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2023 capital markets mid-year in review

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2023 YTD – Market review

Regional Equity Indices	Index Level		2023 YTD		2022
	June 30, 2023	Dec. 31, 2022	Price Return	Total Return	Total Return
S&P/TSX	20,155	19,385	4.0%	5.8%	-5.8%
S&P/TSX Small Cap	677	688	-1.6%	0.6%	-9.0%
Dow Jones Industrial	34,408	33,147	3.8%	4.9%	-6.9%
S&P 500	4,450	3,840	15.9%	16.9%	-18.1%
Russell 2000	1,889	1,761	7.2%	8.1%	-20.5%
Nasdaq	13,788	10,466	31.7%	32.3%	-32.5%
MSCI All Country World	683	605	12.8%	14.3%	-17.9%
MSCI Europe	155	143	8.9%	11.7%	-9.0%
MSCI EAFE	2,132	1,944	9.7%	12.2%	-13.9%
MSCI Emerging Markets	989	956	3.5%	5.0%	-19.8%

Fixed Income Indices	Index Level		2023 YTD	2022
	June 30, 2023	Dec. 31, 2022	Total Return	Total Return
FTSE Can. Universe Bond	1,078	1,051	2.5%	-11.7%
FTSE Can. All Corp. Bond	1,279	1,242	3.0%	-9.9%
Bloomberg Can. High Yield	164	159	2.7%	-4.3%

Currencies	June 30, 2023	Dec. 31, 2022	% change
CADUSD	0.755	0.738	2.4%
CADEUR	0.692	0.689	0.4%
EURUSD	1.091	1.071	1.9%
GBPUSD	1.270	1.208	5.1%
USDJPY	144.31	131.12	10.1%

Bond yields (%)	June 30, 2023	Dec. 31, 2022	bps change
2-year Canada Govt.	4.59	4.05	-3
2-year US Treasury	4.90	4.43	-4
10-year Canada Govt.	3.27	3.30	-18
10-year US Treasury	3.84	3.87	-2
10-year Germany Govt.	2.39	2.57	-18
10-year Japan Govt.	0.40	0.42	-10

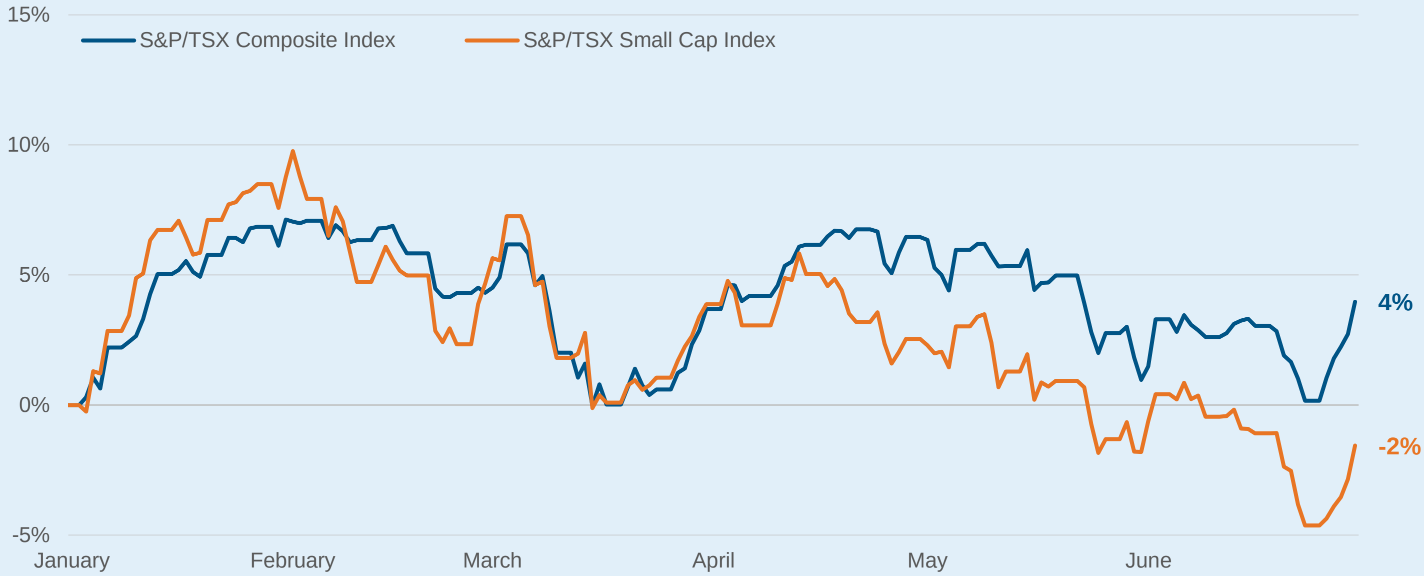
Commodities	June 30, 2023	Dec. 31, 2022	% change
Gold USD/oz.	1,919.35	1,824.02	5.2%
Oil USD/bbl.	70.64	80.26	-12.0%
German Nat. Gas EUR/MWh	37.40	74.95	-50.1%
Copper USD/lb.	374.10	381.05	-1.8%

Source: Bloomberg June 30, 2023. Index returns are in local currency. *Total return is price return plus reinvestment of dividends.
All figures quoted in the text are price only return, local currency, unless otherwise noted.

