

Bâtir sur nos racines,
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innovating for the future

The Economy and Financial Markets

2023/06/08

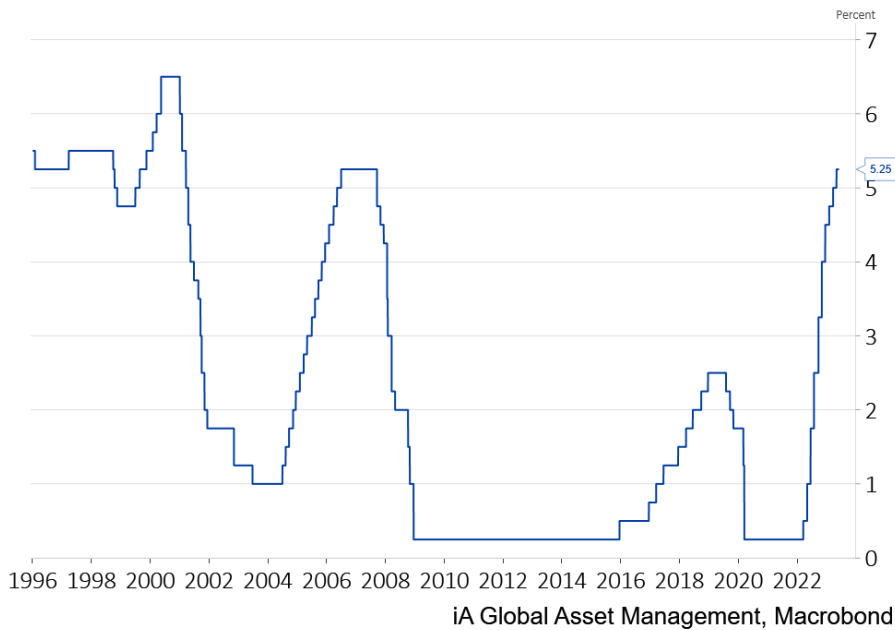
Sébastien Mc Mahon, CFA

Chief Strategist, Senior Economist and Vice-President,
Asset Allocation, and Portfolio Manager, iAIM

Central Banks: The year of « jumbo » rate hikes

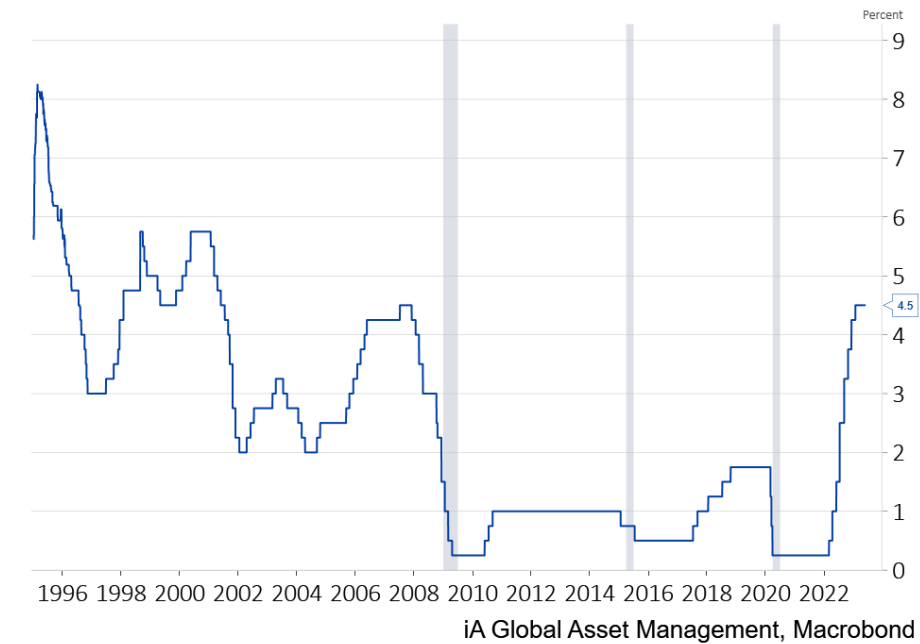
Fed Funds Rate

As at 6/5/2023



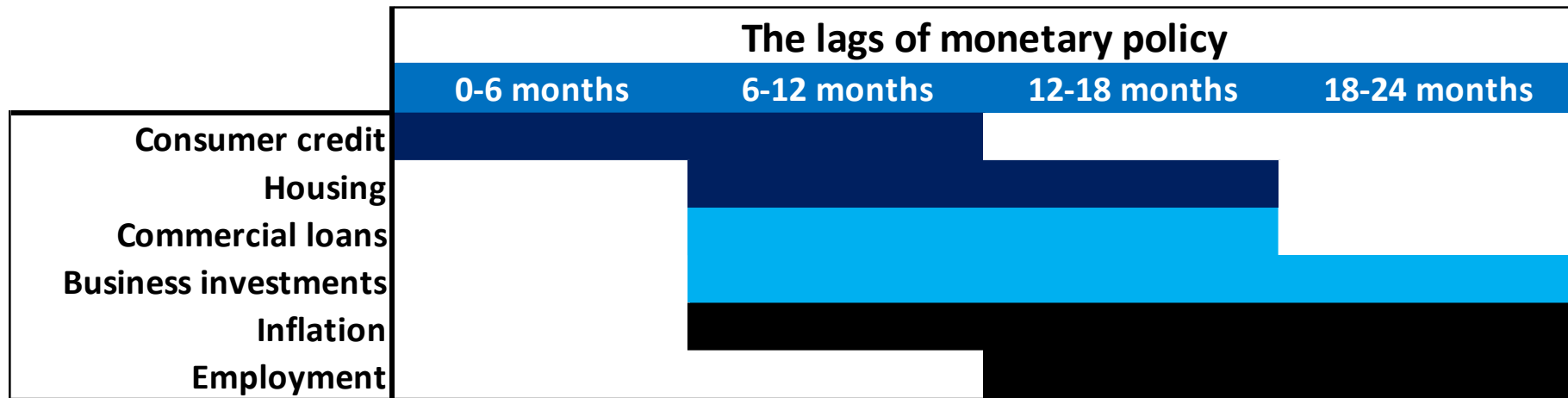
Bank of Canada: Overnight Rate

As at 6/2/2023



Reminder: Monetary policy operates with a 18-24 month lag

A few stylized facts about the lags in monetary policy



Monetary policy impacts households & housing first, through mortgage rates and lines of credit.

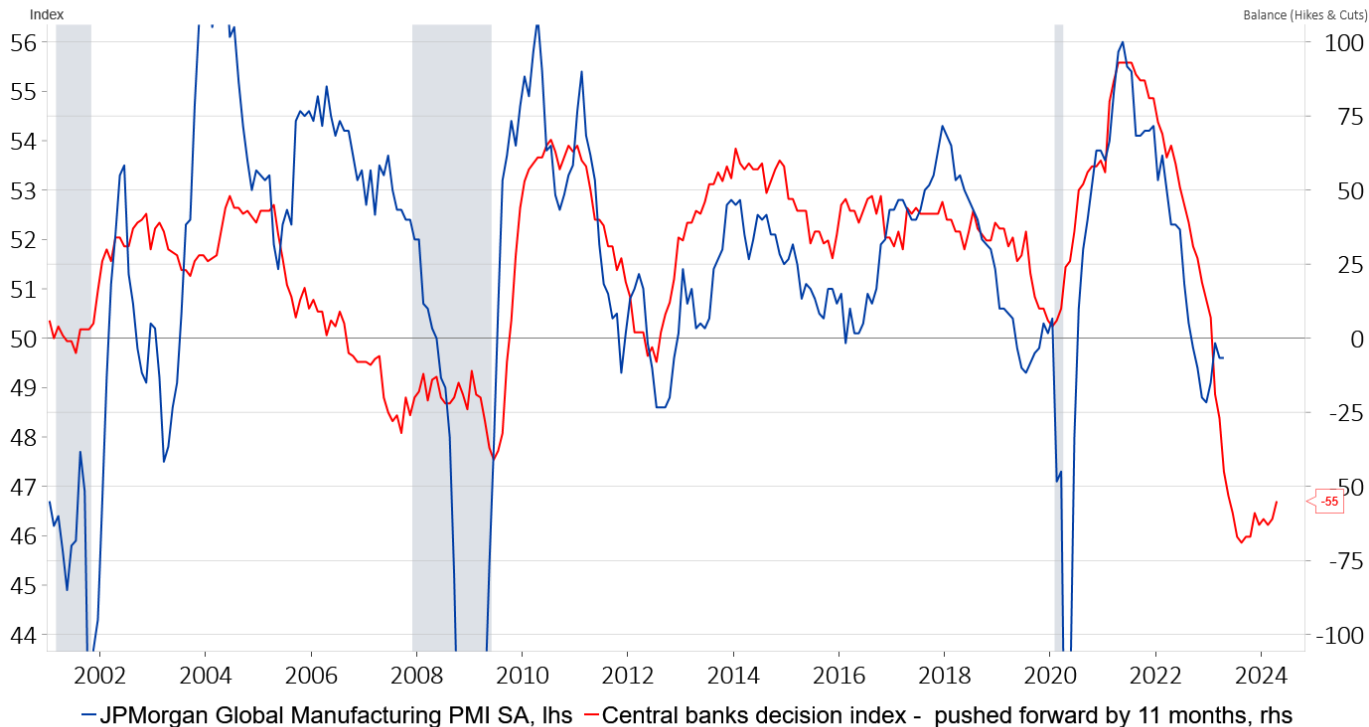
Then we move on to investments, through corporate loans.

