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CHARTBOOK
Market Comment

Prepared by OceanFront Investment Counsel Inc.

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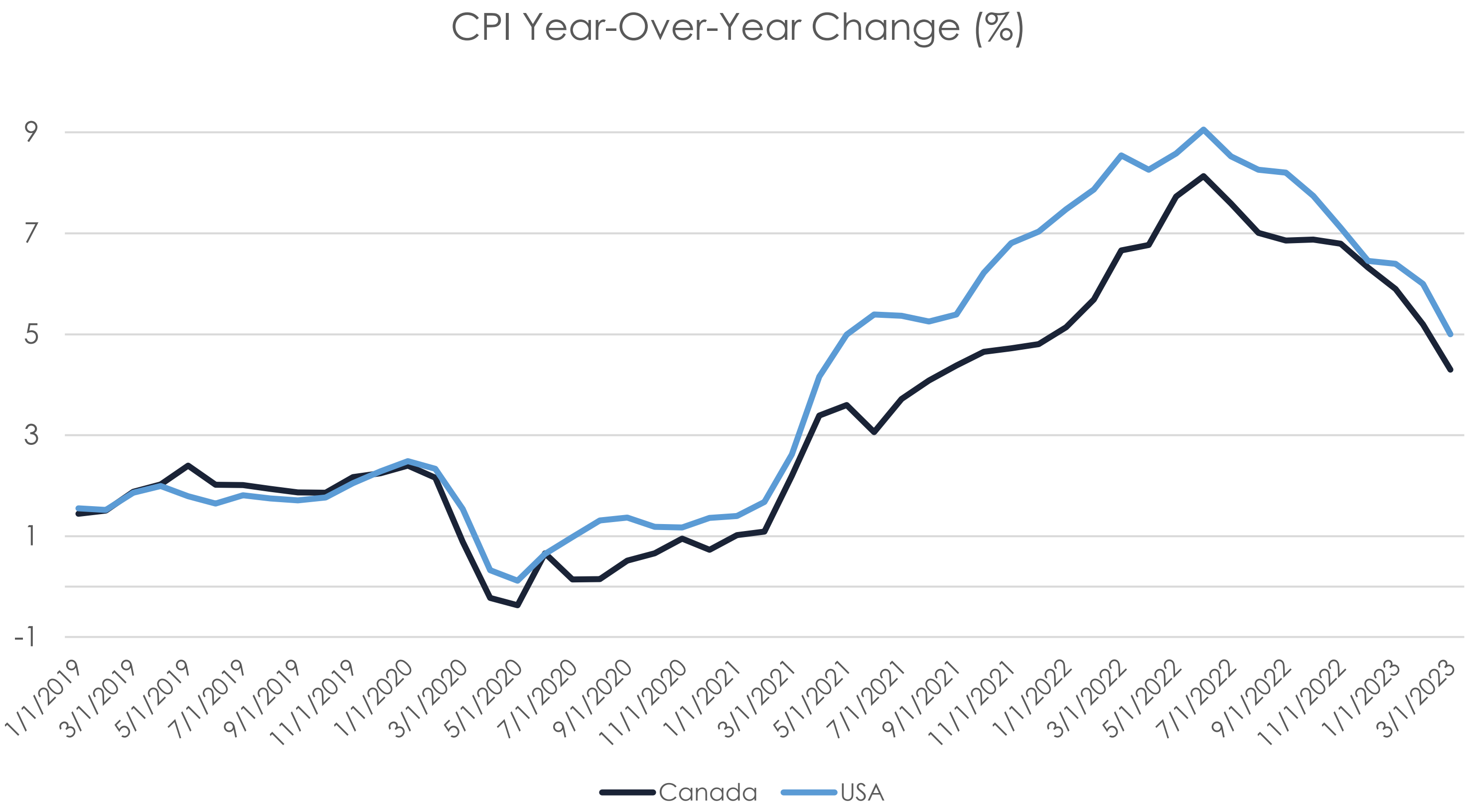
Market Comment

In April and into the beginning of May, distress among US regional banks continued. First Republic Bank was the latest bank to fail and was ultimately bought by JP Morgan Chase. The banking industry continues to consolidate due to the distress among these small-to-midsize banks as larger rivals take them over. Overall, markets continue to be quite resilient through this period, and concerns about the banking sector have been well contained.

