Monthly Market Commentary
April 2023

Earnings and inflation take the spotlight.

- Global equity markets saw mixed performance in April, as investors reacted to an uneven start to the first-quarter corporate earnings season and signs that inflation in the U.S. may be moderating. Developed markets garnered positive returns and significantly outperformed emerging markets, which lost ground for the month.
- Global fixed-income assets posted modest gains during the month. U.S. Treasury yields rose for all maturities of more than one year.
- We see opportunities and risks in both the resilient (equities, credit) and the divergent (value, rates) segments of the global financial markets.

Economic Backdrop

Global equity markets saw mixed performance in April, amid an uneven start to the first-quarter corporate earnings season and investors' optimism that inflation in the U.S. may be moderating. Developed markets garnered positive returns and outperformed emerging markets, which ended the month in negative territory. Europe was the top-performing region among developed markets in April due primarily to strength in Switzerland and Austria. The Far East region was the worst performer within the emerging markets in April due mainly to weakness in Taiwan and China. Eastern Europe recorded a double-digit gain and was the strongest-performing region, with notable contributions from Poland and Hungary.

During the month, investors were focused on the quarterly results for U.S.-based multinational and regional banks to gauge the impact of the turbulence in the sector in March. While several multinational banks reported better-than-expected revenue and earnings, numerous regional banks' results were hampered by outflows of funds from depositors amid uncertainty about the stability of smaller financial institutions. U.S. automotive stocks also took a hit after a large electric-vehicle (EV) manufacturer reported a substantial year-over-year drop in earnings due mainly to a decline in its operating margin (a measure of profitability) resulting from the company's notable price reductions. Towards the end of the month, however, markets were buoyed by better-than-expected corporate results from several large U.S.-based technology companies.

Global fixed-income assets posted modest gains in April. In the U.S. market, high-yield bonds were the top performers for the period, followed by corporate bonds and U.S. Treasurys. Mortgage-backed securities (MBS) were the primary market laggards in the U.S. fixed-income market. U.S. Treasury yields moved modestly lower for all maturities of more than one year (yields and prices have an inverse relationship). The yields on two-, three-, five-, and ten-year Treasury notes dipped 0.02%, 0.06%, 0.09%, and 0.04%, respectively, in April. The spread between ten- and two-year notes moved from -0.58% to -0.60% during the period, further inverting the yield curve.

Global commodities markets saw varied performance over the month. The West Texas Intermediate (WTI) crude-oil spot price rose 1.5% in U.S. dollar terms, while the Brent crude oil price was up 0.6%, benefiting from increased demand and lower production in the U.S. The New York Mercantile Exchange (NYMEX) natural gas price climbed 16.3% in April, spurred by higher demand due to unusually cool spring weather in much of the U.S. The gold spot price posted a modest gain of 0.6% as the U.S. dollar declined modestly during the month. Wheat prices fell 8.5% in April amid an increase in supply coupled with weaker demand.

As of the end of April, the administration of President Joe Biden had not reached an agreement with the Republican Party majority in the U.S. House of Representatives to raise the government's debt ceiling. In a party-line vote in late April, the House passed legislation for lifting the debt ceiling of $31.4 trillion through March 31, 2024, but requiring government spending cuts of $4.8 trillion. Among other provisions, the bill includes more stringent limits on government spending; cancellation of Biden's student loan forgiveness program; reductions in the Internal Revenue Service (IRS) budget; and tightening of work requirements for recipients of government-funded public assistance programs. In a speech to the Sacramento Metropolitan Chamber of Commerce in April, U.S. Treasury Secretary Janet Yellen warned that, if the U.S. Congress does not agree to raise the debt ceiling, the government will default on its financial obligations, leading to "an economic and financial catastrophe." Yellen also stated that over the longer term, a default would increase the cost of borrowing "into perpetuity…Congress must vote to raise or suspend the debt limit. It should do so without conditions. And it should not wait until the last minute. I believe it is a basic responsibility of our nation's leaders to get this done."

There was mixed news regarding the ongoing labour troubles in the U.K. in April. The GMB union, which represents National Health Service (NHS) workers, announced that its members voted to accept the U.K. government's offer to resolve a labour dispute following five months of contentious negotiations and strikes. The agreement includes two one-time payments for 2022-23, with a combined value of up to £3,789 (US$4,759), and a 5% wage increase for 2023-24. However, members of Unite, another large union representing NHS workers, rejected the same offer. Additionally, four teachers' unions announced plans to ask their members to authorize job actions sometime in the autumn of this year. The Office for National Statistics (ONS) reported that the U.K. government borrowed £139.2 billion (US$175 billion) in the 2022-23 financial year—£17.2 billion (US$21.6 billion) below than the Office for Budget Responsibility's previous estimate. The lower-than-anticipated debt level led to speculation that the government might implement tax cuts later this year.