Inflation and the labour market react last, with a lag of up to 24 months.

Our favourite leading indicator is pointing to a tough stretch ahead

Global PMI vs Global Monetary Policy Cycle

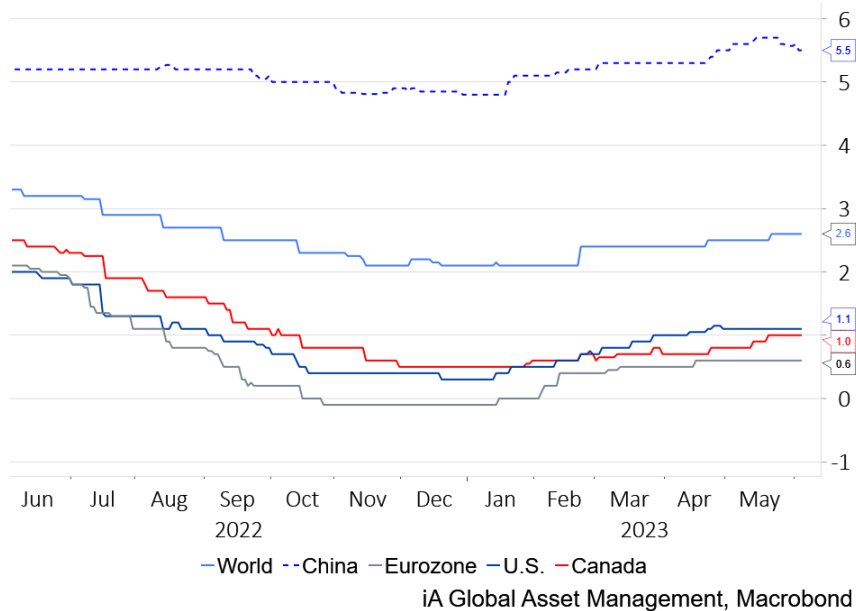
Last decision from central banks: Cut (+1), Hike (-1)



Consensus forecasts: Slow growth expected in 2023 & 2024

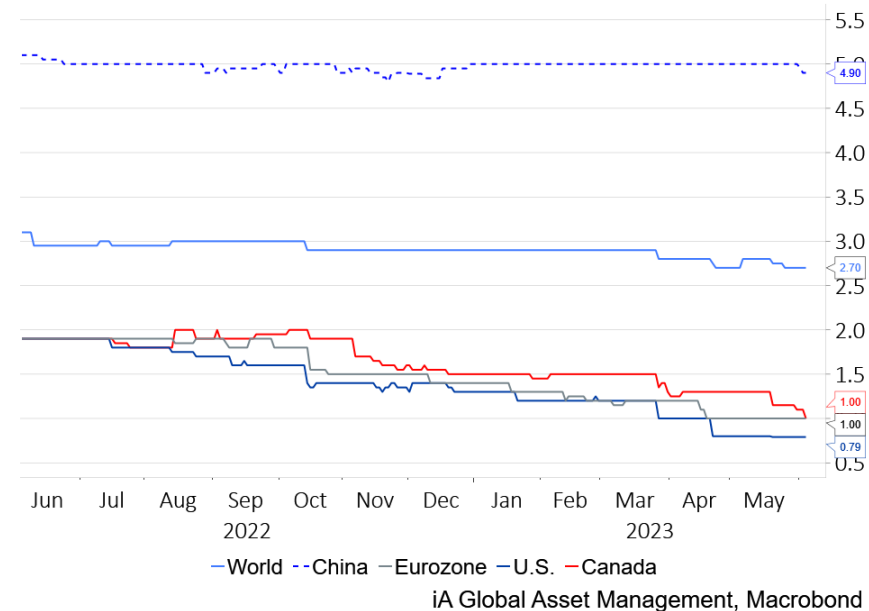
GDP Growth Forecasts for 2023

Bloomberg consensus survey, as at 6/5/2023



GDP Growth Forecasts for 2024

Bloomberg Consensus Survey, as at 6/5/2023

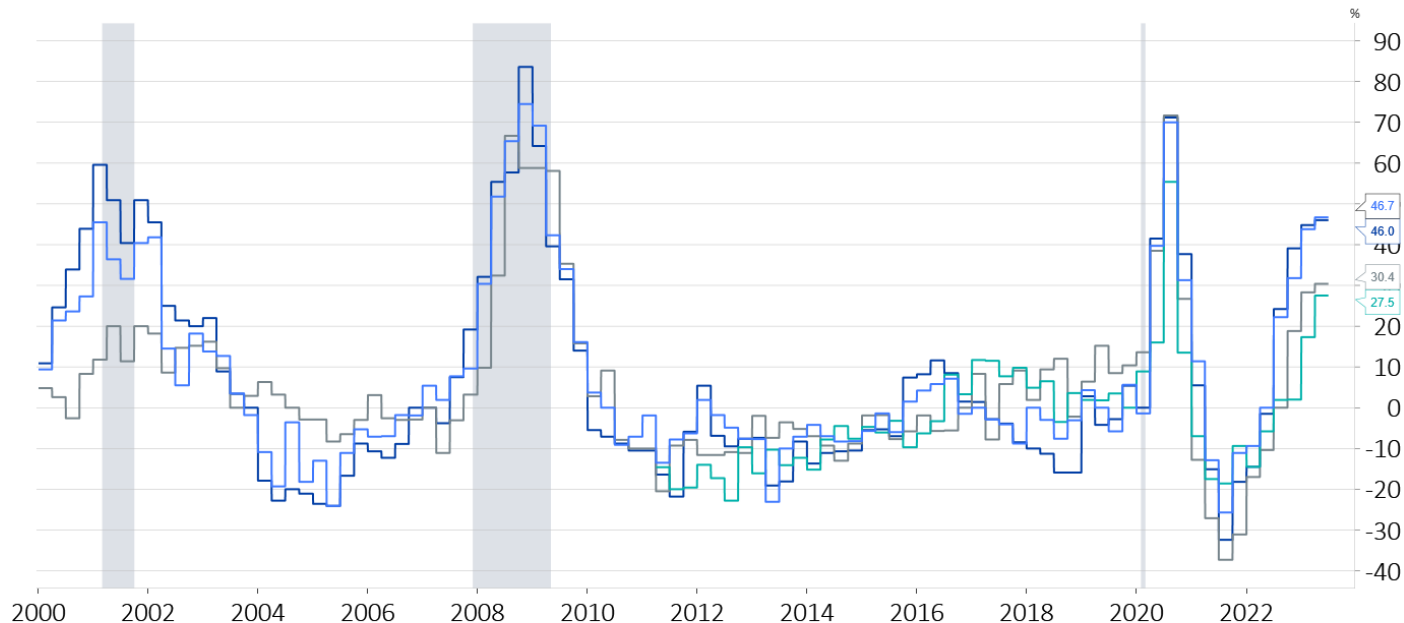


Although the consensus does not see crumbling economic growth, the forecasts for the coming 24 months are historically weak

It's all about the credit cycle!

