

May 2023 Market Newsletter

April 28, 2023

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Opening Comments

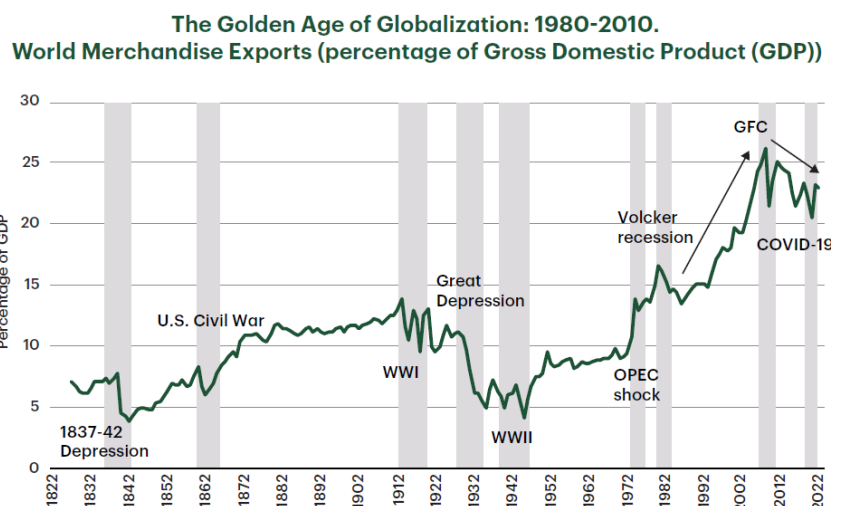
- April was a much calmer month for financial headlines than March. Headlines surrounding bank failures have generated lots of questions, but the US banking system overall is soundly capitalized, and liquid, and the situation has begun to stabilize.
- The personal tax filing deadline is now in our rear-view mirror, but should there be any information you are still missing for your portfolios, please do not hesitate to reach out to us right away!

Noteworthy News

- The Bank of Canada again held interest rates steady at 4.50% on April 12th. Meanwhile, on March 22nd, the US Federal reserve raised its target range 25 basis points to a range of 4.75% to 5.00%. Both institutions have started to get a hold of the inflation problem, but are in a process of reviewing exactly how much is enough in terms of interest rate hikes.
- Canadian consumer price inflation took a big step down in March to 4.3% year-on-year from 5.2% in February. US inflation rose 5.0% year-on-year vs 6.0% in February. These are positive signs that the Central Banks are starting to resolve the inflation problem.

Globalization

- Globalization has advanced during the last two centuries, with the most dramatic acceleration occurring from 1980 to 2010. There were several catalysts for this surge, most notably the dissolution of the Soviet Union in 1991, which marked an end to the Cold War.
- Unfortunately, recent events have demonstrated that supply chains can also be extremely risky and vulnerable. Witnessed in particular through the dislocations associated with the COVID-19 pandemic, the rise of a more assertive China under President Xi Jinping, and the Russian invasion of Ukraine, which reminded Europe that energy security is critical to national security.
- These events have made it painfully clear that there is often an acute trade-off between economic efficiency and national security.
- Consequently, the globalization movie is now being played backward. The result is that, for many essential products, companies are now placing security and reliability at the forefront of their strategic planning.
- They have realized it is crucial to have multiple, trustworthy trading partners and in an increasing number of cases have decided to “nearshore” or “friendshore” production.
- TD will continue to evaluate how these trends will impact individual companies as well as broader impacts on economies, and of course ultimately your investment portfolios.

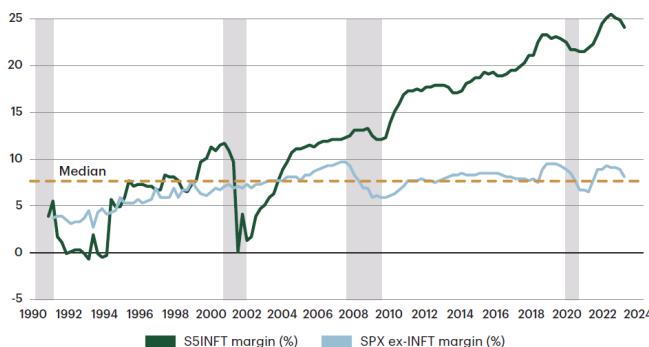


Source: World Bank, Our World in Data, Bloomberg Finance L.P., as at December 31, 2022.

Looking Forward

- Global supply chains are being overhauled to reduce vulnerabilities, with sectors such as Energy and Technology being the most immediately affected. We expect the next decade is likely to look vastly different from the low inflation, zero real interest rate 2010s.
- We continue to expect earnings estimates for Canadian Equities to trend down amid high rates and a slowing economy. We also expect rate hikes to stall in 2023 if inflation continues to decline and anticipate that the Canadian economy to slow. That said, the economy has proven resilient, with employment remaining strong and financial system solid.
- U.S. economic outlook remains weak and could weigh on corporate profits. There is also some uncertainty around the U.S. Federal Reserve’s policy actions as it balances the need to lower inflation with the pressure higher rates are starting to put on the economy.

S&P 500 Index Net Profit Margins



Source: Bloomberg Finance L.P., December 30, 2022.

Closing Thoughts

- The current geopolitical environment continues to have many impacts on portfolios. In addition inflation continues to be a key item that we are monitoring going forward. If you have any questions about these items or how we factor them into portfolio construction, please do not hesitate to reach out to us. - Andrew & Nathan

| Market Performance (Source: Bloomberg) | | | |
|--|--------------|----------------|------------|
| | Apr. 28 2023 | Dec. 31, 2022 | YTD Change |
| Equity Index Update | | | |
| S&P 500 | 4169 | 3840 | +8.6% |
| S&P/TSX Comp. | 20638 | 19385 | +6.5% |
| MSCI EAFE | 2144 | 1944 | +10.3% |
| Government Bond Yields | | | |
| U.S. 10-yr Treasury | 3.42 | 3.88 | -0.46 |
| Canada 10-yr Bond | 2.83 | 3.30 | -0.47 |
| Foreign Exchange Cross Rates | | | |
| C\$ (USD per CAD) | 0.74 | 0.74 | 0.0% |
| Euro (USD per EUR) | 1.10 | 1.06 | +3.8% |
| Official Policy Rate Targets | | | |
| Central Banks | | Current Target | |
| Federal Reserve (Fed Funds Rate) | | 4.75% - 5.00% | |
| Bank of Canada (Overnight Rate) | | 4.5% | |

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