June 2023

May was a mixed bag for investors. Here's a summary of the notable events that steered the markets.

Monthly market developments

- Equities were broadly flat as the banking sector, falling oil prices and the U.S. debt ceiling drama in Congress weighed on performance. The main exception was the technology sector which continued its positive run in 2023. YTD, U.S. Canadian and global equities are still in positive territory.
- U.S. and Canadian bond yields rose on uncertainty over the U.S. debt ceiling negotiations, the demise of another U.S. regional bank, First Republic, and a better-than-expected economic backdrop.
- U.S. chipmaker Nvidia Corp. announced earnings that surpassed estimates by more than 50%, highlighting strong demand for its computer chip technology which is used to power AI applications.
- Japanese equities experienced a resurgence, with local stock indices reaching their highest level in 33 years. This growth is primarily driven by increasing demand from foreign investors.
- It was a tough month for Canada's big banks with four of the top five releasing earnings revealing profits were down compared to a year ago, though in absolute terms performance remained resilient.
- Job creation in the U.S. and Canada continued to be strong. The U.S. added approximately 253,000 new jobs and Canada 41,000 jobs. U.S. house prices also posted their largest annual drop in 11 years.
- A number of major central banks coordinated with the Fed in raising interest rates by 25 basis points in May, including the Reserve Bank of Australia, European Central Bank and Bank of England.
- The U.S. inflation picture continues to improve, confirmed by the latest headline CPI falling 1% to 4.9% year-over-year, driven by falling shelter and services prices. This outcome provided the Fed with comfort its rate hiking policy is having the desired effect. The Fed also raised its target interest rate by another 25 basis points to 5-5.25% with Governor Powell hinting further hikes would now probably be on hold.
- Canadian headline inflation came in slightly above last month at 4.4% year-over-year, the first increase in headline consumer inflation since June 2022, as energy prices and elevated mortgage-interest costs overshadowed improvements in food prices. Governor Macklem reconfirmed the Bank of Canada's rate hiking pause. The bank is watching for signs of a labor slowdown, wage growth to ease, corporate price behavior to normalize and near-term inflation expectations to fall.

How does this affect my investments?

The probability of a global economic slowdown is rising due to tightening credit conditions, which should lead to decreased spending and lower prices. It's important to note this is necessary to tame inflation and is somewhat being engineered by central bank rate hikes. While overall the economic data does point towards a slowdown, the economy seems in better shape than many economists and other market experts expected, which is quite promising. A "soft landing" scenario would be positive for most asset classes.

Regardless of where we are in the market cycle, it's important to take a disciplined approach to investing and stay focused on your long-term goals. This strategy helps you keep your emotions out of investing, typically buying high and selling low like many investors do. Ongoing monitoring and reviewing of your portfolio also ensures it remains on track. Diversifying investments reduces risk as well.

We are here to support you in achieving your financial goals. Please do not hesitate to contact us, 250-785-9603.

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