Regarding the ongoing Russia-Ukraine conflict, China's President Xi Jinping called President Volodymyr Zelenskyy of Ukraine soon after China's ambassador to France, Lu Shaye, had questioned the legal status of former U.S.S.R. countries and Ukraine's sovereignty over Crimea. Though China's government denied that the call was related to Lu's comments, a European Union official said that "[China needs] to do some damage control after the Paris ambassador's comments." According to China's foreign ministry, Xi urged Zelenskyy to negotiate with Russia to reach a "political settlement" of the conflict. While Zelenskyy's administration issued a statement that did not address Xi's push for negotiations with Russia, it "expressed hope for China's active participation in efforts to restore peace."

Central Banks

- As expected, the Bank of Canada (BoC) held its overnight interest rate steady at 4.50% following its April 12 meeting. The Governing Council indicates that the Canadian economy continues to evolve in line with predictions from January, while noting that headline inflation is declining, but core inflation is increasing, particularly in Europe and the U.S. It was also noted that expectations of domestic inflation slowing from around 3% to 2% in the second half of 2023, and through 2024 may be more challenged. With no meeting in May, the BoC's next scheduled meeting is on June 7.

- The minutes of the Federal Open Market Committee's (FOMC) meeting of March 21-22 revealed that the members considered keeping the federal-funds rate on hold due to the crisis in the banking sector. However, the FOMC subsequently raised its benchmark interest rate by 0.25% to a range of 4.75%-5.00% after determining that "the actions taken so far by the Federal Reserve in coordination with other government agencies, as well as actions taken by foreign authorities to address banking and financial stresses outside the U.S., had helped calm conditions in the banking sector." In a speech to the Salt Lake Chamber in Utah in April, Federal Reserve Bank of San Francisco President Mary Daly said that the Fed's rate hikes "have been warranted and consistent with our commitment to restore price stability. While the full impact of this policy tightening is still making its way through the system, the strength of the economy and the elevated readings on inflation suggest that there is more work to do."

- The Bank of England's (BOE) next monetary policy meeting is scheduled for May 11. The central bank raised its benchmark rate by 0.25% to 4.25% on March 23. According to the Financial Times, the BOE is considering significant changes to its deposit guarantee program following the failure of Silicon Valley Bank in the U.S. in March. The Financial Times' sources noted that the central bank is concerned that the Financial Services Compensation Scheme's current limit of £85,000 (US$106,000) insures only about two-thirds of all deposits and, consequently, there would be delays of at least a week for depositors to be able to access their funds.

- The European Central Bank (ECB) increased its benchmark interest rate by 0.25% to 3.75% on May 4. According to a poll of economists conducted by Reuters, consensus expectations are for one more 0.25% increase in the policy rate in June, as inflation in the eurozone, though slowing, remains well above the central bank's 2% target rate.

- As expected, the Bank of Japan (BOJ) left its benchmark interest rate unchanged at -0.1% following its meeting on April 27-28—the first monetary policy meeting under new BOJ Governor Kazuo Ueda. In a statement issued after the meeting, the BOJ noted that "Since the late 1990s, when Japan's economy fell into deflation, achieving price stability has been a challenge for a long period of 25 years. During this period, the Bank has implemented various monetary easing measures…[which] have interacted with and influenced wide areas of Japan's economic activity, prices, and financial sector. In light of this, the Bank has decided to conduct a broad-perspective review of monetary policy, with a planned time frame of around one to one and a half years."

Economic Data (unless otherwise noted, data sourced to Bloomberg)

- According to Statistics Canada, the rate of inflation rose (as measured by the change in the Consumer Price Index (CPI)) 0.5% for March, but moderated continued to moderate longer term, with a 4.3% increase for the one-year period. Prices remain broadly elevated however, year-over-year gasoline prices fell for the second consecutive month while price increases for durable goods slowed. Producer prices were mixed in January, but cost pressures continued to ease from a year ago. Homeownership costs were mixed as replacement cost increases slowed to 1.7% on an annual basis, while mortgage interest costs continued to spike higher, reaching 26.4% above their levels a year ago. Sharply lower energy prices have greatly reduced producer and raw materials costs, while lower agriculture prices have also helped rein in inflation. The Canadian economy gained 41,000 jobs in April, with all the gains coming in part-time work, as full-time employment was fairly steady. As it has since December, the unemployment rate was steady at 5.0%, which is just above the all-time low of 4.9% registered in July 2022.

