MACKENZIE Investments

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Weekly Market Snapshot

For the week ending March 17, 2023

Equities

Local currency, price only, % change

	2023-03-17	Week	3M	YTD	1 Yr
S&P/TSX Composite	19,388	-2.0%	-0.3%	0.0%	-10.9%
S&P/TSX Small Cap	688	-1.7%	1.5%	0.1%	-17.2%
S&P 500	3,917	1.4%	1.7%	2.0%	-11.2%
NASDAQ	11,631	4.4%	8.6%	11.1%	-14.6%
Russell 2000	1,726	-2.6%	-2.1%	-2.0%	-16.4%
UK FTSE 100	7,335	-5.3%	0.0%	-1.6%	-0.7%
Euro Stoxx 50	4,065	-3.9%	6.9%	7.2%	4.6%
Nikkei 225	27,334	-2.9%	-0.7%	4.7%	2.6%
MSCI China (USD)	64	1.9%	-0.3%	-0.6%	-10.7%
MSCI EM (USD)	952	-0.4%	-0.6%	-0.5%	-15.1%

Fixed income

Total return, % change

	2023-03-17	Week	3M	YTD	1 Yr
FTSE Canada Universe Bond Index	1,094	0.7%	0.9%	4.1%	-1.5%
FTSE Canada All Corporate Bond Index	1,285	0.2%	1.0%	3.5%	-0.5%
Bloomberg Canada High Yield Index	162	-0.4%	1.0%	1.4%	-0.5%

Interest rates - Canada

Change in bps

	2023-03-17	Week	3M	YTD	1 Yr
3-month T-bill	4.37	5	40	26	396
GOC bonds 2 yr	3.54	-27	10	-10	241
GOC bonds 10 yr	2.78	-35	11	-31	106
GOC bonds 30 yr	2.91	-28	8	-37	67

Currencies and Commodities

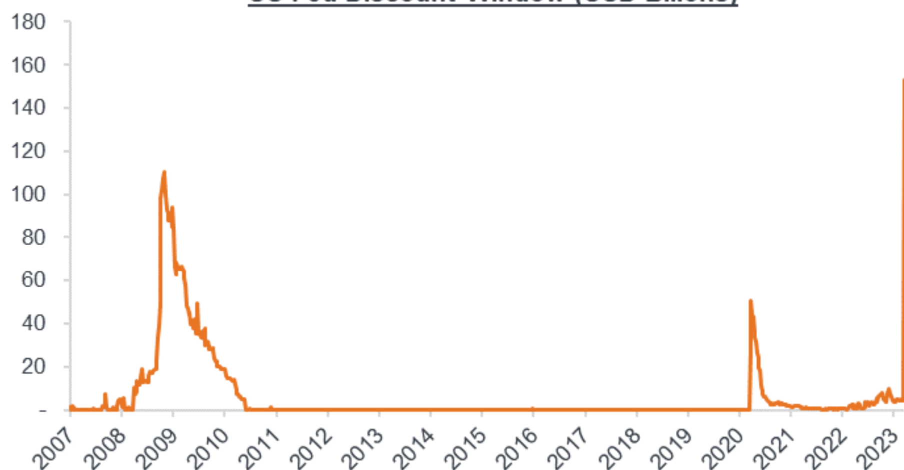
In USD, % change

	2023-03-17	Week	3M	YTD	1 Yr
CDN $	0.728	0.7%	-0.2%	-1.3%	-8.0%
US Dollar Index	103.71	-0.8%	-0.9%	0.2%	5.9%
Oil (West Texas)	66.74	-13.0%	-10.2%	-16.8%	-35.2%
Natural Gas	2.34	-3.8%	-54.6%	-40.3%	-36.1%
Gold	1,989	6.5%	10.9%	9.1%	2.4%
Copper	3.89	-3.4%	3.4%	2.0%	-16.4%

Canadian sector performance

Price return, % change

	Week	YTD
Energy	-8.8%	-8.9%
Materials	4.8%	4.1%
Industrials	0.6%	4.6%
Cons. Disc.	-1.3%	-1.2%
Info Tech	4.0%	19.1%
Health Care	-2.1%	1.3%
Financials	-4.4%	-2.6%
Cons. Staples	-0.7%	-0.5%
Comm. Services	0.4%	0.5%
Utilities	3.7%	3.7%
Real Estate	-1.9%	3.6%



