expects Canadian economic conditions to weaken amid higher rates. Canada’s economy was largely unchanged in the fourth quarter of 2022.

In North American equity markets, the S&P/TSX Composite Index in Canada and S&P 500 Index in the U.S. posted losses over the month. Oil prices finished lower, partly due to concern that a pullback in global economic conditions could hinder demand. The price of gold also fell over February. Meanwhile, yields on 10-year government bonds in Canada and the U.S. advanced.

#### **Global central banks start year going higher**

In February, several major central banks held their first meetings of the year. The start of the year also brought higher policy interest rates. The Fed raised its federal funds rate by 25 basis points (“bps”) to a target range of 4.50%-4.75%, the highest level since 2007. Despite slowing the pace of its interest rate increases, the Fed doesn’t yet appear ready to stop. The Fed noted it would likely keep raising interest rates to bring inflation back to its 2% target. However, it will be mindful of how tightening monetary policy affects economic conditions in the U.S. The central bank subsequently released the minutes of its meeting, revealing a high probability it will surpass its earlier 5.1% rate estimate.

European news was similar. The ECB raised its key interest rate by 50 bps to 3.00%. Like the Fed, the ECB is sticking to its plan to raise rates until its inflation target is achieved. Europe’s central bank also signaled its intention to lift rates by another 50 bps at its March meeting. The BoE echoed the approach, raising its policy interest rate by another 50 bps to 4.00%. The hike marked its highest rate since 2008. The BoE intends to keep raising interest rates, but likely at a slower pace.

### **Canada’s economic growth stalls in fourth quarter**

Canada’s economy was largely unchanged in the fourth quarter of 2022, posting no growth (0.0%). It was the first time the Canadian economy didn’t expand since the second quarter of 2021. It was also a significant slowdown from the 2.3% annualized pace of growth seen in the third quarter. While the slowdown was expected amid ultra-tight financial conditions, the fact that economic growth came to a standstill surprised market participants. The main detractors to Canada’s economic growth over the quarter were declines in business and housing investments.

Conversely, net trade and household spending were key contributor to economic growth. The rise in household spending was particularly notable, suggesting Canadian households remain relatively resilient despite elevated goods and services prices and rising interest rates. Household consumption rose 0.5% over the quarter, reversing the 0.1% decline in the third quarter. Spending was boosted by higher savings accumulated over the pandemic and the continued strength of Canada’s labour market. Over 2022, retail spending increased 8.2% compared to the previous year. A strong Canadian consumer could help the Canadian economy stabilize in the coming months.

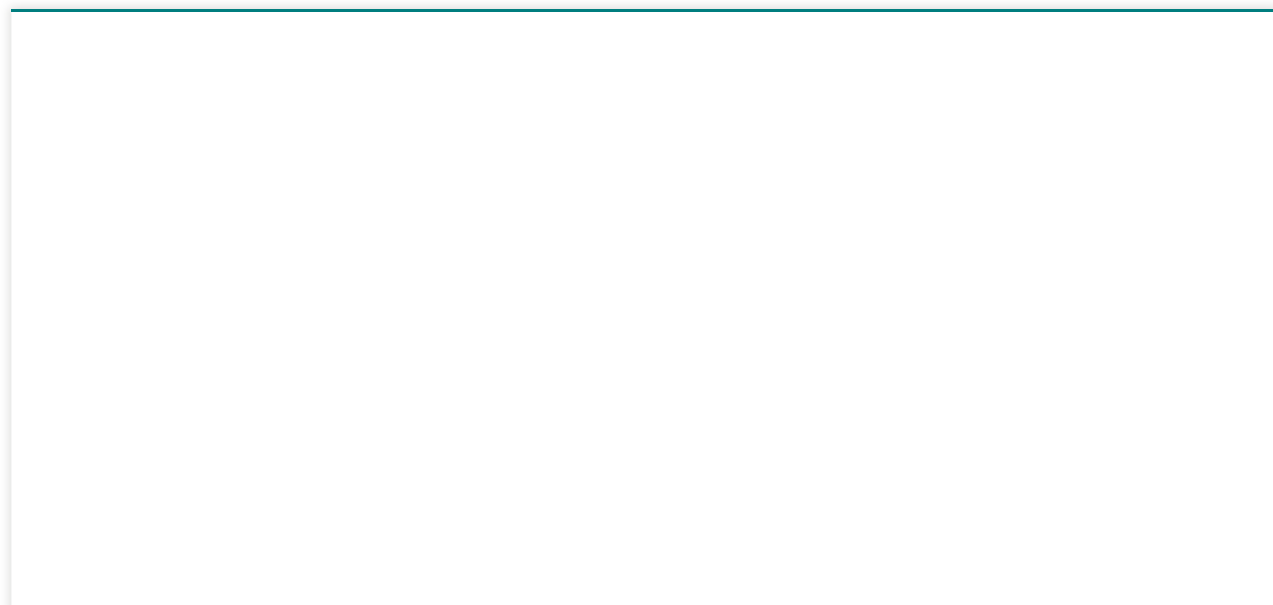
### **U.S. economic activity turns positive in January**

