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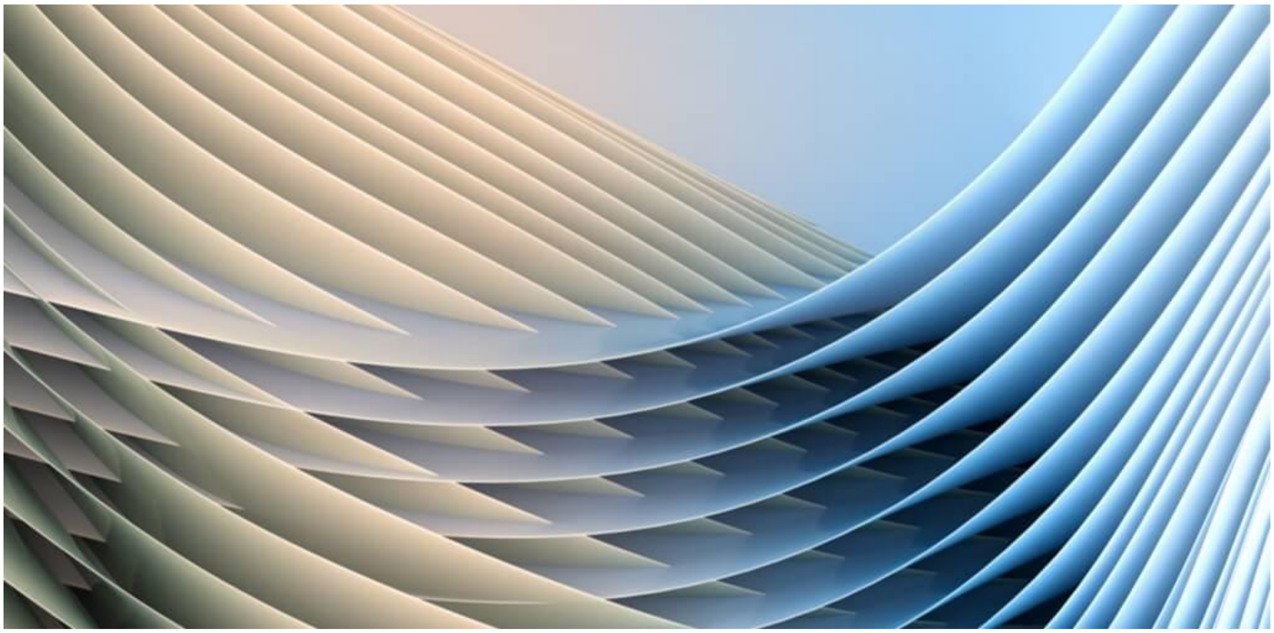
March 2023 market update

Bank of Canada hits pause while the U.S. Fed continues hikes

April 10, 2023



Introduction

Global equity markets advanced over March 2023 but experienced periods of volatility. Investor confidence was frayed after the failures of Silicon Valley Bank (“SVB”) and Credit Suisse Group AG. In response, equity markets fell as concerns about contagion mounted and the rising possibility these failures could push the global economy into a recession. However, regulators, central banks and governments took swift action to help resolve the issue and ensure faith in the global banking system would be restored.

Several central banks held meetings during the month. The Bank of Canada (“BoC”) paused, a move market participants widely expected after comments by BoC officials at their last meeting. The U.S. Federal Reserve Board implemented a 25-basis-point (“bps”) increase, taking the target range of its federal funds rate to 4.75%-5.00%. The European Central Bank (“ECB”) and Bank of England (“BoE”) also raised rates. Economic activity was relatively stable during the month, with some countries and regions seeing an uptick in manufacturing and service sector activity.

The S&P/TSX Composite Index posted a slight loss, dragged down by the Health Care sector. In the U.S., the S&P 500 Index finished higher, led by the Information Technology sector. Yields on 10-year bonds in Canada and the U.S. declined over the month. The price of gold advanced amid uncertain economic conditions, while oil prices posted a negative return.

Global banking sector under pressure

The collapse of SVB into receivership sent ripples throughout the global banking industry, raising concerns about contagion and the risk of sending the global economy into a recession. SVB experienced financial challenges, primarily due to the sharp rise in interest rates that pushed down the value of their long-term bond holdings. In response, customers, many from the technology industry, lost confidence and began pulling deposits. A few other regional banks in the U.S. suffered the same challenges as SVB. The challenges were not isolated to the U.S. UBS Group AG acquired Swiss bank Credit Suisse after one of Credit Suisse's largest shareholders refused to inject more capital into the firm, and it became clear the company was experiencing weakness in its financial reporting. Central banks, regulators and other large banks all reacted swiftly to help contain the problem and avoid further erosion of investor confidence. The BoC and Fed, along with other central banks, announced it would increase the frequency of U.S. dollar-swap arrangements to help provide more market liquidity. While the challenges appear mitigated, the issues and potential damage weighed on investor sentiment. Meanwhile, the Fed did reiterate the U.S. banking system is strong but noted the developments could tighten credit markets.

