

Keys to the market

What happened this week

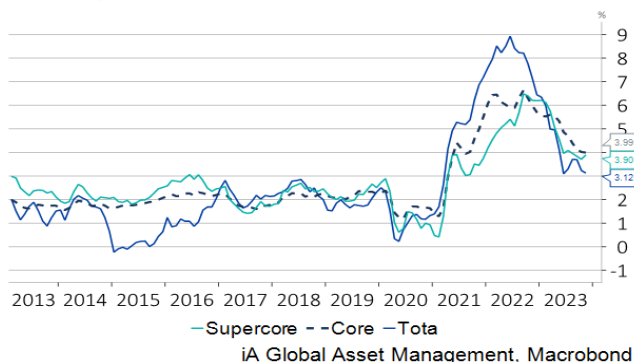
December 15, 2023

In Canada, manufacturing sales declined sharply in October, amid lower sales of petroleum and coal products. October wholesale sales recorded a better-than-expected 0.5% decline from the previous month, but September was also revised downward to -0.6% from an increase of 0.4%. As for the housing sector, housing starts for November came in below expectations in another sign that Canada's housing market is slowing.

South of the border, CPI data for November indicated steady inflation, with a 0.1% monthly increase and a 3.1% annual increase, in line with expectations. During the month, energy prices continued to tumble, while apparel prices saw a significant drop. PPI also held steady in November as a result of lower energy prices. On Wednesday, the U.S. Federal Reserve kept its policy rate unchanged for the third consecutive time, adopting a more dovish tone and acknowledging progress in its fight against inflation. As a result, stocks and bonds alike rallied on expectations that rate cuts will begin in the second half of next year. Meanwhile, the retail sales data released on Thursday highlighted consumer resilience, with an unexpected surge in November owing to the holiday shopping season.

U.S.: Total, Core & Supercore Inflation

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



Bond market

CPI didn't shape the fixed income market during the week; rather, it was what people thought about it that materially moved the needle, specifically the Fed at its latest policy meeting. Even though the committee left rates unchanged, as expected, its dot plot showed a projection for more aggressive cuts in 2024 than previously envisioned. As a result, the futures market is pricing in at least five cuts in 2024, and yields are heading into year-end with a tremendous rally. During this week alone, 10-year Treasury yields plunged another 25 basis points

Highlights

- In Canada, manufacturing decreased in October.
- In the United States, markets rallied on expectations of rate cuts next year.

On our radar

- Canada: Inflation rate, PPI and retail sales for November
- United States: Housing starts, new home sales, GDP and PCE for November

and broke through 4% for the first time since the summer. In all likelihood, asset allocators will make fixed income the place to be for the start of 2024. Next week, we will get some insight into the U.S. economy and perhaps another bad-is-good rally when GDP data are released, along with PCE and some sentiment indicators. Spread product also benefitted from the strong showing by fixed income during the week, as IG credit sunk several more basis points, going below 100 for the first time since the start of 2022, while HY fell to 330. We think spread product is priced very aggressively as we head into 2024, especially because we continue to see weakening economic data.

Stock market

The S&P 500 Index posted quite a relief rally after an eventful week of macro news and Jerome Powell's press conference.

Adobe announced mixed results to close out the year, with headline revenues beating the consensus slightly but guidance for fiscal 2024 below the street's expectations. Management stated that its recent price increases will create a headwind to growth next year. Moreover, it is still not clear how monetization will work with the recently launched GenAI products, although the company stressed that for now adoption will take precedence over monetization.

Lastly, Costco beat analyst expectations for the quarter and announced a special dividend of \$15 a share. Encouragingly, inflation seems to be moderating, with management stating that it will be near 0% in 3 to 6 months. As well, in perhaps a sign of the continued resiliency of consumers, Black Friday and Cyber Monday came in ahead of the company's expectations, and it sees encouraging trends in discretionary sales.

Markets (Total Return, in CAD)

As of December 14, 2023	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	1.31	2.34	23.71	18.86	12.53	14.69
S&P/TSX	2.28	2.86	10.62	8.02	9.38	10.70
NASDAQ	1.59	2.65	49.74	39.40	11.72	20.28
MSCI ACWI	1.47	2.48	21.00	16.36	9.56	11.92
MSCI EAFE	1.54	2.39	15.03	11.00	5.93	7.47
MSCI EM	0.63	-0.40	5.73	3.99	-3.07	3.41
Commodities (USD)						
Gold	1.58	0.00	11.64	12.67	3.68	10.45
CRB	-1.92	-3.11	-7.45	-7.93	5.62	4.35
WTI	0.49	-5.77	-10.81	-7.38	15.06	6.93
Fixed income						
FTSE TMX Canada Universe	1.86	3.31	6.57	3.25	-2.58	1.43
FTSE TMX Canada Long	3.64	6.72	10.16	3.44	-5.75	0.96
FTSE TMX Canada Corporate Overall	1.64	2.93	8.02	5.39	-1.06	2.56
Currencies						
DXY	-1.97	-1.49	-1.51	-1.75	3.97	0.91
USDCAD	-1.30	-1.14	-1.08	-1.04	1.65	0.03
USDEUR	-2.10	-0.96	-2.62	-2.83	3.37	0.56
USDJPY	-2.11	-4.26	8.21	4.73	10.89	4.59
USDGBP	-1.71	-1.12	-5.35	-2.67	1.45	-0.28

Source: iA Global Asset Management, Bloomberg

	CA	US
Bond yields		
2Y	3.91	4.39
5Y	3.25	3.90
10Y	3.15	3.92
30Y	2.97	4.04
Credit spreads		
IG corporate bonds	146	104
HY bonds	373	347

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Rooted in history, innovating for the future.

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