According to the Federal Reserve Bank of Chicago, January's economic activity in the U.S. climbed for the first time since September 2022. The Chicago Fed National Activity Index rose to a reading of 0.23 in January from -0.46 in the previous month. The positive reading surprised economists expecting a reading of -0.25. A reading above 0 denotes above-trend growth in the U.S. economy. Positive contributions to economic activity came from higher production and employment-related indicators. Another positive contributor was the strength of the U.S. consumer, which lifted personal consumption during the month. Once again, the U.S. consumer didn't disappoint. While the pace of growth was relatively slow in the fourth quarter of 2022, consumer spending rose 1.4% and contributed positively to the U.S. economy's 2.7% annualized growth. The positive momentum continued into 2023, with retail sales rising 3.0% in January, its fastest pace of growth since 2021. Meanwhile, personal spending came in at 1.8% during the same month, topping expectations. If the U.S. consumer remains relatively robust, it could help the U.S. economy avoid a recession.

### **Business activity gaining momentum in China**

Easing lockdown restrictions and the Lunar New Year holiday helped kickstart economic activity across China in January, and the momentum appears to have carried over to February. As people emerged from lockdown restrictions, spending increased sharply during the holiday, helping to improve business conditions. This was a welcome development for the world's second-largest economy and key trade partner to many countries worldwide. According to the NBS Composite Purchasing Managers Index, business activity in China expanded at a record pace in February. It marked the second straight expansion, following three straight months of contractions. Overall business activity was buoyed by the strength of China's manufacturing and service sectors. Manufacturing activity was boosted by a rise in new orders, export orders and output. China's manufacturing sector is a key component of its economy, so the expansion was greatly needed to help drive potential growth this year. After economic activity slowed considerably over 2022, early readings may suggest better growth ahead for China's economy, particularly if the global economy avoids recessionary conditions.

### **Market performance - as at Feb. 28, 2023**



Equity Markets	Level	Month to date	Month to date (C\$)	Year to date	Year to date (C\$)	1 year	1 year (C\$)
S&P/TSX Composite Index C\$	20,221.19	-2.63%	<b>-2.63%</b>	4.31%	<b>4.31%</b>	-4.28%	<b>-4.28%</b>
S&P 500 Index US\$	3,970.15	-2.61%	<b>-0.45%</b>	3.40%	<b>4.07%</b>	-9.23%	<b>-2.59%</b>
Dow Jones Industrial Average US\$	32,656.70	-4.19%	<b>-2.07%</b>	-1.48%	<b>-0.85%</b>	-3.65%	<b>3.41%</b>
MSCI EAFE Index US\$	2,053.69	-2.23%	<b>-0.06%</b>	5.65%	<b>6.33%</b>	-5.76%	<b>1.15%</b>
MSCI Emerging Markets Index US\$	964.01	-6.54%	<b>-4.47%</b>	0.80%	<b>1.45%</b>	-17.70%	<b>-11.67%</b>
MSCI Europe Index US\$	1,866.32	-0.76%	<b>1.44%</b>	7.78%	<b>8.47%</b>	-3.68%	<b>3.38%</b>
MSCI AC Asia Pacific Index US\$	157.98	-5.94%	<b>-3.85%</b>	1.44%	<b>2.09%</b>	-13.35%	<b>-7.01%</b>
Fixed Income Markets	Level	Month to date	Month to date (C\$)	Year to date	Year to date (C\$)	1 year	1 year (C\$)
	1,062.04	-1.99%	<b>-1.99%</b>	1.04%	<b>1.04%</b>	-6.96%	<b>-6.96%</b>

FTSE Canada Universe Bond Index C\$								
FTSE World Investment Grade Bond Index US\$		202.34	-3.19%	<b>-1.05%</b>	0.06%	<b>0.70%</b>	-13.95%	<b>-7.65%</b>
<b>Currencies</b>	<b>Level</b>		<b>Month to date</b>	<b>Month to date (C\$)</b>	<b>Year to date</b>	<b>Year to date (C\$)</b>	<b>1 year</b>	<b>1 year (C\$)</b>
CAD/USD	0.7328		-2.50%	-	-0.68%	-	-7.14%	-

<b>Commodities</b>	<b>Level</b>		<b>Month to date</b>	<b>Month to date (C\$)</b>	<b>Year to date</b>	<b>Year to date (C\$)</b>	<b>1 year</b>	<b>1 year (C\$)</b>
West Texas Intermediate (US\$/bbl)	77.05		-2.57%	-	-4.26%	-	-25.69%	-
Gold (US\$/oz)	1,826.92		-5.26%	-	0.16%	-	7.30%	-