Big Picture

Investors analyze inflation data

North American equity markets finished mixed on Monday as investors considered what a still-tight labour market might mean for the U.S. Federal Reserve Board's ("Fed") next rate announcement. By the close, the Dow gained 101, the S&P 500 rose by 4, while the Nasdaq lost 4 points. In Canada, the TSX added 79 points led by the Health Care sector.

On Tuesday, U.S. equity markets ended mixed again as investors awaited U.S. inflation data due to be released on Wednesday, along with the interest rate decision from the Bank of Canada. By the day's close, the Dow gained 98 points, the S&P 500 ended flat, and the Nasdaq dropped 52 points. In Canada, the TSX gained 146 points.

North American markets fell on Wednesday as U.S. inflation data pointed to another rate hike by the Fed. The Dow lost 38 points by the close, while the S&P 500 fell by 17 and the Nasdaq declined by 103 points, respectively. In Canada, the TSX saw a 32-point rise led by the Real Estate sector.

U.S. equities surged higher on Thursday as expectations grew that the Fed might consider cutting rates later this year amid a pullback in economic conditions. By the close, the Dow rose 383 points, the S&P 500 rose by 54 points and the Nasdaq gained 237 points. In Canada, the TSX added 110 points propelled by the Materials sector.

North American Indexes rise

For the four trading days covered in this report, the Dow gained 544 points to close at 34,030, the S&P 500 climbed 41 points to settle at 4,146, and the tech-heavy Nasdaq rose by 78 points to close at 12,166. In Canada, the TSX climbed 368 points to end at 20,564.

Strategy

Fed staff forecasts a mild recession this year

Minutes of the Federal Open Market Committee's (FOMC) latest meeting indicated a new sense of caution in the wake of U.S. regional bank failures. Some officials deemed a 50 bps increase in the target rate appropriate in the absence of banking sector developments but judged it prudent to implement a smaller hike. A few even considered a pause, but the unanimous decision to hike by 25 bps reflected a compromise. The minutes reiterated Chair Jerome Powell's previous comments that tighter credit conditions would replace the need for a higher peak rate, which would otherwise be necessary to offset robust macroeconomic data. Additionally, the Fed staff now forecasts a mild recession to occur later this year, followed by a recovery over the subsequent two years. As a result, policymakers left their estimate of the terminal rate unchanged, suggesting one additional rate hike for this tightening cycle. The committee also discussed two-sided risks to inflation, with a strong labour market potentially keeping price pressure high and a credit crunch having the potential to slow inflation. The future course of rate hikes will depend on the extent to which financial conditions affect economic activity.

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