Markets entered the week on edge after the failures of both Silicon Valley Bank and Signature Bank.Regulators moved to seize both banks' assets and subsequently pledged to backstop both insured and uninsured depositors while shareholders were essentially wiped out. In a further attempt to ease market fears the Federal Reserve(Fed), Federal Deposit Insurance Corporation(FDIC), and US Treasury introduced emergency measures which provided lending facilities through the Fed discount window and a new Bank Term Funding Program(BTFP). The two facilities allowed eligible financial institutions to pledge bonds at par value as collateral – a measure preventing banks from selling assets at big losses. Despite these actions, markets remained on edge. Bank stocks took another leg down when news broke late in the week that US banks borrowed a record $152.9 billion from the discount window(see chart) and an additional $11.9 billion from the BTFP. Regional bank shares as measured by the KBW Regional Bank Index finished a volatile week of trading down nearly 15%. Meanwhile in Europe things took a turn for the worse as Credit Suisse which has been under stress for some time learned one of its largest shareholders would not provide more capital. This sparked a 24% one day rout in the stock, bringing its one-year loss to 76%. In attempt to stop the bleeding the Swiss National Bank put up US$50 billion in financing. However, this proved to be inadequate as markets continued to push the stock lower and credits default spreads wider. The end result being a forced sale announced on Sunday to Union Bank of Switzerland(UBS). Backed by various guarantees from Swiss authorities UBS agreed to purchase Credit Suisse in an all stock deal for US$3.2 billion, a 59% discount to Friday's close and a rather auspicious end to a major global financial institution with a 167 year history.

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May you live in interesting times

As strains continued to grow in the global financial system, central bankers and governments took further steps over the weekend to try and restore confidence. Credit Suisse was pushed into an arranged marriage with Union Bank of Switzerland in an all-stock deal that will see Credit Suisse shareholders take a 59% haircut from Friday's close on equity that was already down 75% from this time last year. However, the shareholders were not even the hardest hit, holders of Credit Suisse's additional tier 1 securities (AT1s) are being deemed worthless by the Swiss Financial Market Supervisory Authority. AT1s were created in the wake of the Global Financial Crisis(GFC) as an additional buffer of capital between shareholders and bondholders. The controversial move to wipe out the holders of Credit Suisse's AT1 securities is sure to create volatility in the $275 billion AT1 market. In addition to the bailout of Credit Suisse, the Federal Reserve(Fed), European Central Banks(ECB), Bank of England, Bank of Japan, Swiss National Bank, and Bank of Canada announced a coordinated effort to shore up liquidity in US dollar swap arrangements. The central banks view this program as "an important liquidity backstop to ease strains in the global funding markets." The squeeze arises when banks outside of the US have US dollar obligations and less access to dollar funding.

The actions over the weekend came after a volatile week of trading, that saw mixed results in equity markets. The S&P500 and NASDAQ both traded higher(1.4% and 4.4%, respectively) helped by gains in interest-sensitive sectors of communication services, information technology, and utilities. While the S&P/TSX Composite and European markets suffered losses ranging from 2 to 5%. Canadian equities were hurt by its large weighting in financials and energy. With growing uncertainty around economic growth, oil was also under pressure, dropping 13% on the week and finishing at a 52 week low. Outside of the US regional banks perhaps the most dramatic moves occurred in the bond markets. The fixed income market has moved quickly particularly in the sovereign bond market to reprice the expected path of monetary policy. In the US, the 2 year treasury yield has dropped over 124 bps from its March 8th high and the 10 year yield is down 56 basis points over the same period. These are massive and historic moves. In a matter of days swaps traders have gone from pricing the terminal Fed Funds Rate at 5.75% and no rate cuts until late 2024 to a terminal rate of 5% and cuts starting in Q3 of 2023. We have also seen credit spreads widen but the price damage has been muted by the rapid decline in government bond yields.

Central Banks are now in a difficult position in the face of concerns around financial stability whilst trying to balance inflationary pressures and economic growth. The ECB raised policy rates by 50 bps but removed all forward guidance. They acknowledged uncertainty has increased, further actions will be data dependent, and they are monitoring conditions closely and "stand ready to respond as necessary to preserve price stability and financial stability." The Fed is set to meet on March 21st and 22nd . Although headline CPI came largely in-line, pressure in core prices persist and the labour market remains tight which will test the Fed's resolve in its commitment to reach its 2% inflation target. Our view is they will raise rates by 25bps and likely have similar language as the ECB in terms of data dependency and willingness to act to preserve stability. It is also important to note that at this point the issue has been a matter of liquidity and confidence not solvency. Although credit losses have been increasing at the margin we have not seen a spike in losses. A situation that warrants close monitoring in the weeks and months ahead.

