

Keys to the market

What happened this week

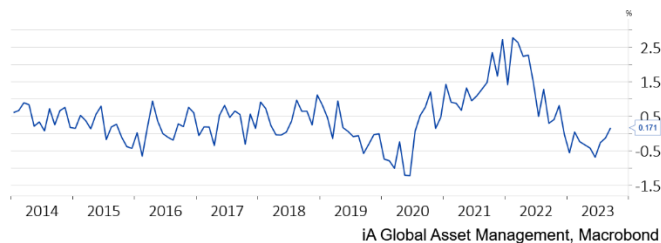
November 10, 2023

In Canada, there were few economic data releases. Building permits decreased in September, mainly because of the institutional component. Banks continue to tighten their credit standards, leading to weaker credit demand. Moreover, credit card balances and credit delinquencies continue to rise, suggesting a higher risk of a recession.

In the United States, wholesale inventories saw an unexpected increase in September, marking the first rise since February. Durable goods, including machinery, automotive parts and lumber, were the main drivers of growth. Still, total inventories are 1.2% lower than they were a year ago. Even though private-sector business activity remains in contraction territory, Ivey PMI indicates that overall economic activity continues to fare well. Recent data on the housing market show that mortgage rates have receded, resulting in an uptick in mortgage applications. In a recent statement, Federal Reserve Chair Jerome Powell acknowledged the gradual decrease in inflation but said the Fed would not hesitate to tighten monetary policy further, if need be.

United States: Wholesale Inventories

As of 9/2023



Bond market

Volatility in the bond market eased a little during the week as 10-year Treasuries traded within a 15-basis-point band and ended 5 to 10 basis points lower, at about 4.6%. For the most part, mixed messaging from the Fed was the culprit; but comments about the possibility of more hikes were eventually overlooked, and levels settled back down. Next week we have a slew of economic data releases, with the most important concerning U.S. inflation. The market is squarely convinced that 5% on the 10-year Treasury was the current-cycle peak, and inflation seems to be the only variable that could disrupt that narrative over the near term, with the issue of ballooning U.S. deficits appearing on the horizon. Spread product was mostly unchanged or a little softer on the week, as the market digested a decent amount of new issuance. We continue to think the

Highlights

- In Canada, tighter credit conditions have led to weaker credit demand.
- In the United States, Fed Chair Jerome Powell said the Fed would not hesitate to hike rates, if necessary.

On our radar

- Canada: Manufacturing sales for September, housing starts and PPI for October
- United States: CPI, PPI, and retail sales for October

recent “bad is good” rally for spreads, particularly in HY, is overdone and poised for at least a partial giveback in the coming weeks. We are also still convinced of the importance of upgrading the quality of credit portfolios.

Stock market

After a small rally, the S&P 500 Index ended the week flat, as investors were disappointed by Powell’s speech on Thursday. Even though he did not indicate an imminent rate hike, he made the case that the Fed is more likely than not to tighten further, given past instances of inflation head fakes.

Notable earnings this week included Illumina, which was down double digits after a lackluster quarter and a guidance cut. As one of the key reasons for the weakness, the company cited deteriorating macro conditions, which are driving a longer sales cycle.

Lastly, Eli Lilly’s much anticipated weight-loss drug, which will compete with Novo Nordisk’s, was approved in the United States. The list price is 20% lower than Wegovy’s, which may help patient access because cost has been one of the key barriers to getting patients on these drugs.

Markets

(Total Return, in \$CAD)

As of November 9, 2023	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	0.36	2.72	16.50	20.29	10.81	12.16
S&P/TSX	-1.19	3.79	3.85	4.64	9.16	8.41
NASDAQ	1.17	4.40	40.90	43.49	10.82	17.60
MSCI ACWI	0.44	3.04	13.89	18.97	8.52	9.58
MSCI EAFE	0.87	3.59	9.04	18.10	5.81	5.60
MSCI EM	1.45	3.53	4.17	11.73	-2.49	3.30
Commodities (USD)						
Gold	-1.71	-1.28	7.38	14.75	1.68	10.12
CRB	-0.82	-1.09	-3.81	-4.94	8.54	5.19
WTI	-5.92	-6.52	-5.63	-11.76	23.42	4.70
Fixed income						
FTSE TMX Canada Universe	-0.67	1.59	0.47	2.69	-4.25	0.54
FTSE TMX Canada Long	-1.07	3.40	-1.66	2.52	-8.89	-0.89
FTSE TMX Canada Corporate Overall	-0.56	1.27	2.37	4.99	-2.44	1.64
Currencies						
DXY	0.85	-0.71	2.31	-4.20	4.53	1.79
USDCAD	1.10	-0.48	1.87	2.08	2.01	0.89
USDEUR	0.59	-0.87	0.35	-6.16	3.46	1.22
USDJPY	1.31	-0.22	15.43	3.33	12.83	5.86
USDGBP	1.29	-0.57	-1.15	-7.08	2.50	1.20

Source: iA Global Asset Management, Bloomberg

	CA	US
Bond yields		
2Y	4.58	5.02
5Y	3.95	4.64
10Y	3.85	4.62
30Y	3.64	4.76
Credit spreads		
IG corporate bonds	163	127
HY bonds	362	404

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Rooted in history, innovating for the future.

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