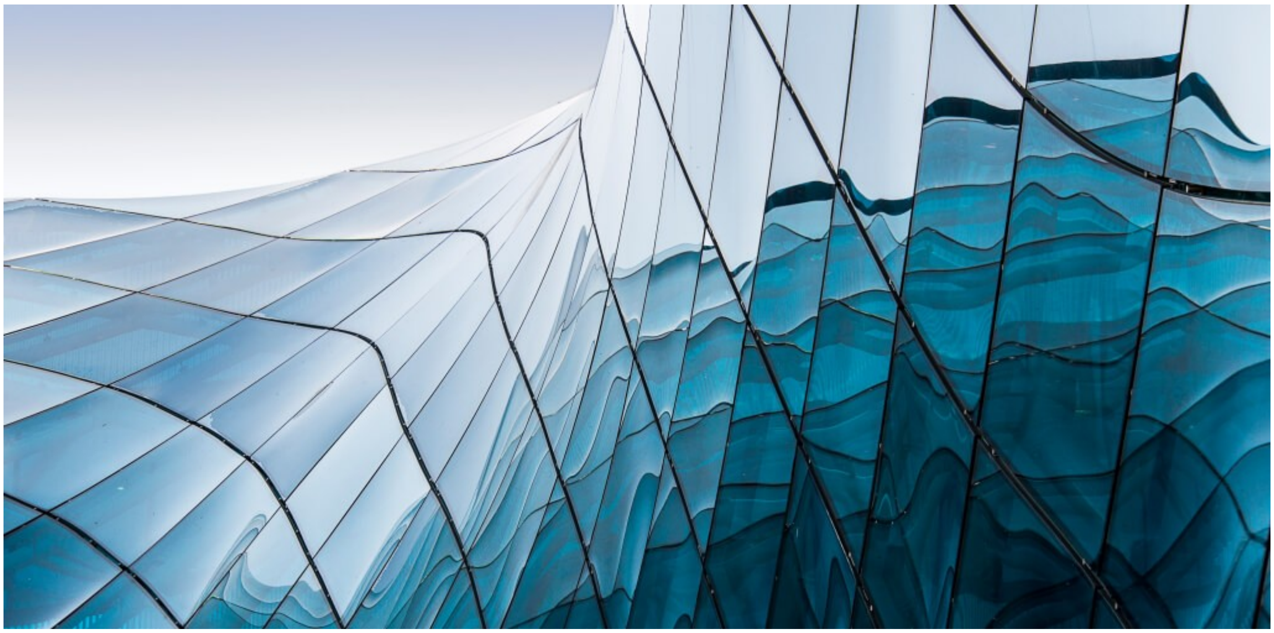
June 2023 market update

Canada sees first decline in job numbers since August 2022

July 11, 2023



Introduction

Global equity markets advanced over the month of June. Global equities got a boost at the beginning of the month when U.S. lawmakers agreed to extend the U.S. debt ceiling, which alleviated investors' concerns about a U.S. default. Central banks such as the Bank of Canada ("BoC"), European Central Bank ("ECB") and Bank of England ("BoE") raised rates over the month, while the U.S. Federal Reserve Board ("Fed") elected to hold steady. However, the Fed quickly pointed out the pause may be temporary, as the U.S. economy likely needs more rate increases to bring down inflation. Business activity, particularly in manufacturing, was relatively weak over the month, suggesting global demand may be waning amid tighter financial conditions.

The S&P/TSX Composite Index posted a gain over the month, boosted by a strong Consumer Discretionary sector. U.S. equities, as measured by the MSCI USA Index, finished higher. Yields on 10-year government bonds in Canada and the U.S. advanced. Oil prices rose, while the price of gold declined.

North American central banks go in different directions

During June, the BoC and Fed both changed course on their path to quell high inflation. After pausing at two straight meetings, the BoC raised its benchmark overnight interest rate by 25 basis points ("bps") to 4.75%. The BoC was planning to hold steady, but inflation remained elevated, and Canada's economic growth was stronger than expected in the first quarter, which prompted the surprising rate increase. The BoC did not indicate its future intentions at upcoming meetings but reiterated its commitment to bringing down inflation. Inflation dropped to 3.4% in May, still above the BoC's target of 2% but closer to its 2023 expectations. The decisions were reversed in the U.S. After raising its federal funds rate by 25 bps at its first meeting, the Fed paused its interest rate at its June meeting. Markets widely expected the decision. Still, it showed the Fed is looking to take a step back and monitor the progress of its monetary policy on inflation and the U.S. economy. However, the Fed appears poised to return to its interest rate hikes. Fed officials said the Fed is likely to raise rates again this year, expecting its key interest rate to reach 5.6%. With the U.S. economy growing at a 2.0% annualized pace in the first quarter and a recession appearing unlikely this year, the Fed has room to keep going higher.