The most important story continues to be the outlook for inflation and interest rates. Inflation continues to fall rapidly from its peak, and central banks worldwide appear to be either at or near the end of their interest rate hiking cycles. The large, lingering, unanswered question is whether the tightening of financial conditions due to these rate hikes will induce a recession. The widely held consensus view is that it will, which begs the question: if everyone expects a recession, how much of that recession is already priced into asset prices? After a significant bear market in 2022, it's a fair assumption that a substantial amount of bad news (perhaps including a recession) was priced-in.

Inflation



The most recent data showed inflation at 4.3% YoY in Canada and 5.0% YoY in the USA. The rate of inflation remains in steady decline (almost a nose-dive) in both economies.

 Source: Bloomberg, OceanFront Investment Counsel Inc.

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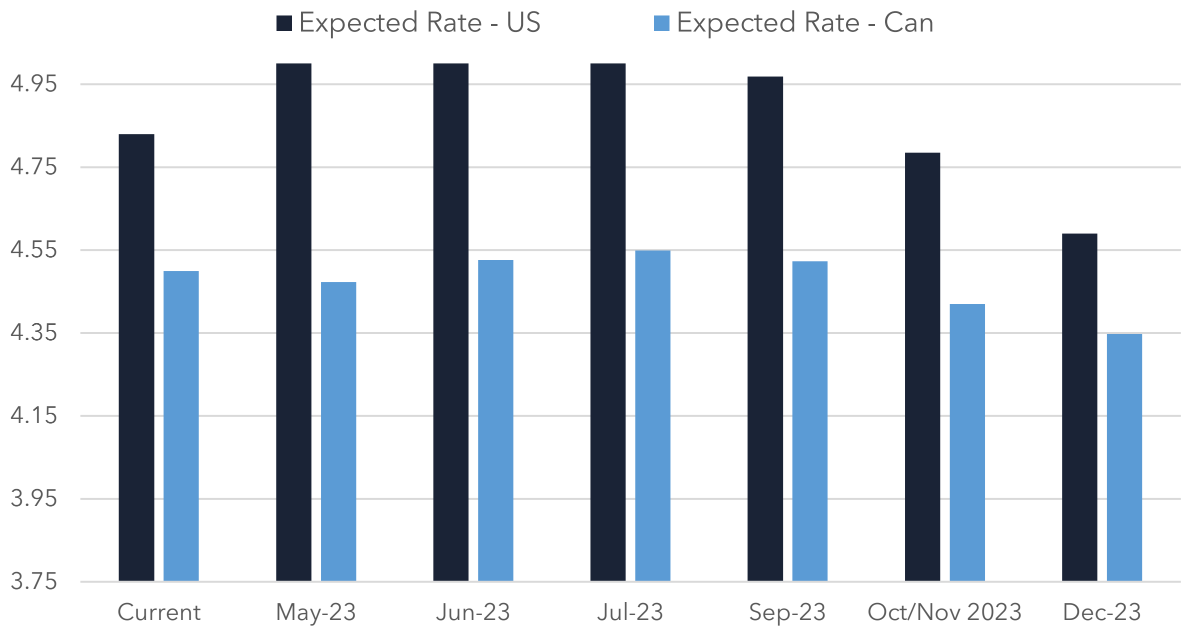
Interest Rate Expectations

US interest rates are expected to decline from here into the end of the year, similar to the outlook for the Bank of Canada's overnight rate.



