MACKENZIE Investments

Justin Truong, CFA
Investment Strategist

Weekly Market Snapshot

For the week ending May 26, 2023

Equities

Local currency, price only, % change

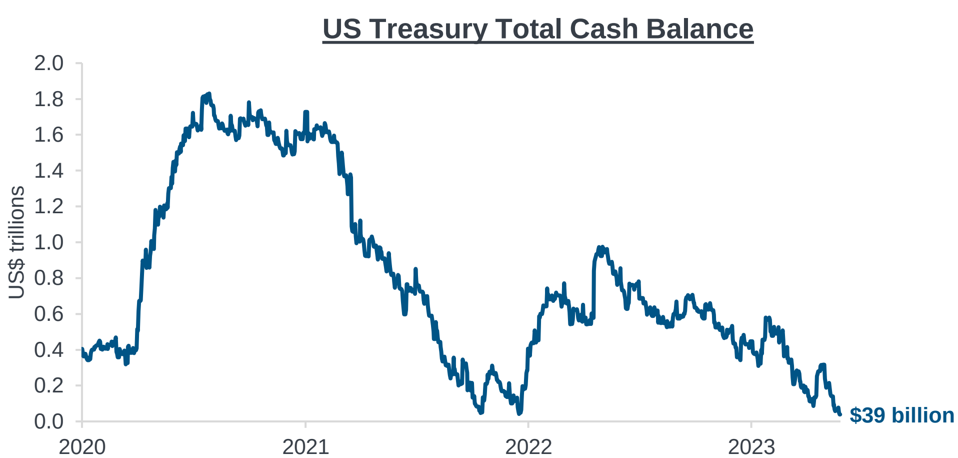
	2023-05-26	Week	QTD	YTD	1 Yr
S&P/TSX Composite	19,920	-2.1%	-0.9%	2.8%	-3.0%
S&P/TSX Small Cap	679	-2.2%	-5.0%	-1.3%	-10.4%
S&P 500	4,205	0.3%	2.3%	9.5%	3.6%
NASDAQ	12,976	2.5%	6.2%	24.0%	10.5%
Russell 2000	1,773	0.0%	-1.6%	0.7%	-3.5%
UK FTSE 100	7,627	-1.7%	-0.1%	2.4%	0.8%
Euro Stoxx 50	4,338	-1.3%	0.5%	14.3%	16.0%
Nikkei 225	30,916	0.4%	10.3%	18.5%	16.2%
MSCI China (USD)	60	-3.5%	-10.8%	-6.7%	-7.6%
MSCI EM (USD)	973	-0.4%	-1.8%	1.7%	-4.9%

Fixed income

Total return, % change

	2023-05-26	Week	QTD	YTD	1 Yr
FTSE Canada Universe Bond Index	1,066	-1.2%	-1.8%	1.4%	-0.7%
FTSE Canada All Corporate Bond Index	1,265	-1.0%	-0.9%	1.9%	1.1%
Bloomberg Canada High Yield Index	163	0.1%	0.2%	2.2%	3.4%

Chart of the week: US Treasury needs cash



Interest rates - Canada

Change in bps

	2023-05-26	Week	QTD	YTD	1 Yr
3-month T-bill	4.51	4	17	28	314
GOC bonds 2 yr	4.29	30	56	24	175
GOC bonds 10 yr	3.33	21	44	3	54
GOC bonds 30 yr	3.29	14	29	1	48

Currencies and Commodities

In USD, % change

	2023-05-26	Week	QTD	YTD	1 Yr
CDN $	0.735	-0.8%	-0.7%	-0.4%	-6.2%
US Dollar Index	104.21	1.0%	1.7%	0.7%	2.3%
Oil (West Texas)	72.67	1.6%	-4.0%	-9.5%	-36.3%
Natural Gas	2.42	-10.7%	-11.5%	-41.9%	-52.2%
Gold	1,946	-1.6%	-1.2%	6.7%	5.2%
Copper	3.68	-1.3%	-10.2%	-3.5%	-14.1%

Canadian sector performance

Price return, % change

	Week	YTD
Energy	-1.1%	-5.2%
Materials	-5.4%	0.6%
Industrials	-3.1%	5.0%
Cons. Disc.	-0.7%	4.1%
Info Tech	-0.6%	42.6%
Health Care	-5.6%	4.4%
Financials	-1.6%	-0.6%
Cons. Staples	-0.4%	5.4%
Comm. Services	-3.8%	1.4%
Utilities	-1.7%	6.1%
Real Estate	-1.0%	1.0%

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*The standoff between President Joe Biden and House Speaker Kevin McCarthy ended over the weekend, as the two sides reached a deal in principle to raise the US debt ceiling (avoiding a default) for two years and a 1% cut to government spending during that time. The deal still could run into trouble, as it requires approval from the House and Senate, followed by President's signature, but it appears a default scenario has likely been avoided. However, just as investors finally get a chance to catch their breath, markets may need to tend to another, less-discussed issue: **the US Treasury needs to replenish its depleted cash pile**. As depicted in this week's chart, the US Treasury General Account's cash pile has dwindled to US$39 billion, the lowest since 2017. The drawdown was needed for the "extraordinary measures" that allowed the US government to pay their bills and push the debt ceiling deadline (X-date) to June 5 (prev. June 1), giving Washington a bit more time to pass the deal. Once the debt limit is raised, it is estimated that the US Treasury needs to replenish their cash levels by issuing >US$1 trillion of bills by the end of the third quarter, **which would rapidly reduce liquidity in the banking sector in the process.** With the Treasury competing with banks for cash, lenders may see their own short-term funding rates rise, forcing them to boost borrowing costs they impose on businesses and households. This will likely **add to the significant tightening of financial conditions** due to the aggressive hiking campaign of central banks and, more recently, the credit crunch stemming from the banking turmoil.*

