

Monthly Newsletter

BMO Private Investment Counsel Inc.



Monthly recap, February 2023

By Marc Bellefeuille

Financial markets retreated somewhat in the month of February following one of the strongest Januaries on record. Despite the modest pullback, most index are look poised to deliver solid returns in the first quarter and that could be an indication of how 2023 may play out.

The tech heavy NASDAQ composite continues to lead the way in the American markets returning (-1.23%) in February and 9.45% on a year-to-date basis (YTD). The broader S&P 500 returned (-2.78%) and 3.4% YTD. The Dow Jones Industrial Average (DJIA) returns (-4.31%) leaving it down (-1.48%) on a YTD basis. The major contributor remains the technology sector while utilities, health care and energy stocks remain the main detractors.

Here in Canada the TSX composite declined by (-2.82%) but remains positive for the year with a gain of 4.31% YTD. The decline was largely due to lower commodity prices and some malaise in the financial sector during the month.

Global markets fared better for the most part than their North American counterparts in February. The EURO Stoxx 50 returned 1.8% which brings it to 11.76% YTD. The Nikkei 225 trended higher as well by 0.46% bring it to 5.18% YTD. The Hang Sang index in Hong Kong bucked the trend mind you. Declining 10.4% yipping our nearly all it's gains YTD.

On the economic front Federal reserve held it's first FOMC meeting in 2023 on January 31st- February 1st. They raised the policy rate by 0.25% (25 Basis points) to 4.5%-4.75%, a move widely expected by the markets. The committee reaffirmed its commitment to bringing down inflation to the target of 2%. A move seen many as unlikely without causing a recession. The rate of inflation declined from 6.5% in February. However, the report came in hotter then forecasted at 6.4% with rising shelter and fuel costs to blame. Employment remains robust in the US. Unemployment dropped unexpectedly to 3.4% and initial jobless claims also came in under expectations during the month putting added pressure on the Fed to continue raising rates.

The Bank of Canada (BoC) did not have a formal policy meeting in the month of February and therefore rates remain as they were in January. The BoC did however have a lot to chew on as data during the month continued to roll in. Employment rose by a staggering 150,000 jobs of which 121,000 were full time in the month of January, taking unemployment down to 4.9%. Economist were divided on whether they saw rates remaining on hold for the rest of 2023 after the report, but Governor Tiff Macklem reassured market participants that the BoC was taking a conditional pause on February 16th. The next meeting of the BoC is set for March 8th, 2023.

The ECB met on February 2nd announced a raise of 0.50% (50 Basis points) in their policy rate at that time. The Bank of Japan (BoJ) did not meet in February, however inflation in Japan rose to 4.2% which is the highest level in 41 years. This is leading many economists to surmise that a hike in the policy rate will come in March.

Fixed income markets here in North America reacted to the news as one would expect with a deepening of the inversion of the yield curve. The 2/10 inversion widened to 0.69% (69 basis points) during the month in the US. In Canada the inversion deepened at the beginning of the month, but the trend reversed as the yield curved steepened a tad by the end of the month. An early indication that overall inflationary pressures are beginning to abate.



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World Equity Indices February 28th 2023

Index	Price	QTD	YTD
North American			
S&P/TSX Composite	20767.4	4.31%	4.31%
S&P 500	4076.6	3.40%	3.40%
DJIA	34086	-1.48%	-1.48%
NASDAQ	11584.6	9.45%	9.45%
Global			
MSCI EAFE	2108.3	5.81%	5.81%
MSCI Emerging Markets	1044	1.14%	1.14%
FTSE 100	7771.7	5.70%	5.70%
Nikkei 225	27327.1	5.18%	5.18%
Hang Seng	21842.3	0.02%	0.02%

Fixed Income

Canada	Yield	QTD	YTD
Overnight	4.50%	0.25	0.25
1 Year	4.53%	-0.03	-0.03
2 Year	3.75%	-0.3	-0.3
5 Year	3.03%	0.05	0.05
10 Year	2.92%	-0.05	-0.05
30 Year	2.97%	-0.07	-0.07
US			
Fed Funds Target Rate	4.75%	0.25	0.25
1 Year	4.66%	0	0
2 Year	4.20%	0.04	0.04
5 Year	3.62%	0.02	0.02
10 Year	3.51%	0.01	0.01
30 Year	3.63%	-0.01	-0.01

¹ Index and return data provided by FactSet February 28th, 2023. All rights reserved.

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