Data as of May 1, 2023

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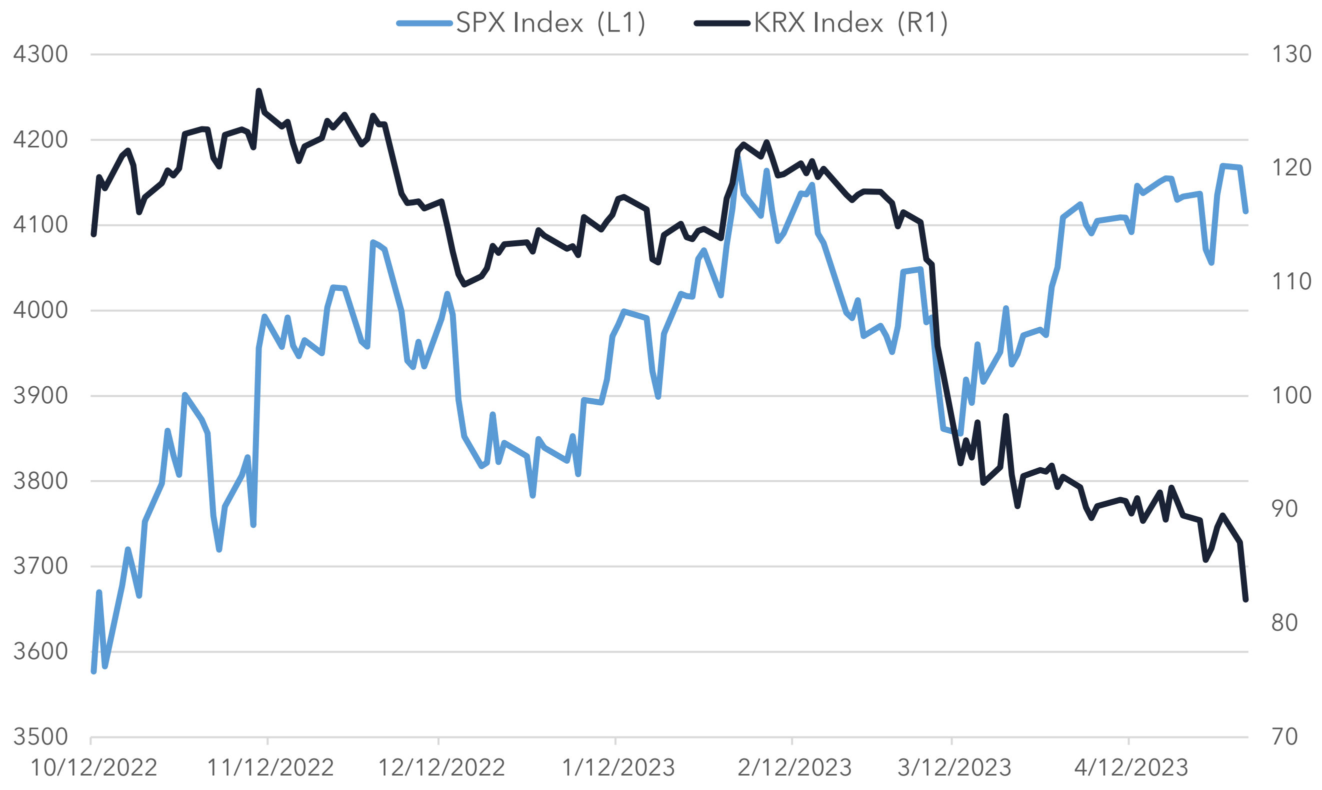
US Regional Banks

As one would expect, the regional bank index (KRX) has seen a large decline since signs of trouble emerged, falling over 30% since February. Interestingly, the S&P500 has been quite resilient since an initial decline, recently recapturing its February high. At this point, the market believes the bank issues are isolated and will not cause broader problems.