Canada's labour market showing signs of easing

Canada's labour market has been a source of economic strength coming out of the pandemic. Its strength has helped prop up Canadian consumers, who continue to prove their resiliency despite tight financial conditions. However, recent data may point to softer conditions in the labour market. The Canadian economy lost 17,300 jobs in May, its first monthly decline since August 2022. The job losses were concentrated in the full-time sector. Job growth has been relatively muted over the past few months. The unemployment rate increased to 5.2% in May, which was the first time rising since August 2022. Furthermore, first-quarter data from Statistics Canada shows demand for labour may be moderating, albeit slowly. Job vacancies dropped for a third straight quarter, this time by 33,500. Labour demand increased by 0.3% in the quarter, down from the 1.0% increase in the first quarter of 2022. With labour market conditions slowly loosening, wage growth also slowed in the first quarter. The impact of tighter monetary policy and economic uncertainty may be beginning to weigh on Canada's labour market.

The BoE faces the highest inflation in G7

Inflation has been a critical driver of economic uncertainty over the past few years. In response, central banks aggressively tried to tame those elevated inflationary pressures. While several major economies are witnessing their inflation rates falling to more manageable levels, the U.K. inflation rate remains ultra-high. The U.K. is carrying the highest inflation rate among G7 countries. The U.K. inflation rate was 8.7% in May, matching the rate posted in April. This follows seven consecutive months of double-digit inflation. With inflation still running well above its target, the BoE was left to raise interest rates again. The BoE raised its key interest rate by a larger-than-expected 50 bps to 5.00% at its June meeting. The U.K. central bank may continue to go higher. BoE Governor Andrew Bailey refused to say the BoE's intention at its next meeting but noted interest rates may be higher for longer with inflationary pressures persisting. The BoE will be data dependent as it monitors the impact of tighter monetary policy on consumers and the economy. The U.K. economy grew by only 0.1% in the first quarter, matching the fourth quarter's growth rate. Tighter financial conditions are weighing on U.K. households.

Saudi Arabia drops its oil production further

Coming out of the Organization of the Petroleum Exporting Countries ("OPEC+") June meeting, Saudi Arabia announced it would reduce its oil production by one million barrels per day through July. This adds to the previously announced production cuts by OPEC+ that will last through 2023. Oil prices have fallen significantly this year, prompting OPEC+ to change production levels to stabilize prices. Demand is also a vital factor in this decision by Saudi Arabia and OPEC+. There is a concern among the oil cartel's members that global demand for oil could significantly deteriorate amid weakening economic activity. This will put added pressure on oil prices. However, the International Energy Administration ("IEA") is challenging that sentiment for 2023, believing global demand for oil will be higher in 2023 than in 2022. But economic uncertainty and the winding down of the pandemic recovery could create an environment for lower global demand in 2024. The price of oil ticked higher over June.

Market performance - as at June 30, 2023

Equity Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
S&P/TSX Composite Index C$	20,155.29	2.98%	**2.98%**	3.97%	**3.97%**	6.86%	**6.86%**
MSCI USA Index US$	4,228.59	6.53%	**3.60%**	16.16%	**13.58%**	17.58%	**20.84%**
MSCI EAFE Index US$	2,131.72	4.40%	**1.53%**	9.66%	**7.22%**	15.46%	**18.66%**
MSCI Emerging Markets Index US$	989.48	3.23%	**0.38%**	3.46%	**1.16%**	-1.12%	**1.62%**
MSCI Europe Index US$	1,928.43	4.63%	**1.75%**	11.37%	**8.89%**	18.57%	**21.86%**
MSCI AC Asia Pacific Index US$	163.25	3.07%	**0.22%**	4.82%	**2.49%**	3.32%	**6.18%**

Fixed Income Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
FTSE Canada Universe Bond Index C$	1,077.53	0.04%	**0.04%**	2.51%	**2.51%**	3.15%	**3.15%**

FTSE World Investment Grade Bond Index US$	206.70	0.23%	**-2.53%**	2.22%	**-0.06%**	-1.11%	**1.63%**

Currencies	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
CAD/USD	0.7552	2.43%	-	2.28%	-	-2.86%	-

Commodities	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
West Texas Intermediate (US$/bbl)	70.64	3.75%	-	-11.99%	-	-33.21%	-
Gold (US$/oz)	1,919.35	-2.21%	-	5.23%	-	6.20%	-