

February in Review

Stocks followed a strong January with a reversal in February, losing some of the gains from the previous month. After a period of growing confidence in the possibility of a “soft landing”, which would feature a gently slowing economy and declining inflation, in February investors increasingly worried about continuing high inflation, and an economy resilient enough to encourage continued interest rate hikes from central banks. Canadian stocks ended the month down 2.45%, with eight of eleven sectors in negative territory and commodities broadly lower. Gold and copper dipped 5.58% and 3.42% respectively, and WTI crude oil slid 2.68%, although natural gas gained 0.22%. U.S. stocks declined 2.45% in U.S. dollar terms, with ten of eleven S&P 500 sectors negative for the month. Canadian bonds moved lower by 1.99% on signs of lingering inflation and interest rates remaining at elevated levels for the near future. Emerging Market equities also declined 6.48%, driven by losses in India and South Korea.

Here are some of February’s most notable events:

Lingering inflation proved sticky. While inflation continued to decline from its highs, it remained at an uncomfortably high level. Recent Canada Consumer Price Index (CPI) data showed January inflation of 5.9%, on a year-over-year basis. In the U.S. recent CPI data showed inflation at 6.4% in January, above expectations of 6.2%, driven by upward pressure from food gasoline, and shelter. Inflation has been declining a little slower than had been anticipated as recently as January, and investors are now rethinking assumptions about further interest rate hikes from central banks that appear committed to taming inflation.

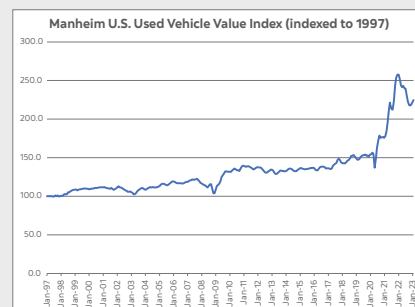
The economy showed signs of resilience. A series of economic data points showed impressive resilience in the economy. A manufacturing purchasing managers’ index (PMI) report showed that Canada’s manufacturing sector expanded in January. The index was 51.0, up from 49.2 in December, and better than expectations of 49.4. The Eurozone composite PMI was impressive, moving to its highest level in 9 months, at 52.3 in February with strong growth in the services sector driven by a rebound in financial services activity and tourism. The labour market also showed continued strength, with U.S. initial jobless claims dropping unexpectedly, and Canada reporting blowout January jobs growth.

Central banks committed to reigning in inflation. There were more interest rate hikes in February, including a 25 basis points hike from the U.S. Federal Reserve, and 50 basis points hikes from both the Bank of England and the European Central Bank. While the Bank of Canada has suggested the possibility of a rate pause at its next meeting, officials from other major central banks have indicated they are likely to continue hiking and will likely keep rates elevated for a longer period of time than had previously been expected, particularly given the recent data on inflation and the economy.

Did you know?

Rising prices for used cars was a case example of the effects of inflation over the past three years, with prices increasing 87.9% from April 2020 to January 2022 in the United States. Prices peaked at that time and have since been trending lower, now down 12.8% year-over-year. However, the January number shows an uptick with prices increasing by 2.5% month-over-month.

While this may be a blip, January was the first month with increasing prices since last spring. As investors, analysts, and central bankers look for confirmation that inflation is trending down, they will look at the price trend for a variety of goods to provide an indication of inflation.



Source: Manheim Consulting

INDEX†	1 Mth	Change (%) YTD	1 Yr	Index Level
Treasury Bill (FTSE Canada 60 Day T-Bill)	0.33	0.68	2.37	170
Bonds (FTSE Canada Universe Bond)	-1.99	1.04	-6.96	1,062
Canadian Equities (S&P/TSX Composite)	-2.45	4.78	-1.13	20,221
U.S. Equities (S&P 500, US\$)	-2.45	3.68	-7.72	3,970
Global Equities (MSCI World, US\$)	-2.36	4.58	-6.84	2,715
Emerging Markets (MSCI Emerging Markets, US\$)	-6.48	0.91	-14.97	964

CURRENCIES†	1 Mth	Change (%) YTD	1 Yr	Exchange Rate
C\$/US\$	-2.49	-0.68	-7.13	0.73
C\$/Euro	0.13	0.49	-1.49	0.69
C\$/Pound	-0.08	-0.08	3.66	0.61
C\$/Yen	2.07	3.13	9.99	99.79

COMMODITIES (US\$)†	1 Mth	Change (%) YTD	1 Yr	Price
Gold Spot (\$/oz)	-5.58	-0.30	-4.63	1,837
Oil WTI (\$/barrel)	-2.68	-4.32	-2.53	77.05
Natural Gas (\$/MMBtu)	0.22	-29.87	-18.87	2.75

† Total Return, as at February 28, 2023. Indices are quoted in their local currency. Source: Bloomberg

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