 Source: Bloomberg, OceanFront Investment Counsel

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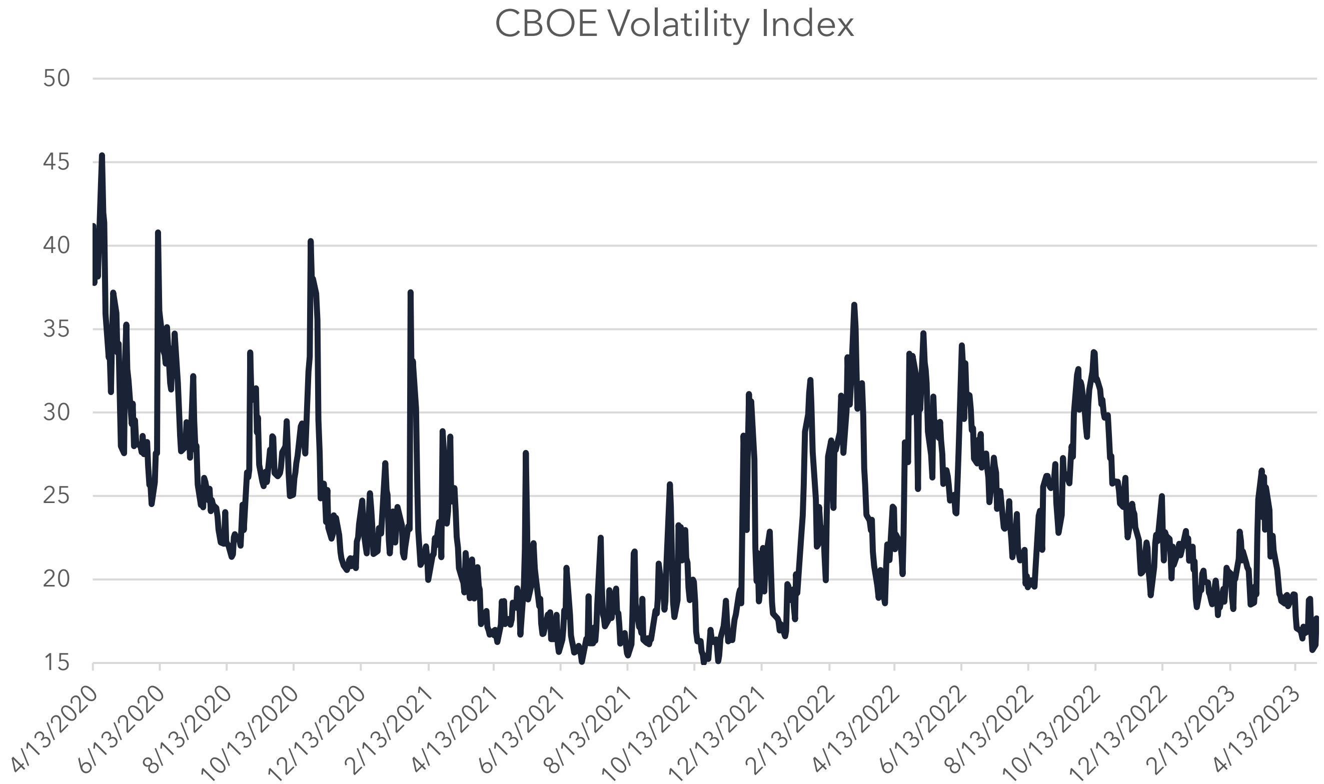
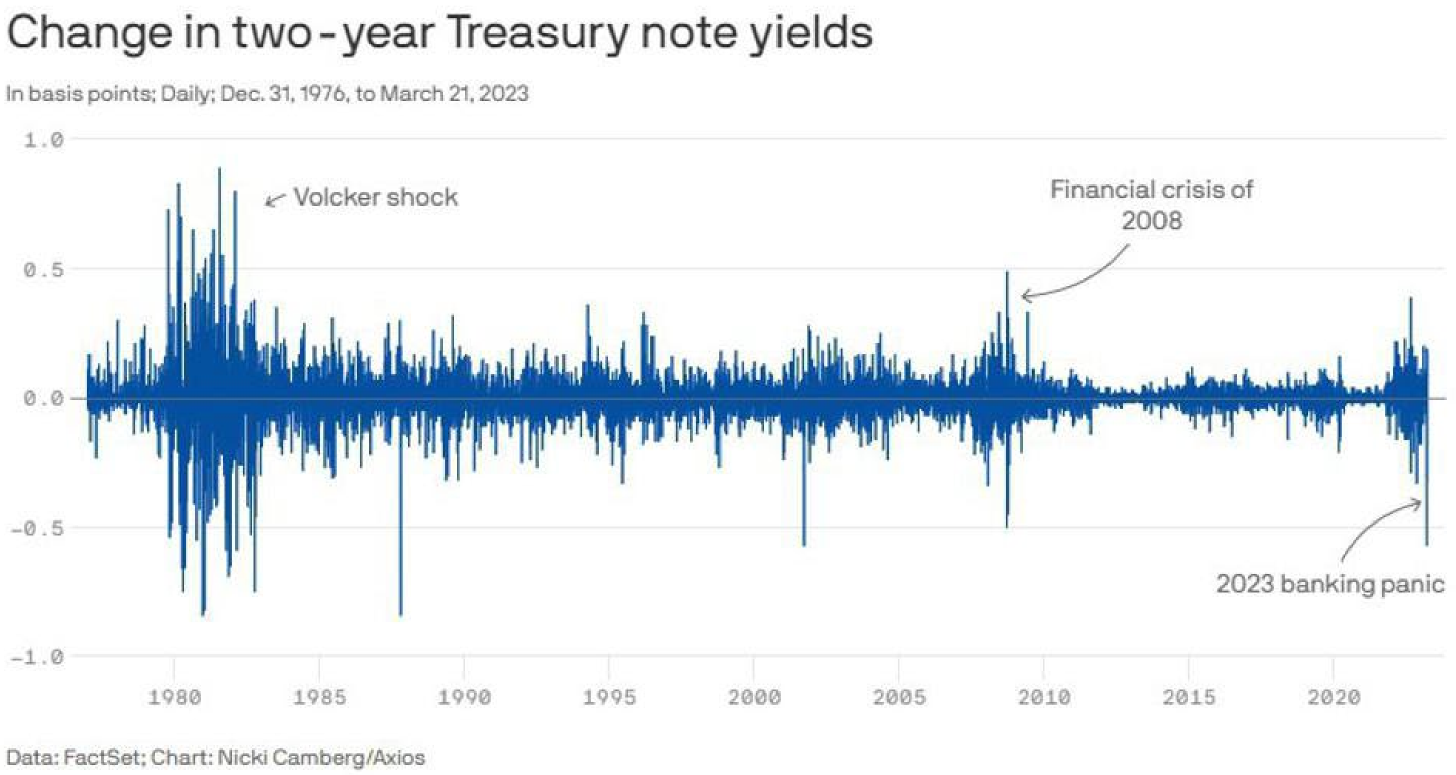
Volatility Index