U.S.: Senior Loan Officer Opinion Survey on Bank Lending Practices

Federal Reserve, as of 4/28/2023

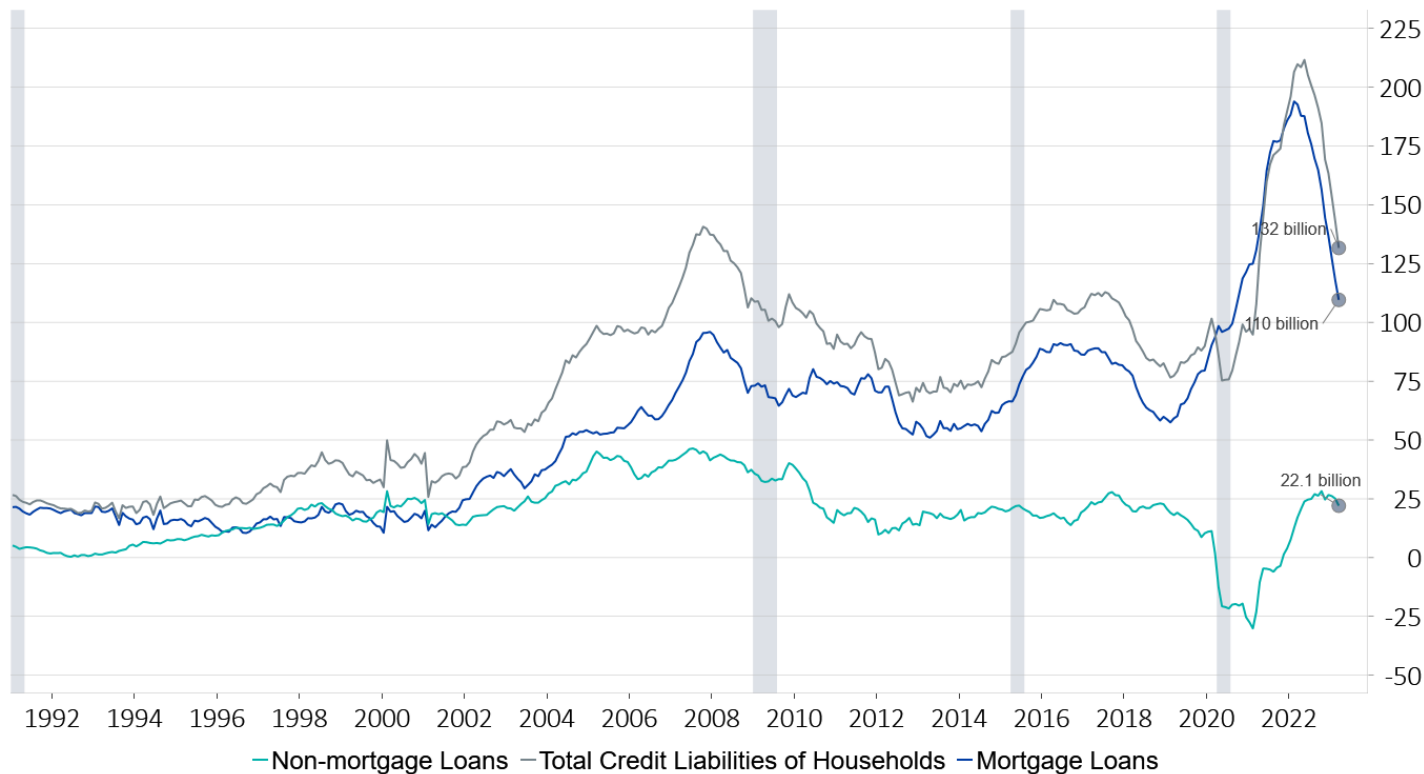


- Tightening Standards for Commercial & Industrial Loans, Small Firms
- Tightening Standards on Consumer Loans, New & Used Autos
- Tightening Standards on Consumer Loans, Credit Cards
- Tightening Standards for Commercial & Industrial Loans, Large & Medium Firms

It's all about the credit cycle!

Canada: Consumer Credit & Mortgage Loans

Statistics Canada, YoY Change, Billions of \$, as of 3/2023

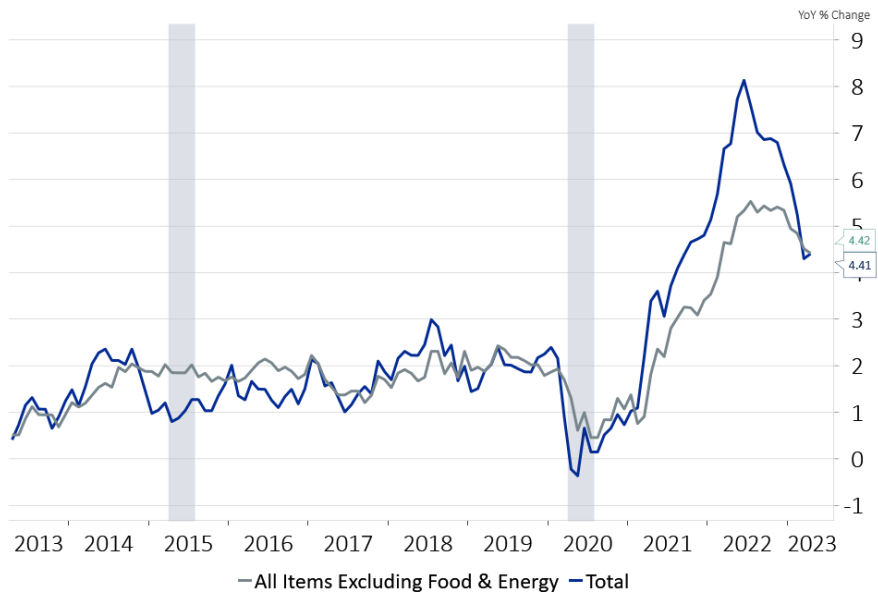


Inflation:

Slight rebound in April, monthly pace remains too strong

Canada: Total and Core Inflation

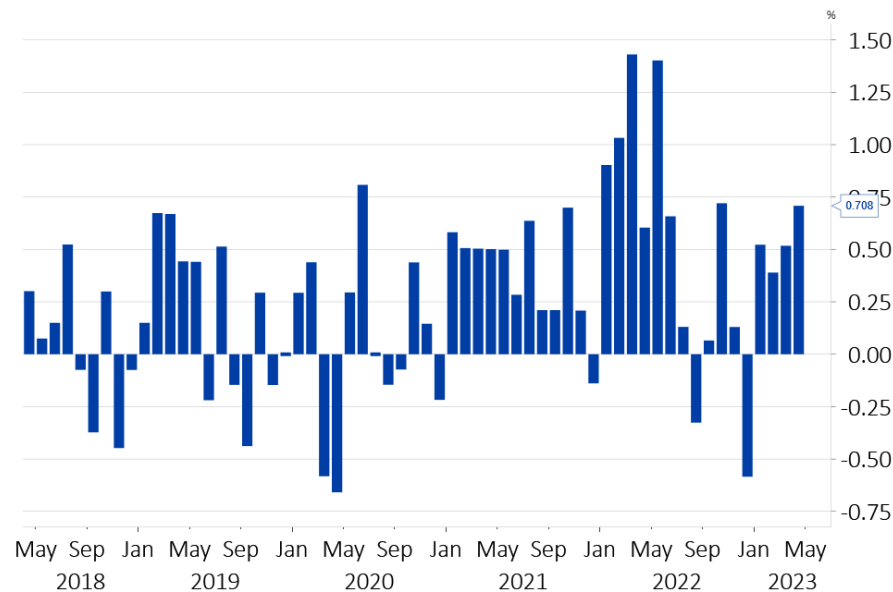
Statistics Canada, % change YoY, as at 2023-04