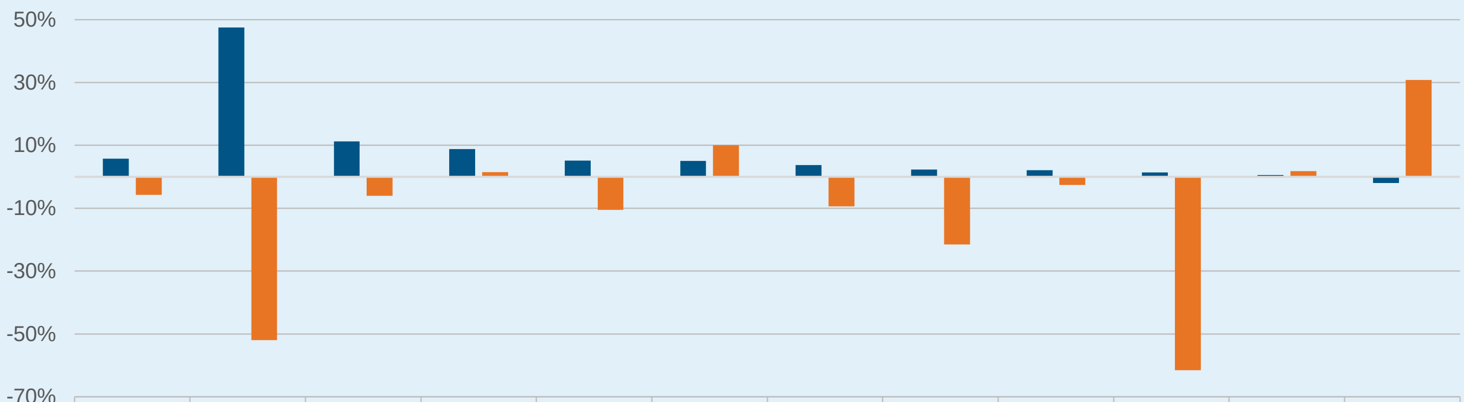
Canadian equity

Canadian equities rebounded to start the year, but unperformed its global counterparts, with the S&P/TSX Composite up 5.7% on a total return basis. Sagging commodity prices weighed on energy stocks (-5.5%), the lone sector in the index to deliver a negative return. Accordingly, the index's ~17% weight, which helped the TSX outperform in 2022, turned into a headwind. The other heavyweight financials (+3.9%), holding a 30% weight in the index, and industrials (+8.8%) were also positive contributors. Resilient consumer spending in the first half of the year lifted consumer discretionary stocks (+11.3%). In addition, the index's minimal exposure to the surging information technology (IT) sector (+47%) was a relative detractor.

S&P/TSX Composite and S&P/TSX Small Cap - 2023 YTD performance



S&P/TSX sector total returns (%)



	S&P/TSX Composite Index	IT	Consumer Disc.	Industrials	Utilities	Consumer Staples	Financials	Real Estate	Comm. Serv.	Health Care	Materials	Energy
2023 YTD	5.8	47.5	11.3	8.8	5.2	5.0	3.7	2.3	2.1	1.3	0.6	-2.0
2022	-5.8	-52.0	-6.0	1.5	-10.6	10.1	-9.4	-21.5	-2.6	-61.6	1.8	30.9