Stock market volatility has been surprisingly low during this period of banking stress. The CBOE Volatility Index recently reached its lowest level since 2021.

 Source: Bloomberg, OceanFront Investment Counsel Inc.

Bond Volatility



The same cannot be said for the bond markets, which have been highly volatile and erratic as interest rate expectations get re-priced. Based on the daily change in yield on the 2-year US Treasury Note, we have not seen this much bond volatility since the 1980s!

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Seasonality

Sell in May and go away? If it rhymes, it must be good investment advice, right? Maybe not. While the 6-month period from May to October has seen relatively weak returns in data going back to 1950, the average return during this period is still positive. This means if you sold in May and went away until October each year since 1950, you would have missed out on some solid gains.

Sell In May? The Next Six Months Are The Weakest

Various S&P 500 Index 6-Month Returns

6-Month Period	Average % Change	% Higher
Nov-Apr	6.9%	76.4%
Oct-Mar	6.5%	69.9%
Dec-May	5.3%	70.8%
July-Dec	4.8%	71.2%
Sept-Feb	4.6%	68.5%
Aug-Jan	4.5%	69.9%
Mar-Aug	4.2%	71.2%
Feb-July	4.1%	71.2%
Jan-June	4.0%	68.1%
June-Nov	3.3%	67.1%
Apr-Sept	2.6%	64.4%
May-Oct	1.7%	64.4%