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Canada: Total Inflation

Statistics Canada, % change MoM, as at 4/2023

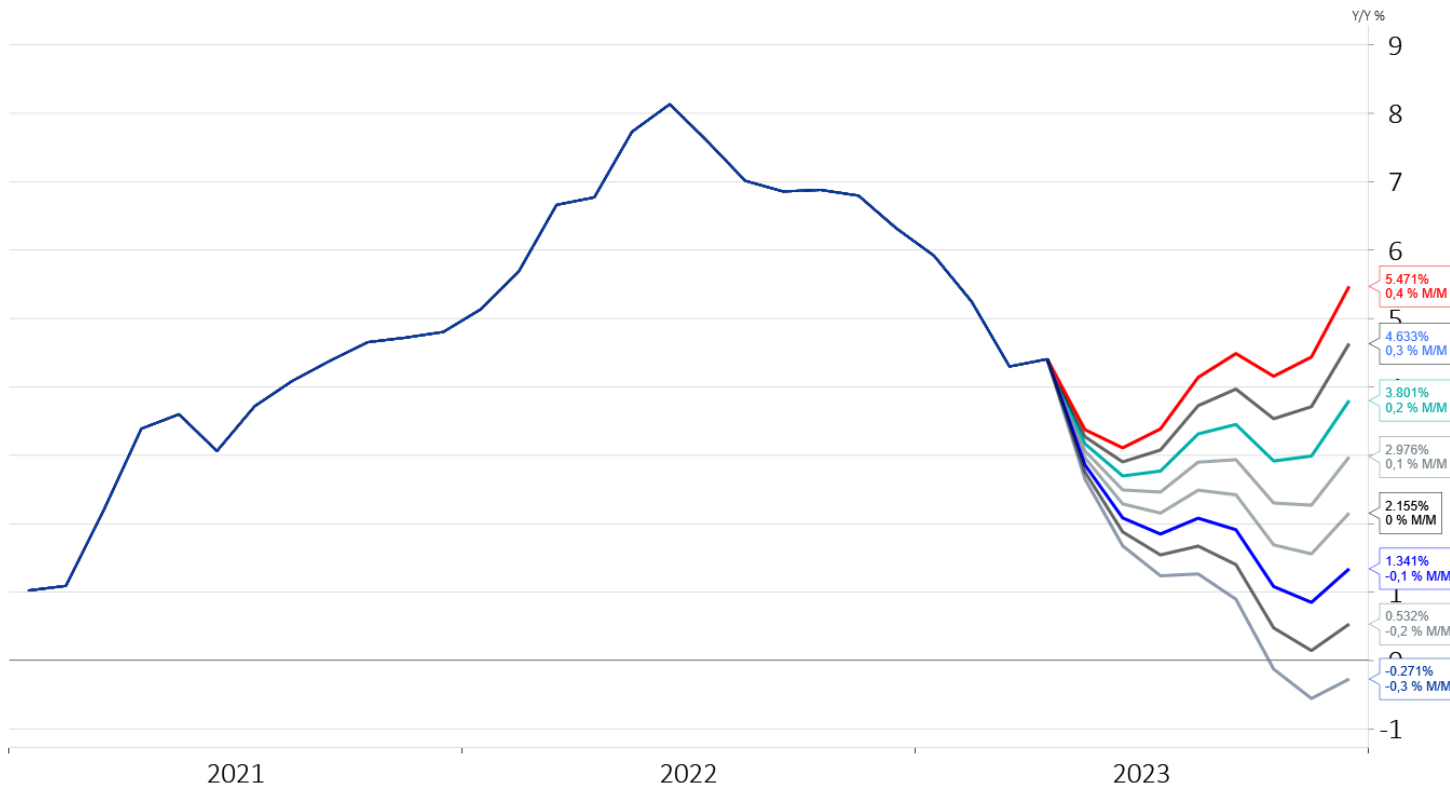


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Inflation: What to expect by year-end?

Canada: CPI evolution based on M/M scenarios

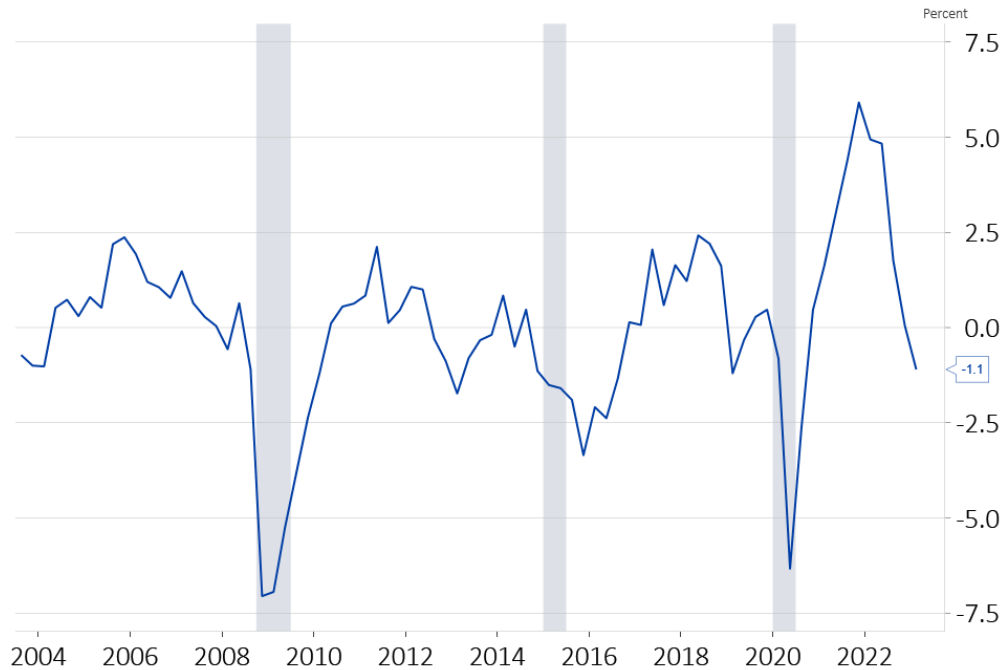
By the end of 2023



Canadian businesses have turned net pessimistic for the first time since 2020

Bank of Canada's Business Outlook Survey

Bank of Canada, as at 2023 Q1



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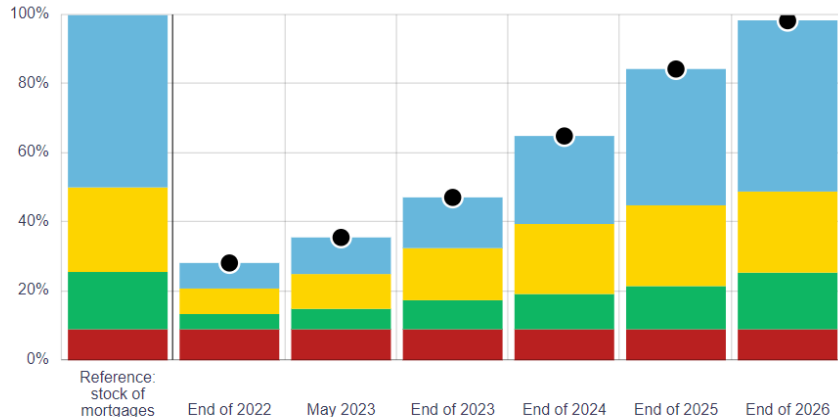
Canadian businesses have turned net pessimistic in the Bank of Canada's latest Business Outlook Survey.

Respondents are especially worried about future sales growth.