Source: Bloomberg June 30, 2023

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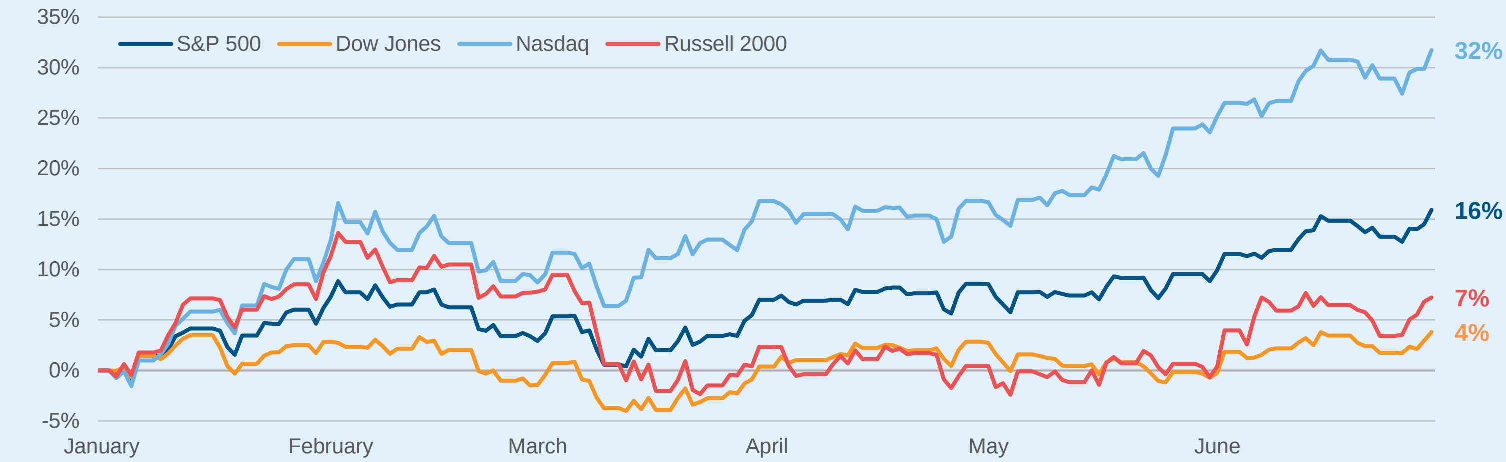
US Equity

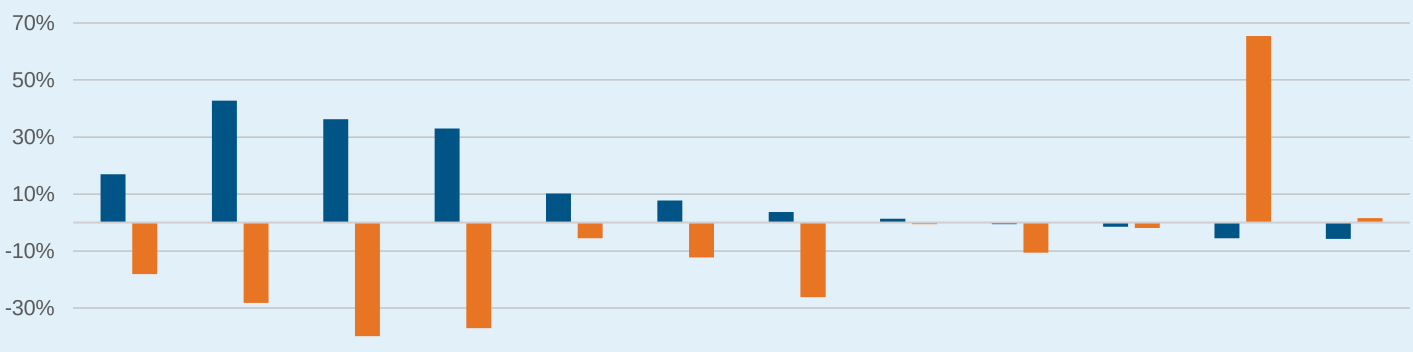
The first half of the year was defined by the surge in the 'Magnificent 7', the mega-cap IT stocks that have benefitted from the ongoing AI frenzy. The NYFANG+ Index recorded a blistering 74% total return after a challenging 2022 defined by the big move higher in rates. **Apple (+50%), Microsoft (+43%) and NVIDIA (+190%) accounted for nearly half of the S&P 500's impressive 16.9% total return.** Still, all major US equity enjoyed gains (S&P 500, Dow Jones, Russell 2000, and NASDAQ). The combination of easing interest rates and optimism surrounding AI lifted equity valuations significantly higher. The S&P 500 forward P/E ratio ended the first half at 20.9x, while NYFANG+ stocks have risen to 41x..

Eight of the eleven sectors in the S&P 500 finished in positive territory. The heavily-weighted information technology (IT) sector accounted for most of the gains, rising 46%. Resilient consumer spending lifted consumer discretionary (+34%) and communication services (+36%) stocks. After a strong 2022, energy stocks (-5.5%) pulled back on sagging commodity prices.