Source: Carson Group, FactSet 4/25/2023 (1950 - Current)
@ryandetrick

CARSON

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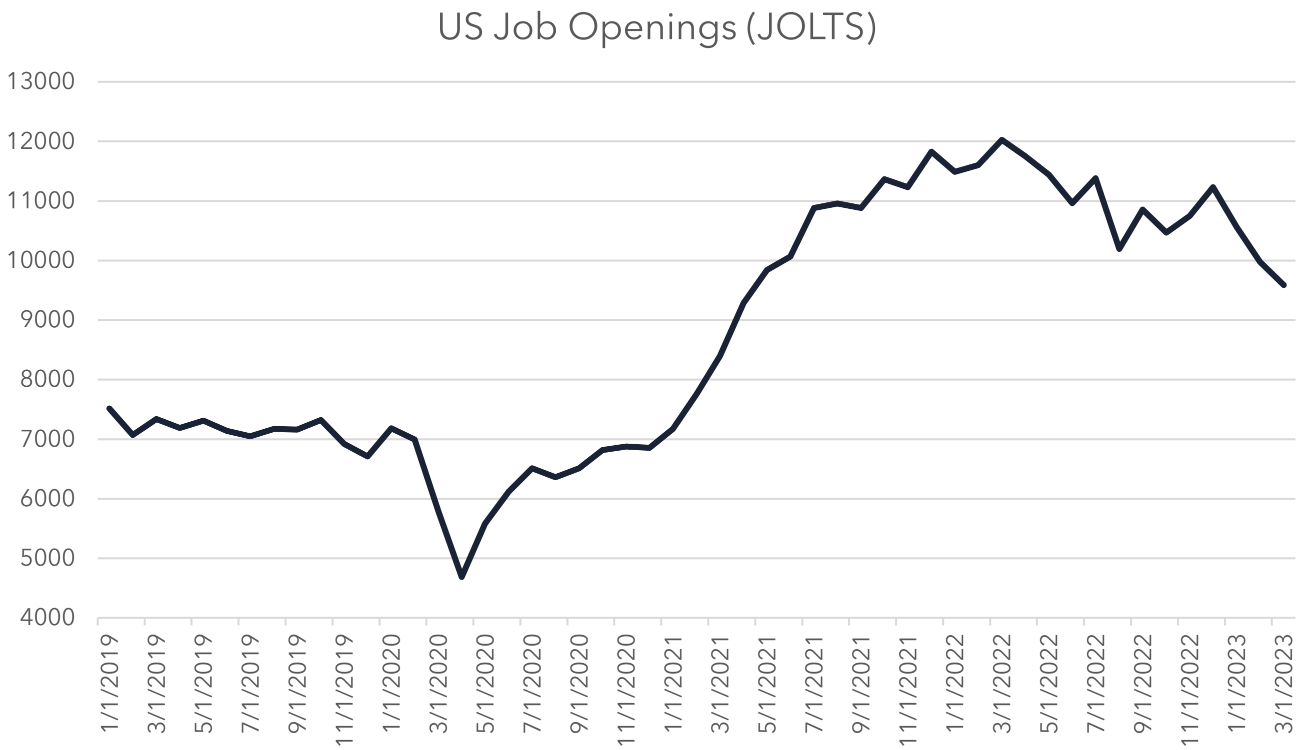
US Job Openings



Everyone is watching, waiting for the signs of what is perhaps the most anticipated recession in history. Job openings in the US have steadily declined since early 2022, which could be a precursor to labour market weakness.