The BoC pauses and others keep going

The BoC held its benchmark overnight interest rate steady at 4.50% at its March meeting. The decision was widely expected after the BoC suggested it would begin pausing interest rates as Canadian inflation slowed and the economy moderated. While the BoC suggested it would likely stay paused as it monitors developments in Canada's economy, the central bank believes inflation is still a risk; therefore, rate hikes might not yet be over. Still, the hold is a sign that its period of aggressive monetary tightening could be coming to an end. Major central banks elsewhere kept going. The Fed raised by another 25 bps, taking the target range of its federal funds rate to 4.75%-5.00%. As the Fed and BoC create a larger divergence in their rates, it could put downward pressure on the Canadian dollar. In Europe, the ECB lifted its key interest rate by 50 bps to 3.50%, the highest level since 2008. The ECB also stated it is closely monitoring developments in the banking system.

Europe's service sector boosting economy

Europe's service sector expanded for the third straight month in March at its fastest pace since May 2022. The S&P Global Eurozone Services Purchasing Managers Index rose to 55.6 in March from 52.7 in February. This key sector of Europe's economy was boosted by stronger new orders and growth in employment. Within the sector, financial services activity improved, particularly in real estate. This was somewhat surprising amid the global banking system troubles, notably at Credit Suisse. In addition, the tourism industry, a key part of Europe's economic health, rose over the month as travel and spending remained relatively strong. Europe's economy slowed considerably over the fourth quarter of 2022, as did its service sector. The rebound in the service sector, combined with a relatively strong European consumer, might help the European economy expand this quarter and avoid a recession in 2023.

Oil prices drop in March but surprise production cuts on the horizon

The price of oil finished lower over the month of March. Oil prices came under pressure mid-month as concerns that a possible recession could drag down global oil demand. This came as troubles in the global banking system raised fears about potential contagion. As global central banks and regulators took steps to stabilize the global banking system, losses in oil prices pared back. In its March monthly report, the Organization of the Petroleum Exporting Countries ("OPEC+") cut its demand projections for this year in response to slower economic activity but still forecasts demand to be higher this year compared to 2022. This lower projection also weighed on oil prices. One of the biggest contributors to global inflation has been the extreme rise in oil prices. In recent months, oil prices have lowered, alleviating negative pressure on global consumers and businesses. In early April, OPEC+ announced it would cut production by one million barrels of oil per day to stabilize the oil market. However, the sharp drop in supply could push oil prices higher, adding to high inflationary pressures and potentially forcing central banks to keep rates higher for longer.

Market performance - as at March 31, 2023

Equity Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
S&P/TSX Composite Index C$	20,099.89	-0.60%	**-0.60%**	3.69%	**3.69%**	-8.18%	**-8.18%**
S&P 500 Index US$	4,109.31	3.51%	**2.79%**	7.03%	**6.97%**	-9.29%	**-1.73%**
Dow Jones Industrial Average US$	33,274.15	1.89%	**1.19%**	0.38%	**0.33%**	-4.05%	**3.95%**
MSCI EAFE Index US$	2,092.60	1.89%	**1.19%**	7.65%	**7.59%**	-4.08%	**3.92%**
MSCI Emerging Markets Index US$	990.28	2.73%	**2.02%**	3.54%	**3.49%**	-13.27%	**-6.04%**
MSCI Europe Index US$	1,902.85	1.96%	**1.25%**	9.89%	**9.83%**	-1.27%	**6.96%**
MSCI AC Asia Pacific Index US$	162.10	2.61%	**1.90%**	4.08%	**4.04%**	-10.17%	**-2.67%**

Fixed Income Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
	1,084.98	2.16%	**2.16%**	3.22%	**3.22%**	2.01%	**2.01%**

FTSE Canada Universe Bond Index C$							
FTSE World Investment Grade Bond Index US$	208.94	3.26%	**3.26%**	3.33%	**3.27%**	-7.77%	**-0.45%**

Currencies	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
CAD/USD	0.7398	0.91%	-	0.23%	-	-7.53%	-

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)	75.67	-1.79%	-	-5.72%	-	-24.54%	-
Gold (US$/oz)	1,969.28	7.79%	-	7.96%	-	1.64%	-