US equity indices - 2023 YTD performance



S&P 500 sector 2023 YTD total returns (%)



	S&P 500	IT	Comm. Serv.	Consumer Disc.	Industrials	Materials	Real Estate	Consumer Staples	Financials	Health Care	Energy	Utilities
2023 YTD	16.9	42.8	36.2	33.0	10.2	7.7	3.7	1.3	-0.5	-1.5	-5.6	-5.7
2022	-18.1	-28.2	-39.9	-37.0	-5.5	-12.3	-26.2	-0.6	-10.6	-2.0	65.4	1.6

Source: Bloomberg June 30, 2023

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International Equities

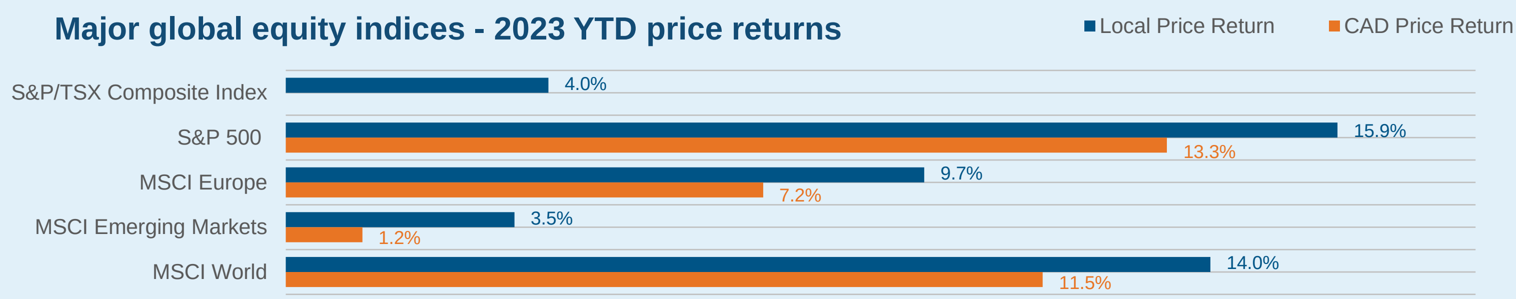
International equities rebounded strongly, with the MSCI EAFE Index delivering a 11.7% total return. Unusually warm weather helped Europe navigate what was expected to be a challenging winter due to the Nord Stream pipeline sabotage curtailing natural gas supply to the continent. The rapid reopening of the Chinese economy also helped brighten the growth outlook in the region. Germany's DAX, France's CAC 40, Spain's IBEX 35, and Italy's FTSE MIB Italy all recorded gains of 14% or more. Still, economic growth in Europe remains anemic due to the ongoing energy struggles. The largest member of the Eurozone, Germany, fell into a technical recession in Q1 due to the country's manufacturing woes. Meanwhile, although a disinflationary trend has emerged, inflation remains well above the European Central Bank's 2% target. As a result, the ECB has aggressively raised interest rates 75 bps higher YTD, while signalling that more increases may be necessary, according to the most recent Minutes from their June meeting.

Out of all the major global economies, the UK's inflation problem appears the most dire. UK headline CPI has accelerated to start the year, keeping the annual inflation figure at a towering 8.7% y/y at the end of May (peak of 11.1% y/y last October). As a result, the Bank of England has been forced to aggressively raise rates further, increasing the Bank Rate 150 bps YTD to 5% at the end of June. The UK FTSE 100 Index still managed to record a positive return of 0.9%, but was the worst performer among major EAFE members. Similar to its Canadian counterparts, a significant energy weighting in the index was a detractor.

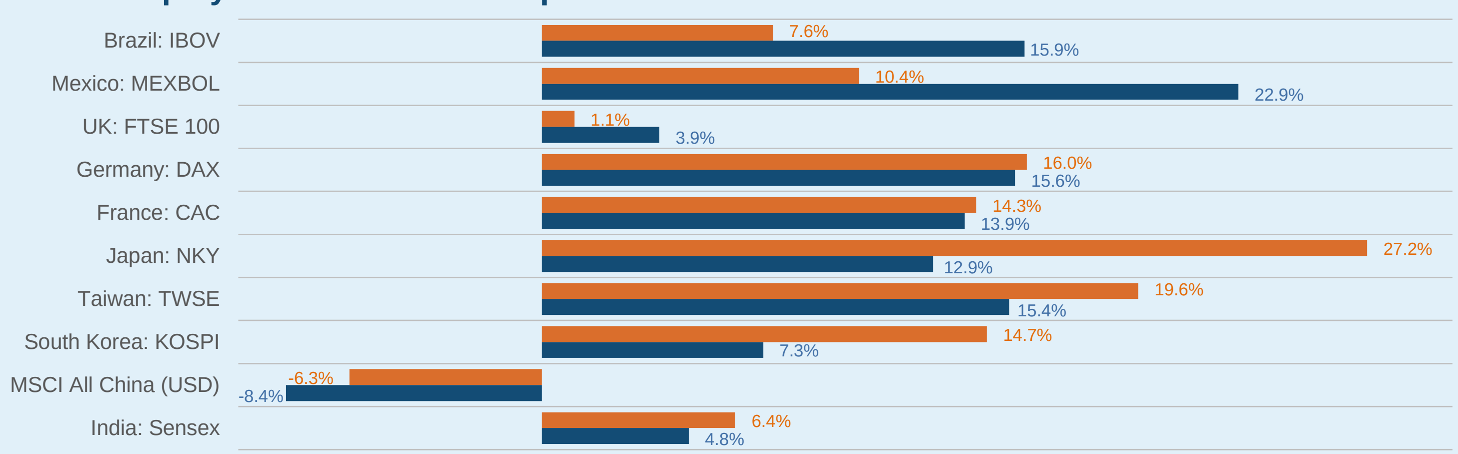
Japanese stocks were the standout performers in the EAFE index. The Nikkei 225 zoomed higher by 27% on the back of the Bank of Japan (BoJ) holding onto their uber-dovish policies, China's reopening and the return of tourists to the country.