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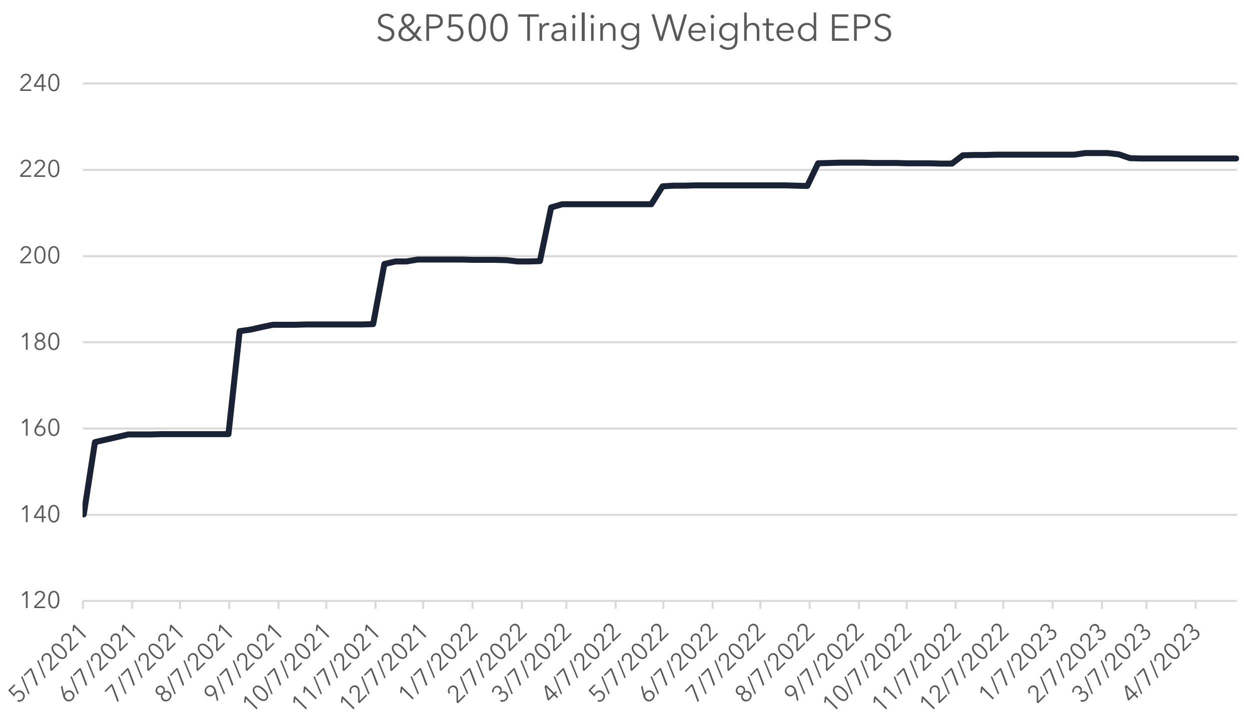
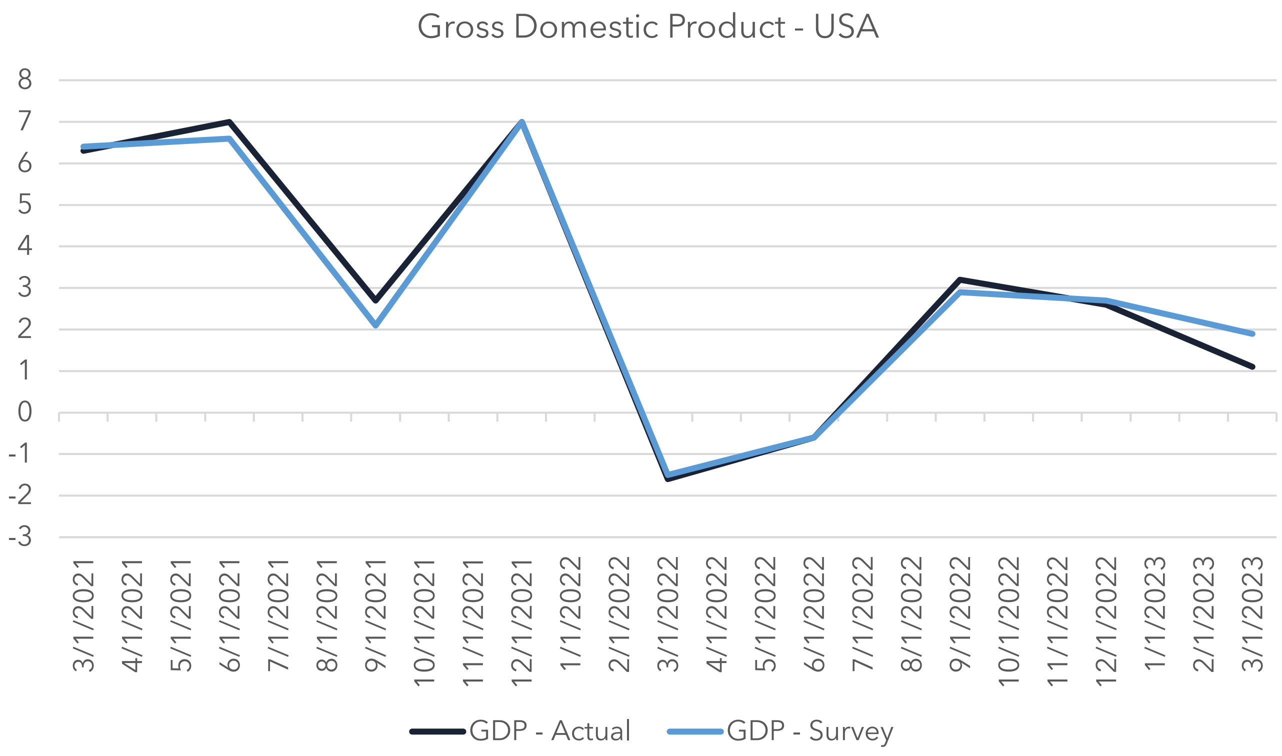
S&P500 Earnings



However, S&P500 earnings remain very high despite a recent marginal decline. Weakness has not emerged here yet.

GDP - USA

GDP, while decelerating, is still growing. However, it did come in below survey expectations. Time will tell if this is the beginning of a trend.



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E&OE

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