Bank of Canada is more concerned with the financial flexibility of households

Chart 12: To date, about one-third of mortgages have had their payments increase, and this share will rise to nearly all mortgages over the next three years

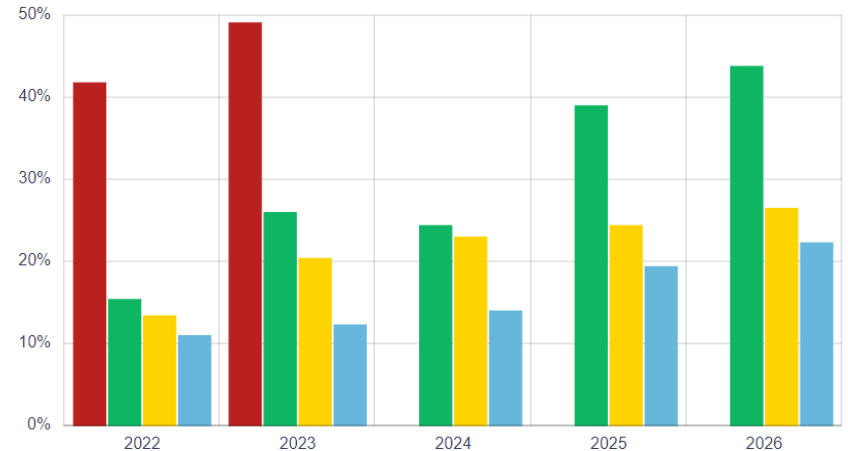
Cumulative share (by count) of mortgages subject to a payment increase (relative to the payment in February 2022)



- Variable-rate mortgages with variable payments
- Variable-rate mortgages with fixed payments
- Fixed-rate mortgages with a term of less than 5 years
- Fixed-rate mortgages with a term of 5 years or more
- All mortgages

Chart 1-A: For households with fixed mortgage payments, the largest increase in payments should happen for those that renew in 2025 and 2026

Average percentage increase in mortgage payment relative to February 2022



- Variable-rate mortgages with variable payments
- Variable-rate mortgages with fixed payments
- Fixed-rate mortgages with a term of less than 5 years
- Fixed-rate mortgages with a term of 5 years or more

Debt ceiling: We have a deal!



- Debt ceiling suspended until 2025
- Caps on spending, but not on defence
- Unspent Covid funds returned
- Welfare largely unchanged
- Pause to student loan relief
- No new taxes
- No change to the Inflation Reduction Act

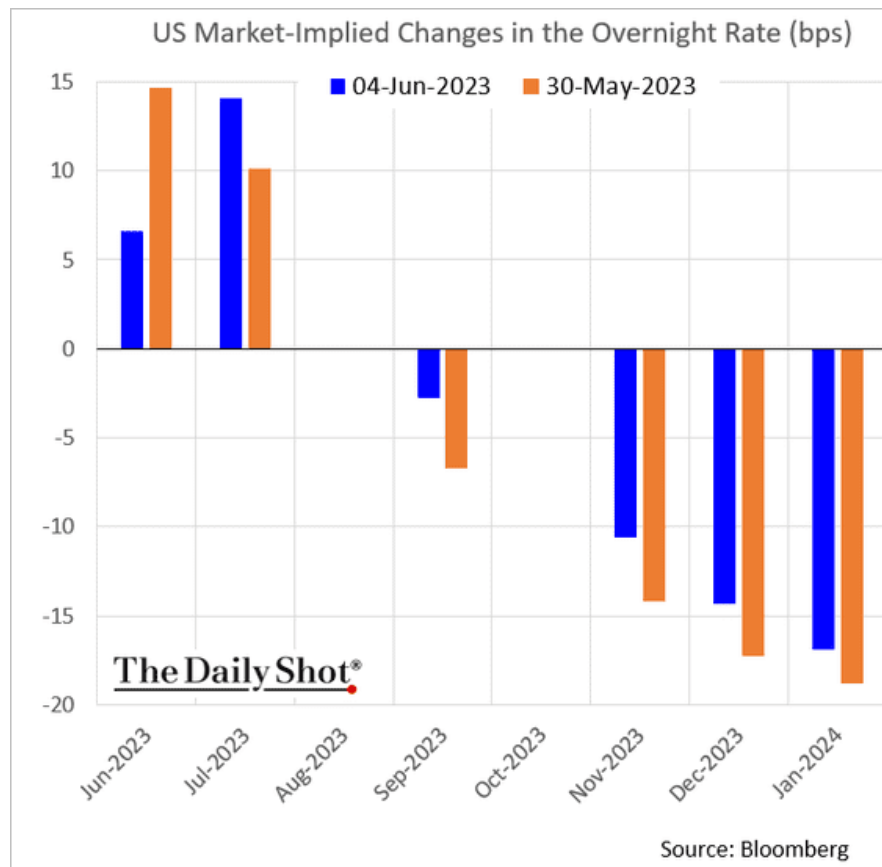
Fed: Pausing in June?

Fed Prepares to Skip June Rate Rise but Hike Later

Officials would slow increases to assess more data on the economy and bank lending

Top Fed official sees no 'compelling' reason to wait for fresh rate rise

Debt-ceiling deal removes 'big piece of uncertainty' over US economy, says Loretta Mester



Financial markets

Commodities not feeling too hot

Bloomberg Commodity Spot Index

As at 6/2/2023



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Copper Price

London Metal Exchange (LME), USD, as at 6/2/2023



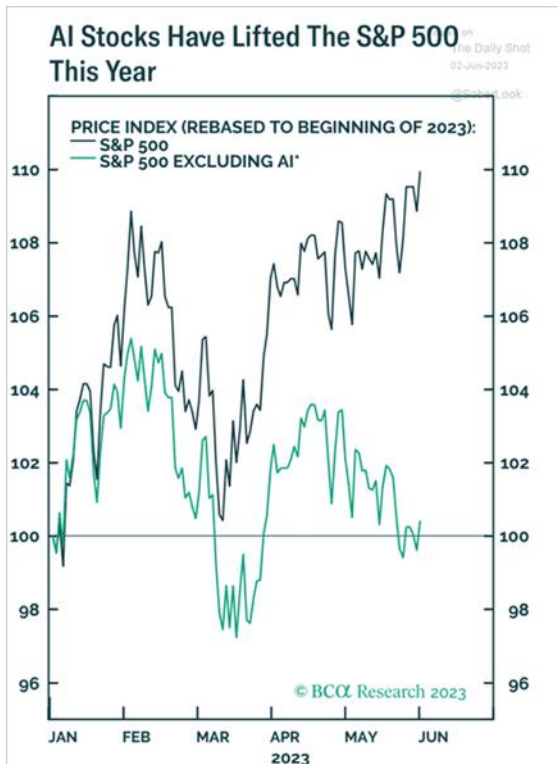
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Wall Street: Why active management matters

S&P 500 Sector Annual Performance Ranking

as of May 31, 2023

| 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 so far | +/- YTD perf |
|--------------------------------|-----------------------------------|--------------------------------|--------------------------------|--------------------------------|---------------------------------|--------------------------------|--------------|
| Information Technology 37 % | Health Care 4.7 % | Information Technology 48 % | Information Technology 42 % | Energy 48 % | Energy 59 % | Information Technology 33 % | ↑ |
| Materials 21 % | Utilities 0.46 % | Comm. Services 31 % | Consumer Discretionary 32 % | Real Estate 42 % | Utilities -1.4 % | Comm. Services 32 % | ↑ |
| Consumer Discretionary 21 % | Consumer Discretionary -0.49 % | Financials 29 % | Comm. Services 22 % | Information Technology 33 % | Consumer Staples -3.2 % | Consumer Discretionary 18 % | ↑ |
| Financials 20 % | Information Technology -1.6 % | Industrials 27 % | Materials 18 % | Financials 33 % | Health Care -3.6 % | Industrials -1.7 % | ↓ |
| Health Care 20 % | Real Estate -5.6 % | Consumer Discretionary 26 % | Health Care 11 % | Materials 25 % | Industrials -7.1 % | Consumer Staples -2.8 % | ↓ |
| Industrials 19 % | Consumer Staples -11 % | Real Estate 25 % | Industrials 9 % | Health Care 24 % | Financials -12 % | Real Estate -2.8 % | ↓ |
| Consumer Staples 10 % | Financials -15 % | Consumer Staples 24 % | Consumer Staples 7.6 % | Consumer Discretionary 24 % | Materials -14 % | Materials -3.8 % | ↓ |
| Utilities 8.3 % | Industrials -15 % | Utilities 22 % | Utilities -2.8 % | Comm. Services 21 % | Real Estate -28 % | Health Care -6.3 % | ↓ |
| Real Estate 7.2 % | Comm. Services -16 % | Materials 22 % | Financials -4.1 % | Industrials 19 % | Information Technology -29 % | Financials -7.6 % | ↓ |
| Energy -3.8 % | Materials -16 % | Health Care 19 % | Real Estate -5.2 % | Consumer Staples 16 % | Consumer Discretionary -38 % | Utilities -8.5 % | ↓ |
| Comm. Services -6 % | Energy -20 % | Energy 7.6 % | Energy -37 % | Utilities 14 % | Comm. Services -40 % | Energy -13 % | ↓ |