Emerging market (EM) equities finished in positive territory but lagged behind their developed counterparts, with the MSCI Emerging Market Index (USD) rising 3.5% (total return). The largest positive contributors were Brazilian, Mexican and Indian equities. Favourable demographics, strong corporate earnings and the rapid digital transformation underway in India have raised optimism for Indian stocks. Meanwhile, Brazilian and Mexican stocks have been lifted by what appears to be the peak in their central banker's rate hiking cycles. The weakness in the US dollar has also been a tailwind, allowing capital flows to return to developing economies. Lastly, China's weaker-than-expected reopening has led to authorities ramping up their monetary and fiscal policy measures to support the economy.

Major global equity indices - 2023 YTD price returns



Global equity markets - 2023 YTD price returns



Source: Bloomberg June 30, 2023

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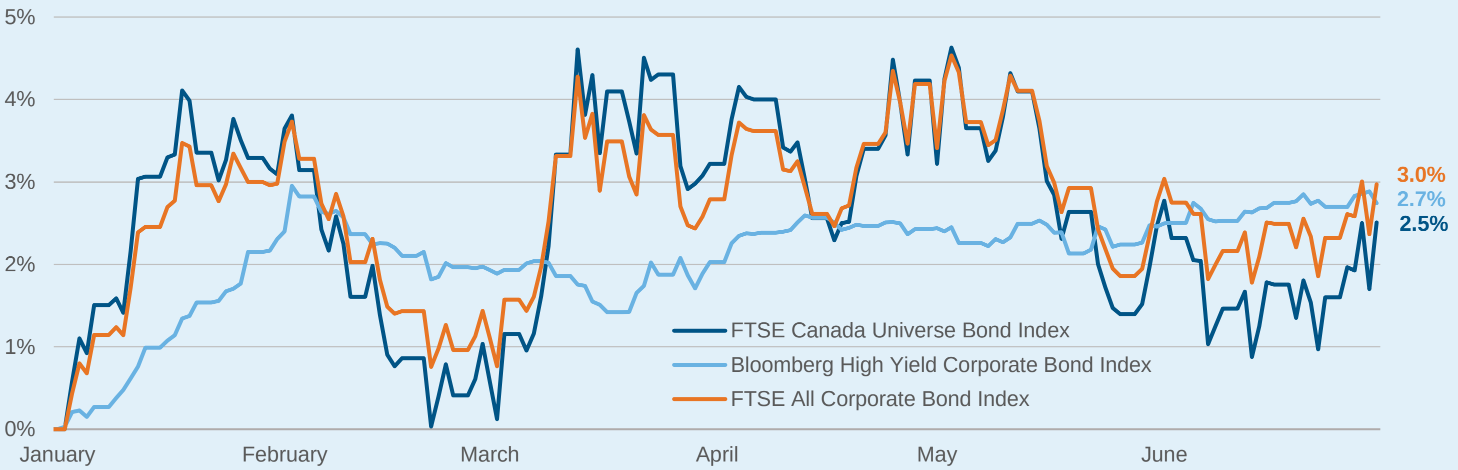
Canadian fixed income

After a challenging past year, Canadian fixed income investors have enjoyed a much better start to 2023. The pain that came with last year's significant move in rates are now buffered by the higher income component. As a result, while the backup in yields in May and June offset the drop in yields (price appreciation on bonds) following the banking turmoil seen in March, fixed income managed to return a respectable positive return over the first six months of the year, with the FTSE Canada Universe Bond Index rising 2.5% (total return). The yield curve flattened further, with the short-end rising and the long-end falling slightly. As a result, longer-term bonds outperformed shorter-term instruments, with the FTSE Canada Long Term Overall Bond Index jumping 5.4%, while the FTSE Canada Short Term Index rose a lesser 1.0%.