Nvidia adds fuel to the AI frenzy

Global equities were mostly lower, with major indices falling across the board except for the S&P 500. The latter continues to be buoyed by the significant exposure to technology stocks – the Nasdaq rose 2.5% on the week, pushing their YTD gains to 24%. Progress on US debt ceiling negotiations also supported US equities (see chart comments for more). In contrast, European stocks declined, as rising energy prices continue to take a toll across the continent. Germany, by far the Eurozone's largest economy (~30% of GDP), officially entered a technical recession in Q1. Meanwhile, bond yields rose due to resilient US data, including consistently low jobless claims and better-than-expected personal spending. **As a result, market expectations now indicate a 70% chance of a 25 basis point hike from the Fed on their June 14th meeting, up from just 18% a week ago.**

Although there was already heightened optimism, Nvidia easily beat their earnings and revenue forecasts for their fiscal first quarter. Even more impressive was the chip giant's massive upgrade to their sales forecast for their second quarter, as the company rushes to fill the world's insatiable appetite for advanced semiconductor chips in the wake of the recent AI frenzy. **The company now anticipates a remarkable 64% increase in sales, reaching a staggering US$11 billion, significantly higher than the consensus estimate of US$7.2 billion.** Nvidia's stock gapped >25% higher overnight, positioning them on the path towards potentially becoming the next trillion dollar company, **with a current market cap exceeding US$900 billion.** While the demand forecasts are optimistic, **concerns regarding the supply side still need to be addressed to justify the lofty valuations associated with AI stocks**. In the eyes of the AI bulls, **Nvidia is likely to play a crucial role in addressing these challenges, making it a key player in the process.**

Canadian bank shares tumbled after four out of the five Big banks reported lower-than-expected earnings for the second quarter. **Ongoing concerns over a slowing Canadian economy, rising costs and slower loan growth affecting revenues weighed on the banks' outlooks.** In addition, fears of souring loans are increasing as **the banks set aside additional provisions for credit losses (PCLs) as a precautionary measure against potential losses.** Heightened uncertainty was also expressed by several bank executives, particularly those with significant exposure to US operations in the aftermath of recent banking challenges. **However, CIBC stood out as an exception by exceeding estimates and offering a somewhat more positive outlook,** anticipating an expansion in net interest margin in the second half of the year. Unless there is an unexpected interest rate cut, financial conditions will likely tighten further, increasing the burden on Canadian consumers. **While Canadian banks maintain a strong fiscal position that provides some insulation, the combination of slower growth, a weaker Canadian economy, and stricter lending standards will likely result in a challenging path ahead for the banks.**

This week, markets will be focused on the global PMI data (US ISM Manufacturing) and the US nonfarm payroll report to gauge the momentum of the global economy. In Canada, the Q1 GDP report will be released on Wednesday, where analysts are calling for a 2.5% q/q annualized rebound in economic growth.

The week in review

- The US FOMC Minutes from their May 2-3 meeting indicated a divide amongst members on whether rates need to move higher amid uncertainty surrounding growth and inflation.
- US personal spending (Apr., m/m) rose 0.8% (versus 0.5% expected), up from an upwardly revised 0.1% gain in the prior month. In real terms, spending rose 0.5% m/m. Personal income (Apr.) rose 0.4% (in line with expectations), after the prior month's 0.3% gain. The savings rate fell to 4.1% from 4.5% in the prior month.
- US Core PCE Price Index (Apr., y/y) accelerated to 4.4% (versus 4.3% expected), up from 4.2% in the prior month.
- US durable goods orders (Apr., m/m) unexpectedly rose 1.1% (versus -1.0% expected), following the prior month's upwardly revised 3.3% increaase. Orders excluding transportation climbed 0.2% m/m.
- The US goods trade deficit (Apr.) expanded to US$96.8 billion (versus US$85.9 billion expected), up from the downwardly revised US$82.7 billion deficit in the prior month.
- UK CPI inflation (Apr. y/y) dropped sharply to 8.7% (versus 8.2% expected), down from 10.1% in the prior month. However, core prices unexpected jumped to 6.8% (versus 6.2% expected), up from 6.2% in the prior month.
- UK retail sales (Apr., m/m) rose 0.5% (versus 0.3% expected), following the prior month's downwardly revised -1.2% decline.
- The Reserve Bank of New Zealand raised their official cash rate by 25 bps to 5.5%, while signalling that their current rate hiking cycle has come to an end.
- Purchasing Managers Index (PMI) recap (May, change from prior reading in brackets): US S&P Manufacturing 48,5 (-1.7), S&P Services 55.1 (+1.5); Eurozone HCOB Manufacturing 44.6 (+0.8), HCOB Services 55.9 (-0.3); UK S&P/CIPS Manufacturing 46.9 (-0.9), S&P/CIPS Services 55.1 (-0.8); and Japan Jibun Bank Manufacturing 50.8 (+1.3), Jibun Bank Services 56.3 (+0.9).

The week ahead

- Canadian GDP and trade data
- US employment and ISM manufacturing PMI
- US Fed Beige Book
- Japanese employment, retail sales, industrial production data
- Eurozone inflation and employment data
- ECB Minutes from May 3-4 meeting
- Global Purchasing Manager Indices
- 10 S&P 500 and 6 S&P/TSX companies report earnings

reliance upon it.