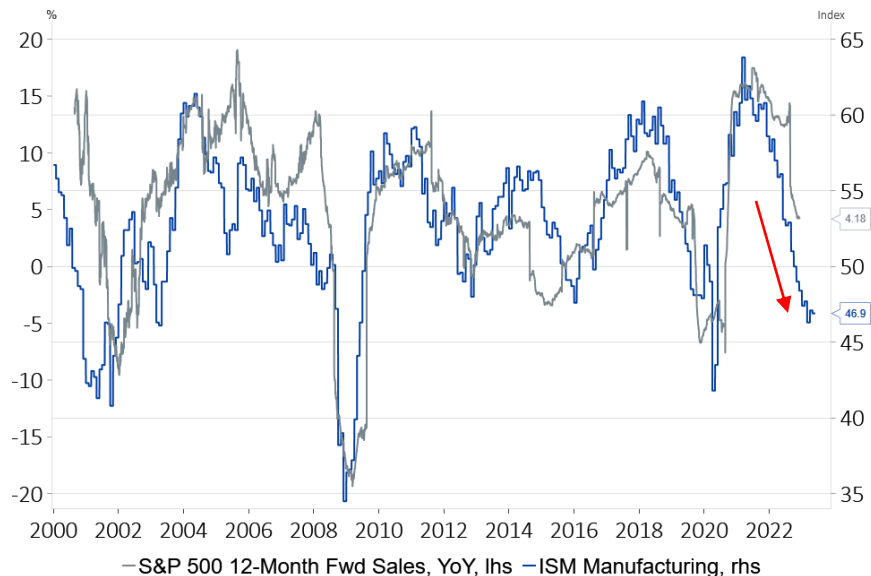


* EXCLUDES THE FOLLOWING STOCK PRICES: NVIDIA CORP, ADVANCED MICRO DEVICE, MICRON TECHNOLOGY, MICROSOFT CORP, ORACLE CORP, SALESFORCE.COM, ACCENTURE CLASS A, ADOBE SYSTEMS INC, IBM, SERVICENOW, ARISTA NETWORKS, DEERE & CO, TESLAMOTORS, AMAZON.COM, BOOKING HOLDINGS, EBAY, ETSY, ALPHABET 'A' (GOOGLE), ALPHABET 'C' (GOOGLE), META PLATFORMS A, ACTIVISION BLIZZARD, AND ELECTRONIC ARTS.

The economy matters for sales and earnings growth

S&P 500: 12-Month Fwd Sales YoY vs ISM Manufacturing

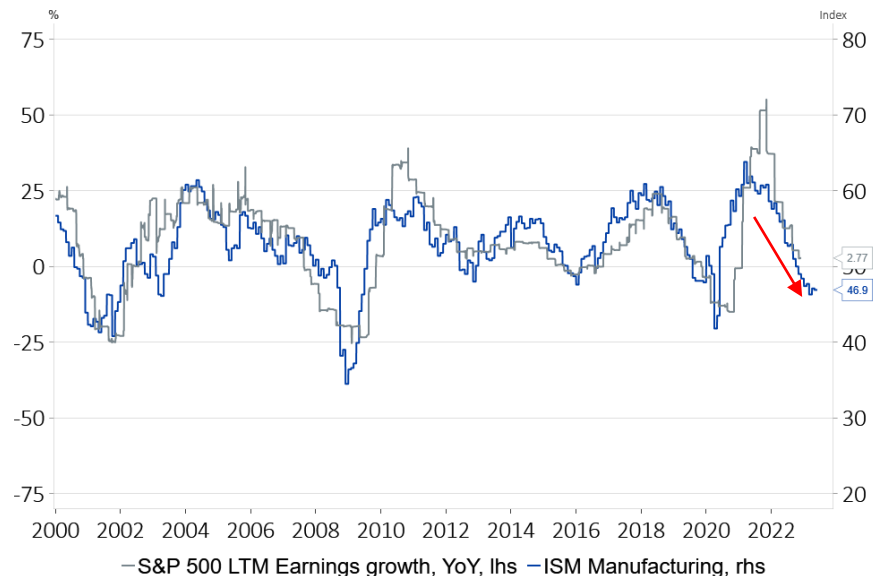
6 month lead on ISM, as at 5/31/2023



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S&P 500: Earnings Growth vs ISM Manufacturing

6 month lead on ISM, as at 5/31/2023

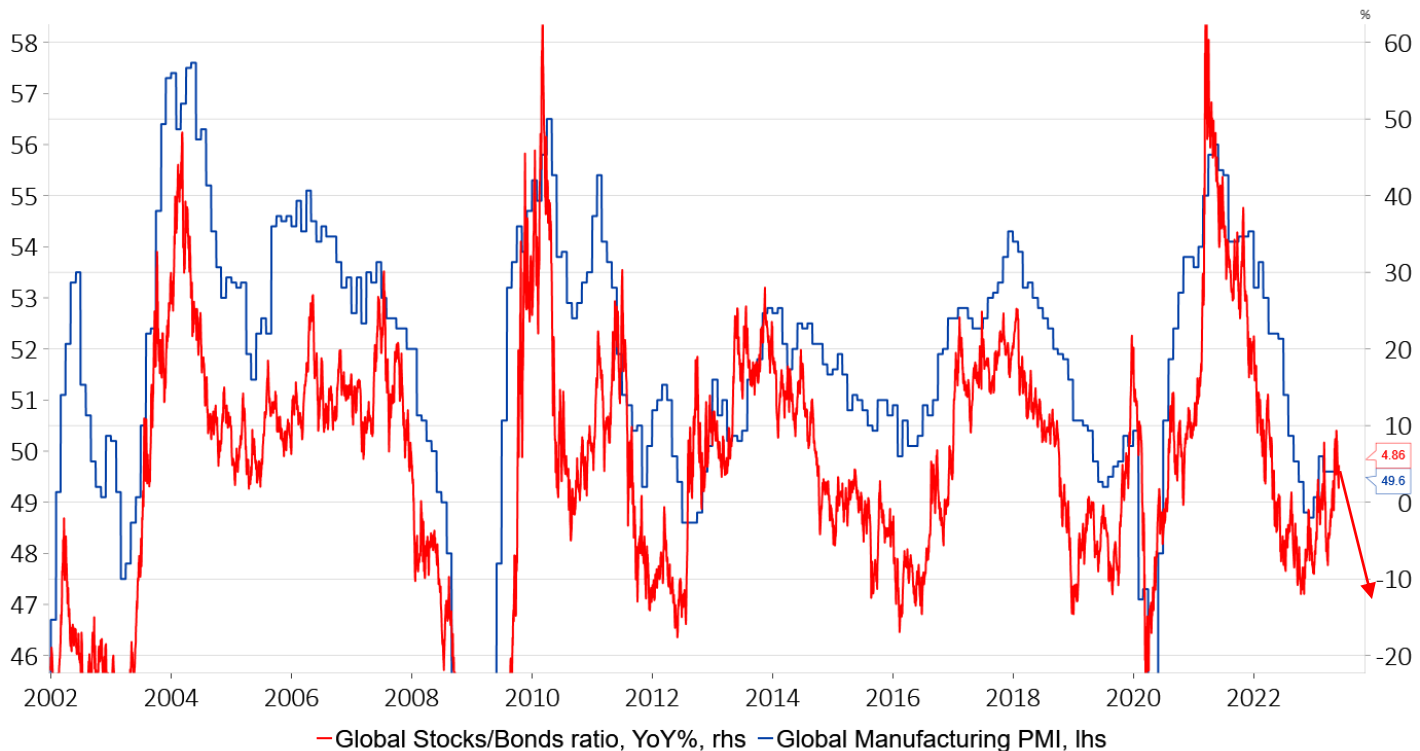


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Why macro matters for asset allocation

