

Keys to the market

What happened this week

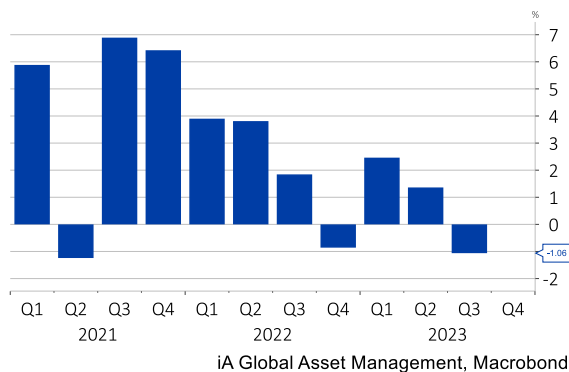
December 1, 2023

In Canada, the economy unexpectedly contracted by 1.1% in the third quarter. Even so, second-quarter GDP for was revised upward to 1.4% from the previous 0.2% decline, steering clear of a technical recession. As for the labor market, job gains beat expectations, with 25,000 positions added in November, and wage growth held steady. The unemployment rate also rose during the month, with the pace of hiring below population growth, signalling a slowdown in employment demand.

In the United States, revised GDP figures revealed that the economy was even stronger in the third quarter than previously thought, led by robust business investment and government spending, while consumer spending saw a downward revision. The October Personal Consumption Expenditures (PCE) report further supported the narrative of a weakening consumer, with its lowest annual gain since April 2021, an encouraging sign of cooling inflation. Nevertheless, the Federal Reserve continues to assess economic conditions and has not ruled out further policy tightening.

Canada: Real GDP Growth

Statistics Canada, % QoQ, SAAR, as at 2023 Q3



Bond market

Ongoing economic data softness in the United States and modestly dovish comments from a few Fed officials helped bring yields down another 5 to 10 basis points (bps) during the week, capping off what was a very strong month for bonds, with 10-year Treasuries dropping almost 40 bps. After spending much of the past few months under water, total returns for fixed income are poised to deliver a positive result for the full year, much to the relief of many a portfolio manager. With more room for yields to decline should inflation continue to show signs of easing and the Fed start to chop rates as early as the first half of next year, fixed income is entering 2024 as a preferred asset class, especially because the North American economy is flashing signs of a recession. The love for all things fixed income

Highlights

- In Canada, GDP contracted in the third quarter, signaling a slowing economy.
- In the United States, the PCE report revealed signs of cooling inflation.

On our radar

- Canada: BoC interest rate decision, building permits for October and S&P global services PMI for November
- United States: Wholesale inventories for October, ISM services, employment and unemployment rates for November

was evident in spread product too, as IG dropped another 5 bps (25 for the month) to hover just above 100 bps, while HY shaved off 10 bps to about 370 bps. Nonetheless, we think both IG and HY are quite expensive at current levels and are certainly not supported by what the North American economic data are telling us. We suspect large asset-liability matchers are driving spreads lower by scooping up higher-yielding product at the behest of their actuaries because rates are on the decline.

Stock market

The S&P 500 Index was again flat this week but finished off the second-best November since the 1980s, buoyed by renewed hopes of rate cuts in 2024 on the back of positive economic data and a shift in recent Fed commentary.

In another setback for Pfizer, topline trial results for its twice-daily oral GLP-1 showed that the drug met its primary endpoint but had a questionable side-effect profile. Participants achieved a weight reduction greater than that of some other competing drugs in development, albeit at the cost of elevated levels of nausea and vomiting, leading to a 50% discontinuation rate. Consequently, the company has decided not to advance this drug for further development in its current form.

Lastly, the Biden administration announced new rules to significantly restrict China's role in the U.S. electric-vehicle (EV) supply chain. From January 2024, EVs made with battery components from China or by a company with significant ties to its government or a licensing agreement will no longer qualify for the full tax credits offered by the IRA. Given China's current dominance in the battery industry, this move will most likely push up the price of EV vehicles in North America in the near term.

Markets

(Total Return, in \$CAD)

As of December 1, 2023	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	-0.08	6.59	20.88	13.85	11.42	12.96
S&P/TSX	0.78	7.48	7.54	2.28	8.82	9.23
NASDAQ	-0.53	8.09	45.88	32.58	10.79	18.55
MSCI ACWI	-0.01	6.82	18.07	13.00	8.67	10.41
MSCI EAFE	-0.18	6.73	12.35	12.38	5.38	6.41
MSCI EM	0.39	5.50	6.15	4.66	-2.20	3.14
Commodities (USD)						
Gold	1.78	2.65	11.64	15.15	4.65	10.78
CRB	0.21	-1.78	-4.48	-6.09	7.34	4.95
WTI	0.56	-6.25	-5.36	-5.70	18.77	8.32
Fixed income						
FTSE TMX Canada Universe	1.23	4.29	3.15	1.45	-3.77	0.89
FTSE TMX Canada Long	2.10	8.54	3.22	-0.53	-8.18	-0.19
FTSE TMX Canada Corporate Overall	1.15	3.81	4.94	3.86	-2.04	2.07
Currencies						
DXY	0.09	-2.97	-0.02	-2.32	4.05	1.25
USDCAD	-0.55	-2.26	0.05	1.11	1.42	0.40
USDEUR	0.47	-2.88	-1.68	-4.42	3.08	0.78
USDJPY	-0.83	-2.29	13.03	7.34	12.42	5.47
USDGBP	-0.16	-3.72	-4.28	-4.47	1.82	0.20

Source: iA Global Asset Management, Bloomberg

	CA	US
Bond yields		
2Y	4.19	4.68
5Y	3.63	4.27
10Y	3.55	4.33
30Y	3.36	4.49
Credit spreads		
IG corporate bonds	152	111
HY bonds	380	384

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Rooted in history, innovating for the future.

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