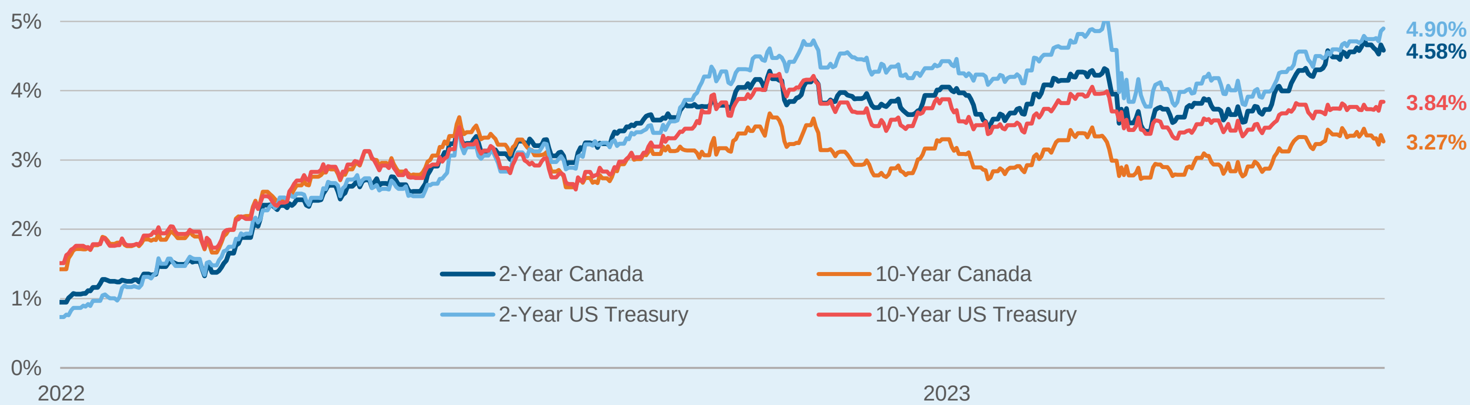
The belief heading into 2023 was that the effects of tighter financial conditions would begin to have a more pronounced effect on the economy. And so far, that has yet to come to fruition, with the global economy exhibiting much more resilience than anticipated. That was until we saw the banking turmoil in March, which began with the collapse of Silicon Valley Bank. Bond yields fell sharply, allowing for significant price appreciation in bonds. However, now that the banking turmoil has been contained, the narrative has shifted back towards inflation being stickier than expected. Although headline CPI has made significant progress, core inflation (excludes food and energy prices) remains well above central bankers' 2% inflation target, indicating that central bankers may have more work to do.

Credit spreads remain very tight despite the uncertain economic backdrop and financial instability due to the banking turmoil. As a result, a slight narrowing in spreads helped corporate bonds outpace government bonds. Within Canadian sovereigns, provincial and municipal bonds outperformed federal bonds.

Canadian fixed income indices - 2023 YTD total returns

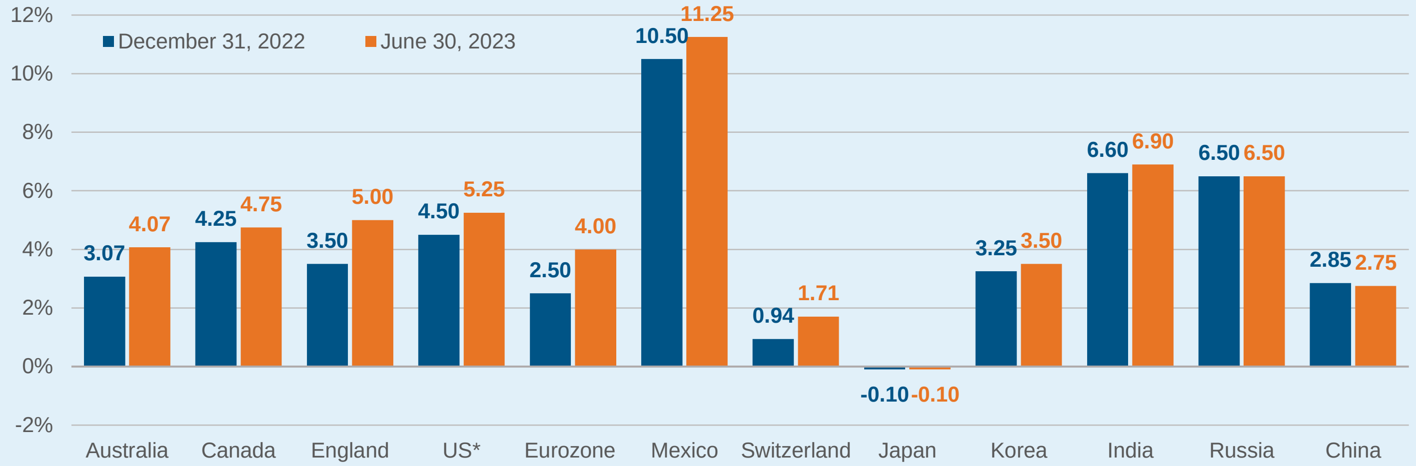


2-year and 10-year government bond yields



Source: Bloomberg June 30, 2023

Global central bank rates (%)