Market conditions continue to evolve and the situation remains fluid. The events of the last couple weeks are a reminder of the importance of a well diversified portfolio.

The week in review

- The US Federal Reserve, US Treasury, and Federal Deposit Insurance Corporation combine to provide liquidity to all eligible financials by way of the discount window and a new "Bank Term Funding Program" which allows banks to pledge eligible assets without marking to market.
- Swiss National Bank provides US$50 billion in credit facilities to beleaguered Credit Suisse(CS), followed days later by the announcement the UBS has offered to acquire CS for US$2 billion.
- SVB Financial the parent company for Silicon Valley Bank files for a court-supervised reorganization under Chapter 11 Bankruptcy Protection
- Canadian February housing starts came in better than expected at 244k while existing home sales advanced 2.3% compared to forecast of 3%
- US Consumer Price Index (CPI) rose 0.4% in February in line with forecast and down modestly from the 0.5% in January, Core CPI ex food and energy rose a higher than expected 0.5% and ahead of January's 0.4% increase. On a YoY basis headline CPI eased to 6% from 6.4% the previous month and in-line with expectations. While Core CPI advanced 5.5% YoY, in-line with forecast and slightly below January's 5.6% advance.
- US Producer Price Index(PPI) was down MoM -0.1% versus a forecasted 0.4% rise and below a downwardly revised 0.3% gain in January. Core PPI also eased coming flat in February compared to 0.4% forecast and downwardly revised 0.1% rise in January.
- US Retail sales slid in February at -0.4% MoM in line with expectations but well below January's upwardly revised 3.2% gain.
- US Initial Weekly Jobless Claims were lower 192k well below the 205k forecast and 212k print the previous week.
- In the US both housing starts and building permits came in ahead of expectations and higher than January prints at 1,450k and 1,524k, respectively.
- European Central Bank(ECB) raised Main Refinancing, Marginal Lending Facility, and Deposit Facility Rates by 50bps and signaled future path will be data dependent.
- Euro Area Industrial production for January came in ahead of expectations 0.7% MoM compared to -1.3% in December.
- In China February Industrial Production rose 2.4% YoY versus a forecast of 2.6% and down from 3.6% in December
- China's February Retail Sales advanced 3.5% YoY in-line with expectations and well above the -0.2% print in December
- Peoples Bank of China(PBoC) lowered the Reserve Requirement Rate to 10.75% from 11% to support lending.

The week ahead

- Canadian February Consumer Price Index
- Canadian January Retail Sales
- US Federal Open Market Committee monetary policy announcement
- US existing home sales, new home sales, and durable goods orders
- Bank of England monetary policy announcement

Mackenzie Global Investment Committee Special Insert

In light of the recent events in the US regional banking sector and the mounting concerns around Credit Suisse, the Mackenzie Global Investment Committee(GIC) held an impromptu meeting on March 15th to assess the current market environment and whether any immediate action should be taken.

In the near term, we believe volatility will remain elevated and is the primary driver for our rationale to maintain a neutral stance in our equity to fixed income positioning. In these types of highly charged environments it is particularly important to not act in haste but rather to take stock of current positioning and assess the risks. The committee is focusing on implications on an intermediate time horizon of 6 to 12 months. To that end prior to these events our view was economic growth was likely to slow and this would result in some downward pressure on margins and earnings, resulting in greater equity volatility. We expected that equities could well remain in a trading range bounded by the October 2022 lows and early February highs. Further, bonds would likely provide some ballast to the equity volatility. To some degree this is what has played out since the GIC meeting in February but we certainly did not predict the current series of events in the global banking sector. We do think the risk of recession occurring in the next six to 12 months has increased. Notwithstanding the decline in market yields, financial conditions have tightened materially, there will be pressure on bank margins, and the availability of credit will be reduced which undoubtedly will be a headwind for economic growth and in turn risk assets. However, that needs to be balanced against the pending path of monetary policy. If the market becomes confident that the Fed and other central banks will indeed pivot this will support risk assets to some extent. We are monitoring conditions closely and will have further commentary post our upcoming meeting on March 23rd which will have the benefit of increased clarity from the Fed’s response to recent events.

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