Global PMI vs Global Stocks/Bonds Ratio

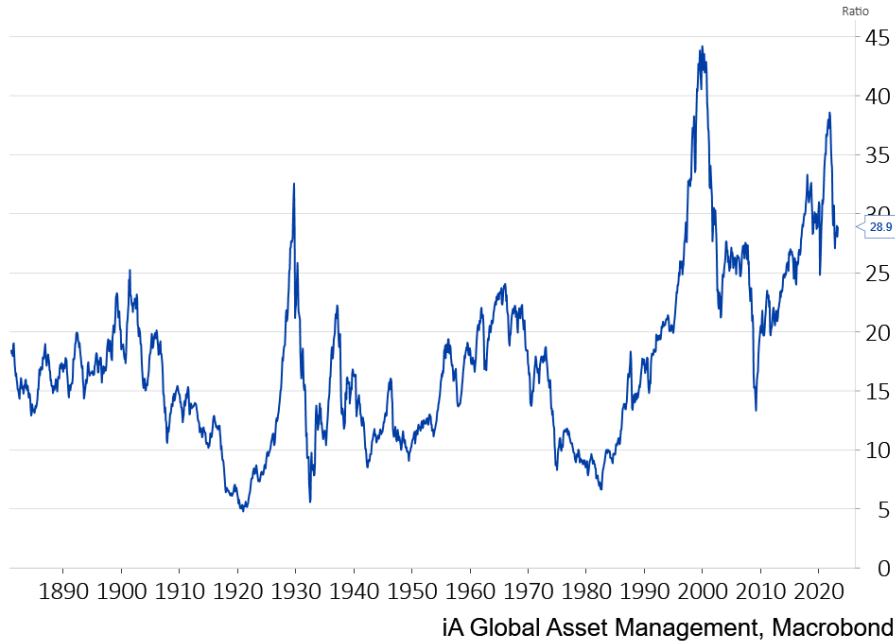
As at 6/2/2023



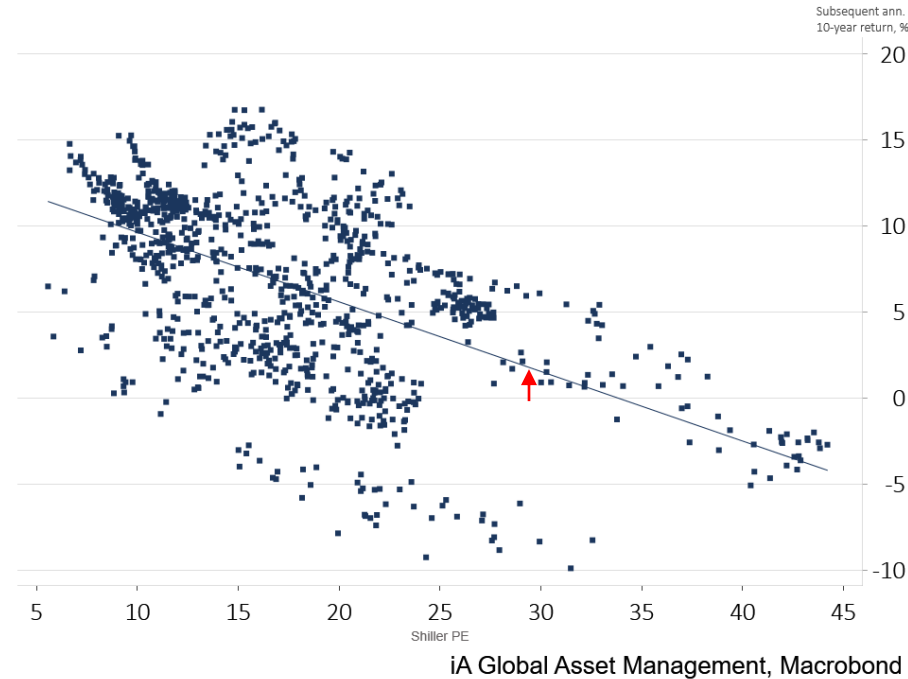
Wall Street is expensive, painting a dim outlook for the coming decade

S&P 500: Long-term perspective on valuation

S&P/Robert Shiller, Cyclically Adjusted P/E Ratio, as at 4/1/2023



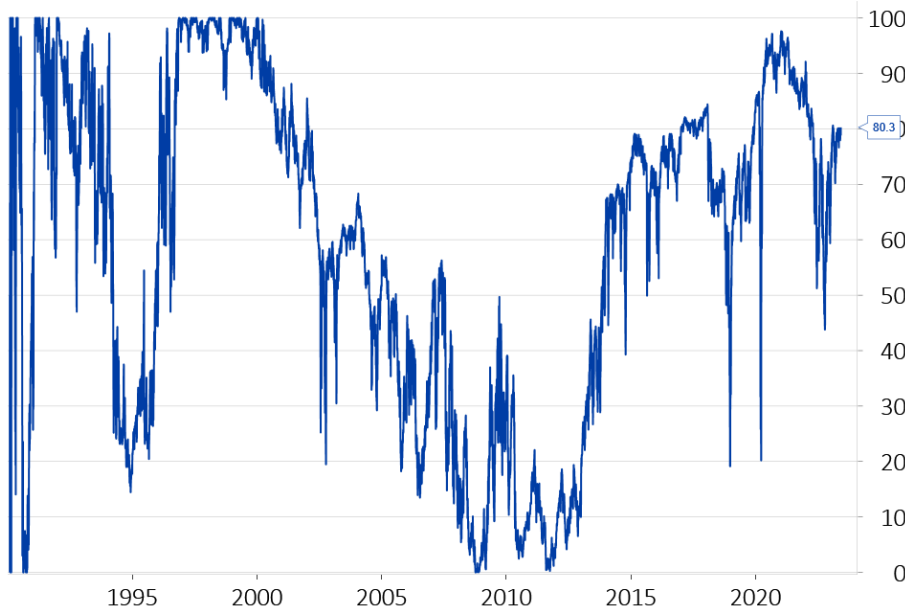
CAPE vs subsequent 10-year price return



Stock market valuations support looking outside of the U.S. for opportunities

S&P 500: Fwd P/E Percentiles

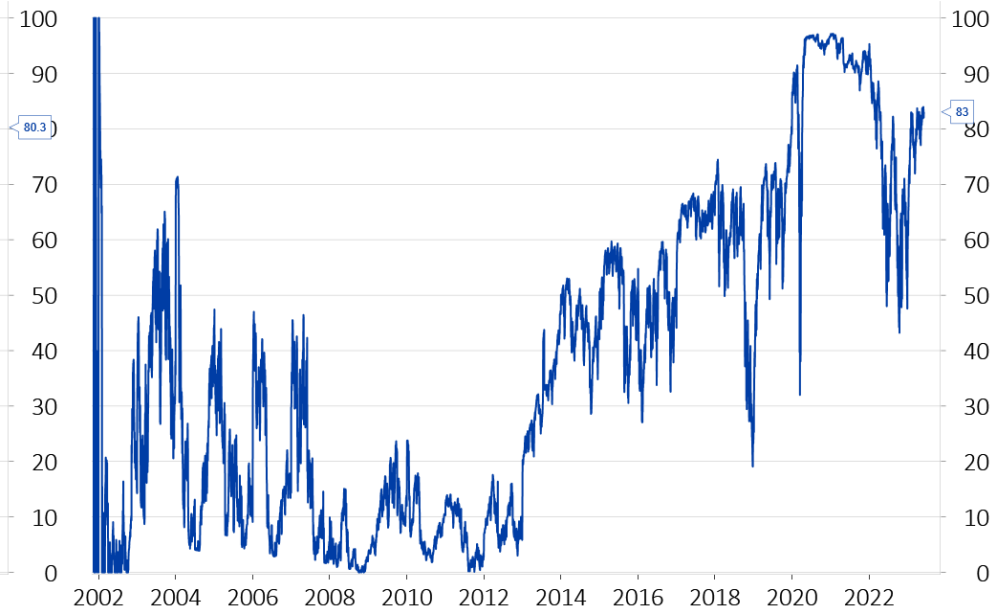
Expanding window, total history, as at 6/2/2023



