

Big Picture

Corporate earnings influence investors' decisions

North American equity markets finished mixed on Monday as investors worked through mixed economic data and focused on upcoming earnings announcements this week. By the close, the Dow gained 66, the S&P 500 rose by 4, and the Nasdaq lost 35 points. In Canada, the TSX declined by 16 points led by the Information Technology sector.

On Tuesday, U.S. equity markets fell sharply amid a negative reaction to mixed earnings results. By the day's close, the Dow lost 345 points, the S&P 500 dropped by 65, and the Nasdaq dropped 238. In Canada, the TSX fell by 237 points.

North American markets finished mixed on Wednesday as investors remained concerned about the banking sector, while the technology-related stocks were boosted by strong earnings from Microsoft Corp. and Alphabet Inc. The Dow lost 229 points by the close, the S&P 500 fell by 16 points while the Nasdaq gained 55 points. In Canada, the TSX saw a 73-point fall led by the Industrials sector.

U.S. equity markets surged higher on Thursday as weaker-than-expected U.S. economic growth suggested the U.S. Federal Reserve Board might be nearing the end of its rate-hiking cycle. By the close, the Dow climbed by 524, the S&P 500 by 79, and the Nasdaq by 288 points. In Canada, the TSX gained 156 points led by the Health Care sector.

North American Indexes end the week mixed

For the four trading days covered in this report, the Dow gained 17 points to close at 33,826, the S&P 500 rose by 2 points to settle at 4,135, and the tech-heavy Nasdaq gained 70 points to close at 12,142. In Canada, the TSX fell by 171 points to end at 20,523.

Strategy

U.S. economic growth slowed in the first quarter while inflation accelerated

The U.S. economy grew at a 1.1% quarter-over-quarter annualized pace in 1Q23, lower than the median consensus estimate of 1.9% and the 4Q22 reading of 2.6%. Tepid business investment and a pullback in inventories were the primary detractors this quarter. Inventories, which can be volatile, detracted 2.3 percentage points from the headline figure. Last quarter, inventory change contributed 1.5 percentage points to growth. Conversely, consumer spending held up better, reflecting gains in both goods and services. Consumption rose by 3.7% this quarter, slightly lower than estimates of 4.0% but higher than 4Q's figure of 1.0%. Overall, this category contributed 2.5 percentage points to the headline reading. Finally, the core personal consumption expenditure price gauge rose more than expected to 4.9% in the quarter, underscoring the persistence of inflation. Overall, the report indicates that the U.S. economy is starting to slow under the weight of high interest rates and inflation. Consumer spending was a major contributor to growth, but its resilience will rely on a strong labour market. If unemployment rises and companies begin to scale back their workforce, consumer spending could come under pressure in subsequent quarters.

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