- According to the Department of Commerce, the personal-consumption-expenditures (PCE) price index rose 0.1% in March and 4.2% over the previous 12-month period—down from the 0.3% and 5.1% monthly and annual increases, respectively, in February. Food prices dipped 0.2% during the month and were up 8.0% year-over-year—sharply lower than the 0.2% and 9.7% increases for the corresponding time periods in February. Energy goods and services costs fell 3.7% in March and tumbled 9.8% over the previous 12 months. The PCE price index is the Federal Reserve's (Fed) preferred gauge of inflation, as it tracks the change in prices paid by or on behalf of consumers for a more comprehensive set of goods and services than that of the consumer-price index (CPI). The U.S. Department of Labor also reported that payrolls increased by 236,000 in March, down sharply from 311,000 the previous month. The unemployment rate dipped 0.1% to 3.5%. The leisure and hospitality, government, and professional and business services sectors saw the largest employment gains for the month. Average hourly earnings were up 0.3% in March and 4.2% year-over-year. The 12-month increase was lower than the 4.6% rise in February, suggesting that employers may be having less difficulty finding and retaining workers. U.S. home prices saw modest improvement in February (the most recent reporting period). The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index, which measures the value of residential real estate in 20 major U.S. metropolitan areas, was up 0.2% for the month, breaking a string of seven consecutive monthly declines. The index posted an annual gain of 2.0%, down from the 3.7% increase in January, and 4.9% below its peak in June 2022. So, is the housing market primed for a rally? It depends on the old real estate adage of *location, location, location*. Two cities in Florida–Miami and Tampa–were the strongest-performing markets over the 12-month period, posting gains 10.1% and 7.7%, respectively. Conversely, average home prices in two metropolitan areas on the West Coast, San Francisco and Seattle, fell by corresponding margins of 10.0% and 9.3% year-over-year in February. The Department of Commerce reported that U.S. gross domestic product (GDP) moderated in the first quarter of 2023 to an annualized rate of 1.1% from 2.6% in the fourth quarter of 2022. The largest increases for the quarter were in consumer spending, exports, and federal government spending. These gains offset reductions in private inventory investment (a measure of the changes in values of inventories from one time period to the next) and residential fixed investment (purchases of private residential structures and residential equipment that property owners use for rentals). The government attributed the slower GDP growth rate relative to the fourth quarter of 2022 to a downturn in private inventory investment and a decline in nonresidential fixed investment (purchases of both nonresidential structures and equipment and software).

- According to the Office for National Statistics (ONS), consumer prices in the U.K. rose 0.8% month-over-month in March, down from the 1.1% increase in February. The year-over-year inflation rate rose 10.1% over the previous 12-month period, but was somewhat lower than the 10.4% annual rise during the previous month. Housing and household services (electricity, gas, and other fuels), along with food and non-alcoholic beverages, recorded double-digit gains and were the primary contributors to the year-over-year increase in prices. Core inflation, which excludes volatile food and energy prices, rose at an annual rate of 6.2% in March, unchanged from the increase in February. The ONS also reported that U.K. GDP was flat in February (the most recent reporting period) following a 0.3% increase in January, and ticked up 0.1% over the three-month period ending in February. The services sector contracted 0.1% for the month, down sharply from the 0.7% increase in January, due mainly to education and public administration and defense. Conversely, the construction sector grew by 2.4% in February, after declining 1.7% during the previous month, attributable primarily to strength in repair and maintenance, and new work. The S&P Global/CIPS Flash UK Manufacturing Output Index declined 0.5 to a three-month low of 48.5 in April due to customer destocking (a planned reduction in stock or inventory), high energy costs, and lower demand for big-ticket consumer goods. A reading below 50 indicates contraction in the manufacturing sector. The S&P Global/CIPS Flash UK Services PMI Business Activity Index was up 2.0 to 54.9 in April, indicating expansion for the second consecutive month. There was particular strength in the services sector, which benefited as growth in new orders reached a 13-month high amid increased spending on travel, leisure, and entertainment.

- Inflation in the eurozone slowed by 1.6% to 6.9% in the 12-month period ending in March. Energy prices decreased 0.9% year-over-year, while food, alcohol and tobacco costs climbed 15.5% for the same period. Eurozone manufacturing increased in March, with the S&P Global Eurozone Manufacturing Output Index rising 0.3 points to a 10-month high of 50.4. Services activity in the eurozone also reached a 10-month high in March, with the S&P Global Eurozone Services PMI Activity Index climbing 2.3 to 55.0. According to Eurostat, eurozone GDP eked out a 0.1% gain in the first quarter of 2023, following flat growth in the fourth quarter of 2022, and increased 1.3% over the previous 12 months. Portugal's economy was the strongest performer, expanding by 1.6% in the first quarter, while Ireland's GDP decreased 2.7% during the period.

Index Data (April 2023)

- The S&P/TSX Composite Index gained 2.90%.
- The FTSE Canada Universe Bond Index returned 0.98%.
- The S&P 500 Index, which measures U.S. equities, rose 1.78%.
- The MSCI ACWI (Net) Index, used to gauge global equity performance, was up 1.66%.
- The ICE BofA U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned 0.93% (currency hedged) and 1.19% (unhedged).
- The Chicago Board Options Exchange Volatility Index—a measure of implied volatility in the S&P 500 Index that is also known as the "fear index"—trended lower from 18.70 to 15.78.
- WTI Cushing crude oil prices—a key indicator of movements in the oil market—moved modestly higher from US$75.67 to US$76.78 a barrel to end April.
- The Canadian dollar strengthened slightly to C$1.36 per U.S. dollar. The U.S. dollar was generally weaker versus the world's other major currencies; it ended April at US$1.10 versus the euro, US$1.26 against sterling and at 136.17 yen.

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