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NASDAQ: Fwd P/E Percentiles

Expanding window, total history, as at 6/2/2023

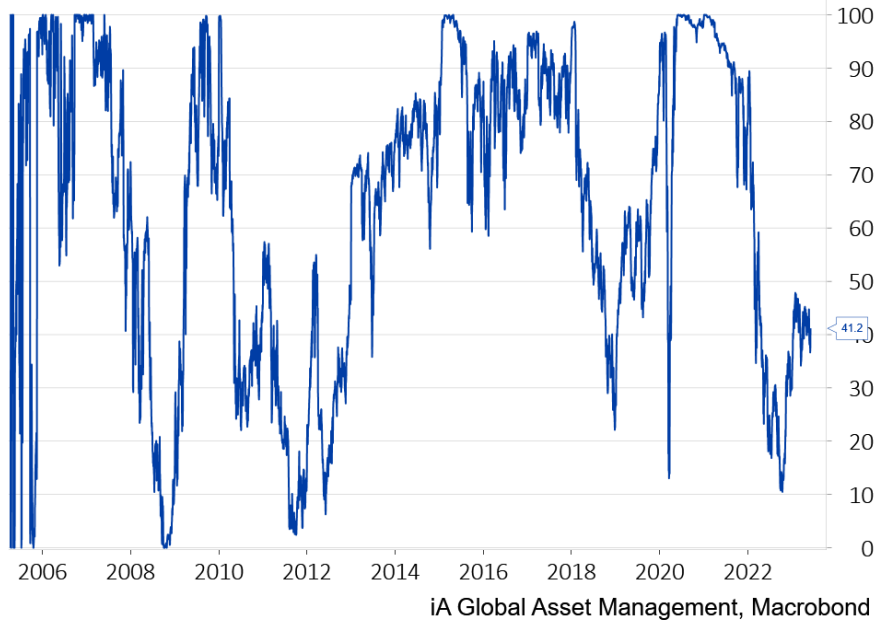


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Stock market valuations support looking outside of the U.S. for opportunities

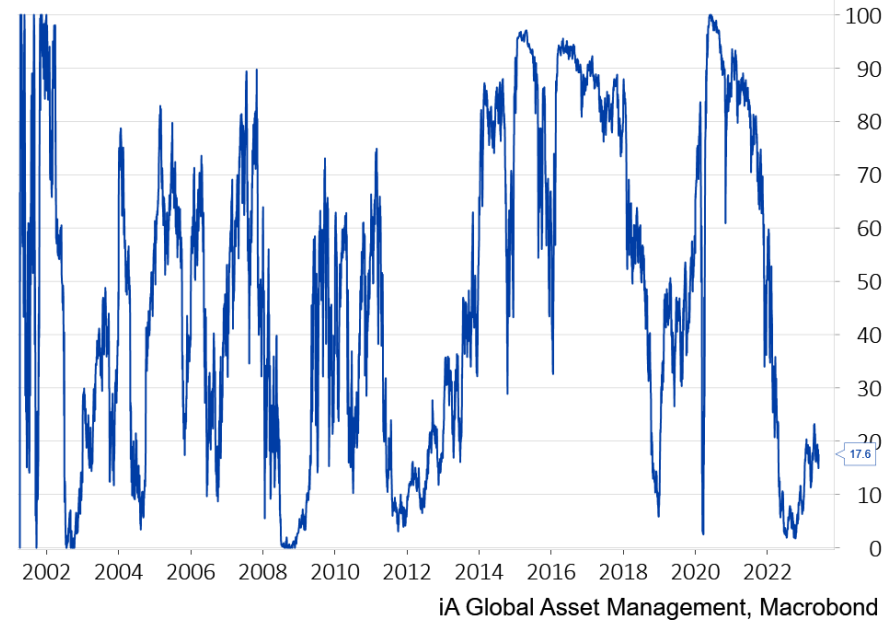
MSCI ACWI Ex-U.S.: Fwd P/E Percentiles

Expanding window, total history, as at 6/2/2023



S&P/TSX: Fwd P/E Percentiles

Expanding window, total history, as at 6/2/2023



Money market has not been this attractive in 15 years!

U.S.: Money Market Fund Assets, Total

Investment Company Institute (ICI), Change YoY, as at 5/29/2023



Our current positioning

Global Asset Allocation Views (June 2023)

| | – | - | N | + | ++ | Δ |
|------------------------------|---|---|---|---|----|---|
| Asset Classes | | | | | | |
| Money Market | | | | | | |
| Fixed Income | | | | | | |
| Equities | | | | | | |
| Alternatives | | | | | | |
| Relative Equity | | | | | | |
| Canadian Equities | | | | | | |
| U.S. Equities | | | | | | |
| International Equities | | | | | | |
| EM Equities | | | | | | |
| Relative Fixed Income | | | | | | |
| Government Bonds | | | | | | |
| IG Corporate Bonds | | | | | | |
| HY Bonds | | | | | | |
| Other | | | | | | |
| Oil | | | | | | |
| Gold | | | | | | |
| USD (trade weighted) | | | | | | |
| CAD/USD | | | | | | |

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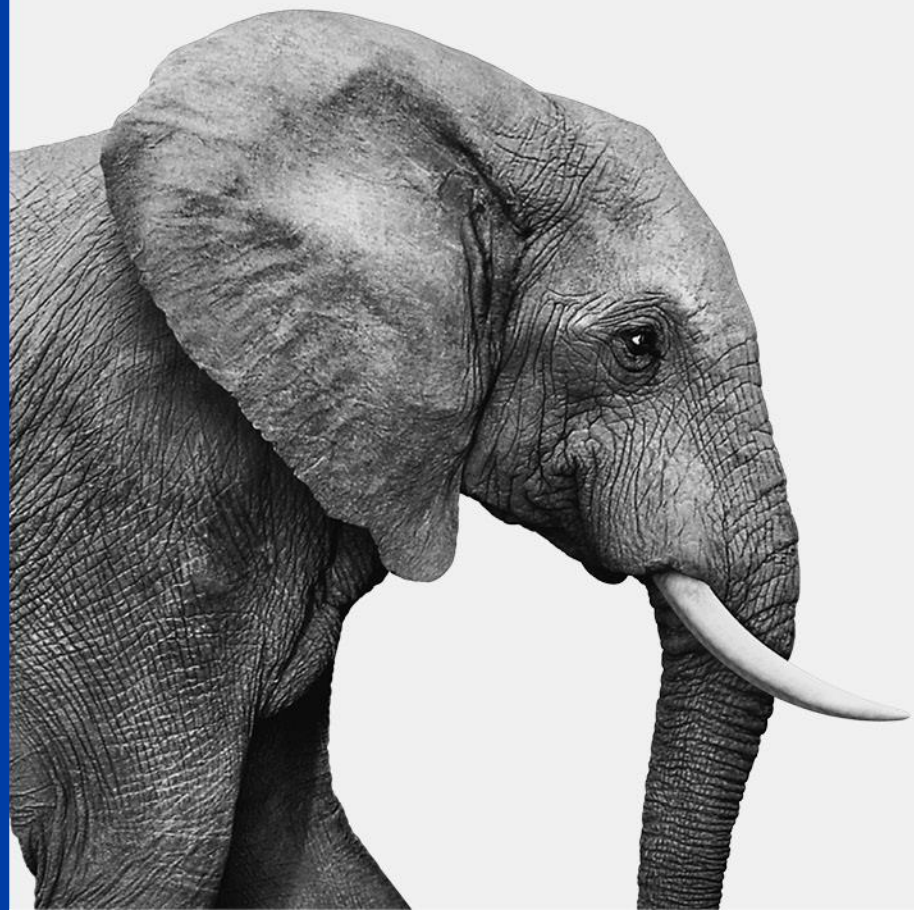
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