Source: Bloomberg June 30, 2023
*upper range

Commodities

Despite the rapid reopening in China, the ongoing war in Ukraine and the significant production cuts from OPEC+, commodity prices sagged amid growing recessionary concerns. After collapsing from peak levels following Russia's invasion of Ukraine, spot crude oil prices have been rangebound, with WTI trading between US$67-US$75/bbl. After an unusually warm winter season in Europe, Natural gas prices have been slashed in half in Europe. Despite pressures for more supply, US shale producers are showing restraint, with production still 1.2 million bbl/day lower than pre-pandemic levels. Copper prices continued to sag due to China's weaker than expected reopening.

Bloomberg commodity index

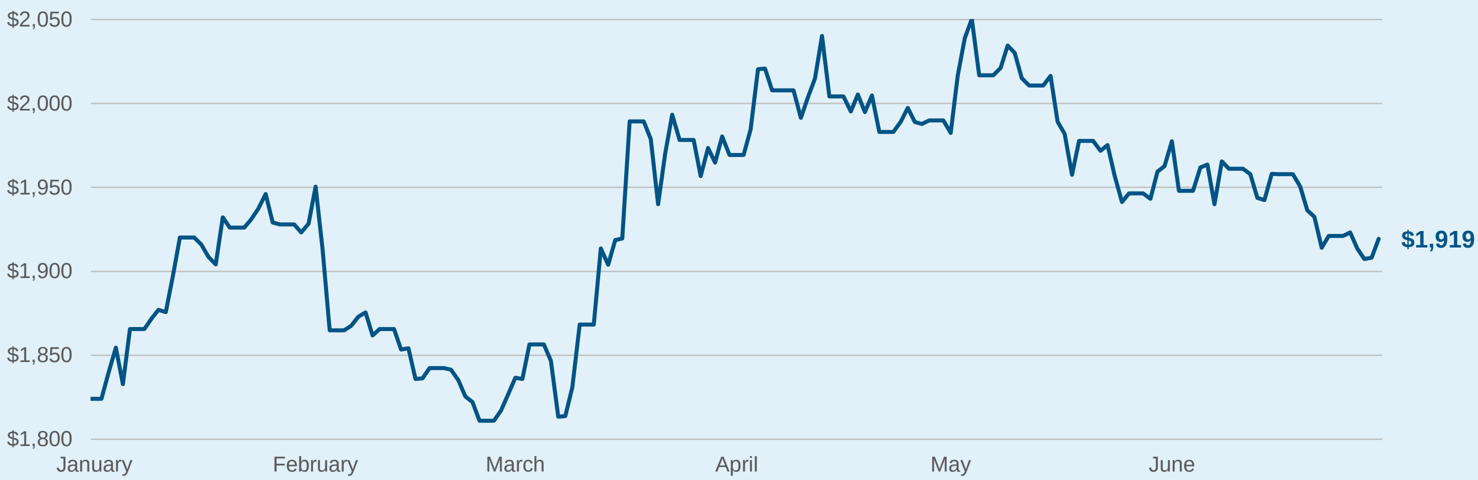
Source: Bloomberg June 30, 2023

WTI crude oil (US$/bbl)

Source: Bloomberg June 30, 2023

Gold prices rose 5.2%, ending the first half of the year at US$1,919/oz. Macro crosscurrents had gold prices volatile. Factors supporting prices included a weaker US dollar, ongoing fears of recession, central bankers stockpiling their gold reserves, and inflation remaining well-above central bankers' 2% target. However, gold prices negatively correlate to real bond yields, which remain elevated due to persistently hawkish central bank policy. After rising sharply in the back half of 2022, the US 10-year Treasury Inflation-Protected Securities (TIPS) yield has hovered around 1.5%, a level that is historically very restrictive.

Gold spot (US$/oz)



