

Keys to the market

What happened this week

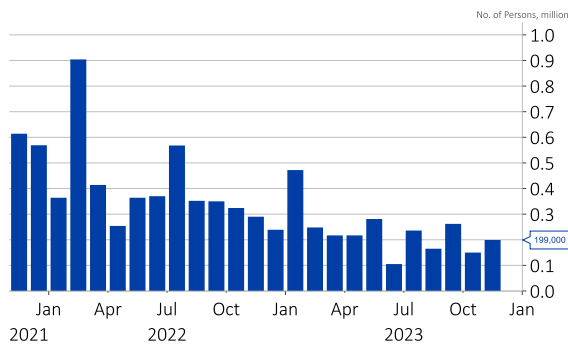
December 8, 2023

In line with expectations, the Bank of Canada left its policy rate at 5% for the third consecutive time. Quantitative tightening is starting to make itself felt, curbing inflation and slowing the economy. Market participants are now wondering when rate cuts will begin. Meanwhile, the housing sector saw an uptick in building permits in October, although the increase fell short of estimates. The gains were driven by the non-residential sector, particularly in Ontario with the construction of a new hospital wing in Toronto. The Services PMI for November declined to its lowest level in 3 years amid concerns over a potential recession and an uncertain outlook, indicating a deterioration in activity.

In the United States, wholesale inventories continued their downward trend in October, suggesting that inventory investment could hinder economic growth this quarter. In contrast, the services sector picked up in November, topping expectations amid an increase in business activity and employment growth. On the labor front, the United States added 199,000 jobs in November, surpassing the market consensus. Additionally, the unemployment rate fell to 3.7%, highlighting the strength of the job market and reinforcing views that interest rates may need to remain higher for some time.

U.S.: Net Change in Nonfarm Payrolls

U.S. Bureau of Labor Statistics (BLS), MoM, as at 11/2023



iA Global Asset Management, Macrobond

Bond market

Bond yields ended the week a touch lower than where they started; levels initially fell about 15 basis points on mixed labour data, only to give most of it back on Friday. Despite the late-week softness, fixed income is still showing the benefits of the remarkable rally that began after yields peaked in October, with 10-year U.S. Treasuries now sitting 80 basis points lower at about 4.2%. Next week's CPI release in the United States will

Highlights

- In Canada, the BoC kept its policy rate at 5%.
- In the United States, payrolls increased while the unemployment rate decreased in November.

On our radar

- Canada: Housing starts for November, manufacturing and wholesale sales MoM for October
- United States: CPI, PPI and retail sales for November, Fed interest rate decision

most certainly be the biggest data point and may even define the market tone into year-end owing to the onset of the holiday season. In Canada, to no one's surprise the BoC stood pat on policy rates, while futures markets in Canada and the United States are pricing in cuts to begin around the middle of 2024. Spread product stayed strong during the week; levels remained close to their year-to-date lows and investors shrugged off any signs of economic weakness.

Stock market

The S&P 500 Index was up only slightly this week, with the prior month's rally seeming to have fizzled out. The eagerly awaited November employment data surprised to the upside, strengthening the case for the higher-for-longer narrative. Non-farm payrolls showed a sequential increase, while the unemployment rate fell from 3.9% to 3.7%.

Notable earnings this week include Broadcom (AVGO), which reported an in-line fourth quarter with sales up 4% year over year as demand for its equipment for AI use surged and offset cyclical headwinds in its other businesses. Surprisingly, the company opted not to guide for next quarter but indicated full-year revenues of \$50 billion on healthy networking growth of 30%.

Drug pricing was back in the spotlight, with the Biden administration releasing a proposed framework for agencies on exercising march-in rights to seize patents of certain expensive medicines. Needless to say, it will face stiff opposition from the pharma industry and, at the moment, represents only a headline risk.

Markets (Total Return, in CAD)

As of December 7, 2023	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	0.45	0.74	21.77	18.46	11.39	14.19
S&P/TSX	-0.78	0.28	7.85	4.97	8.09	9.87
NASDAQ	0.78	0.79	47.02	39.27	10.53	19.91
MSCI ACWI	0.54	0.80	19.01	16.27	8.63	11.42
MSCI EAFE	1.01	0.96	13.43	12.19	5.43	7.10
MSCI EM	-0.59	-1.39	4.68	4.23	-3.56	3.13
Commodities (USD)						
Gold	-2.11	-0.39	11.21	13.56	2.88	10.18
CRB	-1.01	-1.13	-5.56	-6.75	6.56	4.63
WTI	-6.39	-8.72	-13.61	-3.71	14.86	5.68
Fixed income						
FTSE TMX Canada Universe	0.89	1.87	5.08	1.47	-2.95	1.07
FTSE TMX Canada Long	1.76	3.68	7.02	-0.81	-6.53	0.20
FTSE TMX Canada Corporate Overall	0.81	1.62	6.64	4.00	-1.46	2.26
Currencies						
DXY	0.26	0.04	0.02	-1.48	4.48	1.42
USDCAD	0.76	0.28	0.33	-0.40	2.04	0.41
USDEUR	0.83	0.87	-0.82	-2.67	3.91	1.09
USDJPY	-1.83	-2.75	9.92	5.50	11.47	5.04
USDGBP	0.92	0.23	-4.06	-3.11	2.04	0.22

Source: iA Global Asset Management, Bloomberg

	CA	US
Bond yields		
2Y	4.06	4.59
5Y	3.40	4.13
10Y	3.30	4.15
30Y	3.13	4.26
Credit spreads		
IG corporate bonds	147	111
HY bonds	377	377

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Rooted in history, innovating for the future.

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