Source: Bloomberg June 30, 2023

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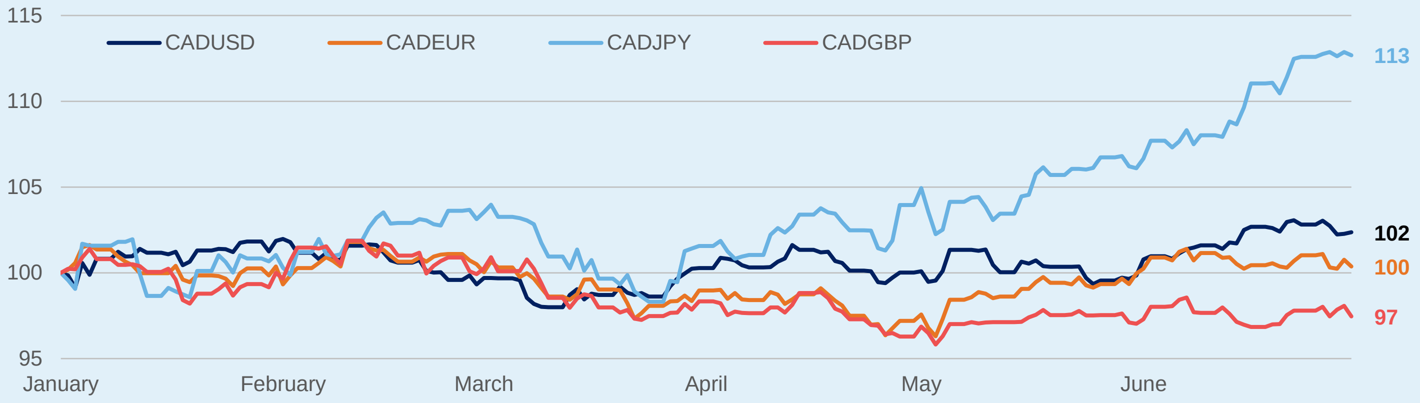
Currencies

The Canadian dollar appreciated slightly against the US dollar, Japanese yen and the Chinese yuan, but depreciated against the Euro and British Pound. Against the greenback, it ended the first half of the year up 2% to CADUSD $0.76. Sagging commodity prices, a relatively more dovish Bank of Canada (until they resumed raising rates in June), and a sluggish global economic growth outlook weighed on the loonie (the Canadian Dollar is considered a pro-cylical currency that rises during global expansions).

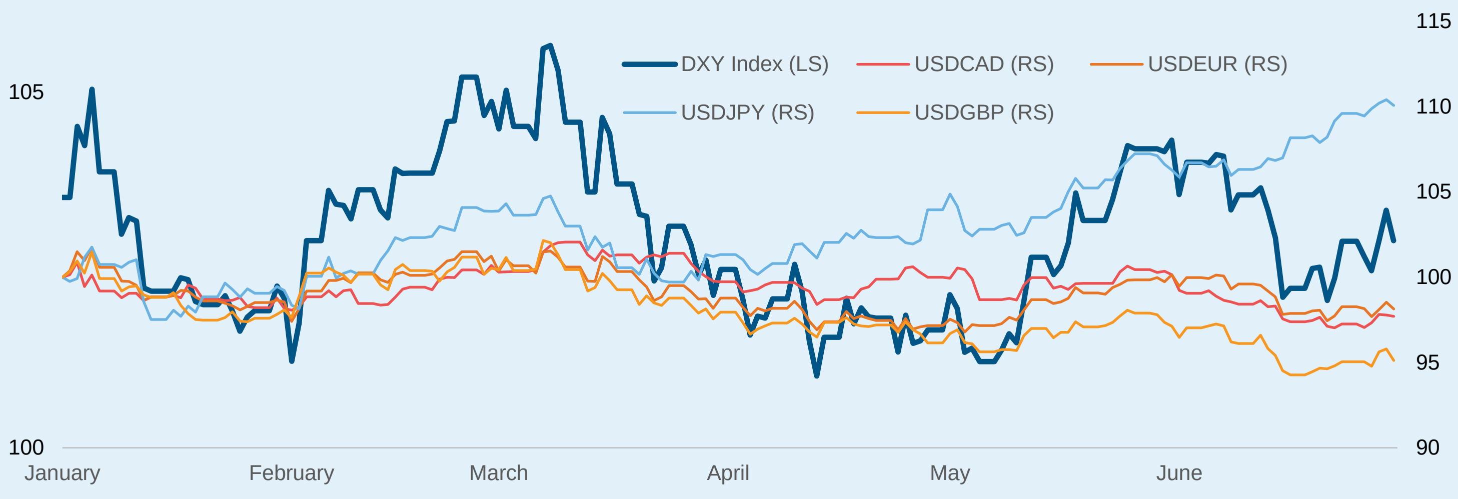
CAD performance vs. global currencies (indexed to 100)



Source: Bloomberg June 30, 2023

The US dollar weakness seen in the final months of 2022 continued into 2023. The DXY Index slipped -0.6% to 102.9 after reaching a two-decade high last year. With inflation moving sharply lower, the US Federal Reserve (Fed) appears close to completing its rate hiking cycle – a development that was a significant headwind for the greenback. For the first time in 15 months, the Fed kept their target range for the Fed Funds Rate steady at 5%-5.25%. However, according to the Fed's most recent Summary of Economic Projections, they are forecasting two additional rate hikes for the rest of the year. The overall resilience of the economy has also prompted a risk-on environment in capital markets, which has pushed the US dollar lower.

USD performance vs. global currencies (indexed 100)



Source: Bloomberg June 30, 2023

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