

Keys to the market

What happened this week

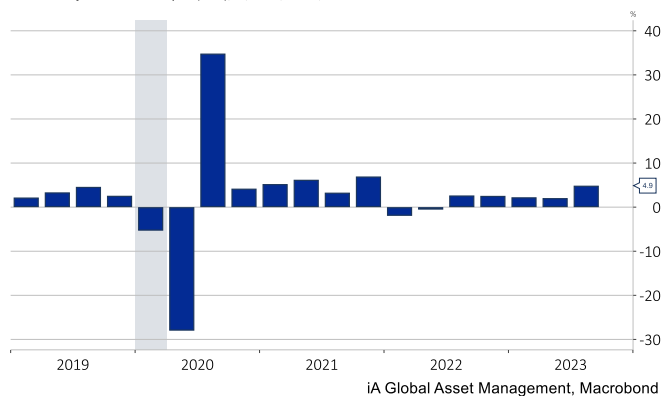
October 27, 2023

In Canada, the New Housing Price Index slipped in September on weakening market conditions and lower construction costs, notably in Montreal, Edmonton and Kelowna. The decline – the first since June – was not as severe as expected by the Bank of Canada, considering the current economic backdrop. On Wednesday, the BoC left its policy rate unchanged, as expected. The effects of monetary policy are beginning to take hold and are impeding economic activity, with growth rates revised lower and inflation forecasts revised higher for 2024. As a result, the Canadian dollar edged lower.

In the United States, however, new home sales remain stubbornly high, exceeding expectations and rising at the fastest pace since February 2022. Similarly, U.S. GDP expanded at a faster-than-expected annual rate of 4.9% in the third quarter, boosted by strong consumer spending, despite higher interest rates and ongoing inflationary pressures. Even so, growth is expected to decelerate eventually, as savings are depleted and economic headwinds persist. The PCE report released on Friday showed that prices accelerated in September, raising the odds of another rate hike in the near future.

U.S.: Real GDP Growth

U.S. Bureau of Economic Analysis (BEA), %, QoQ, SAAR, as at 2023 Q3



Bond market

It was another fairly volatile week in fixed income as yields traded in a range of 15 to 20 basis points. Levels initially benefitted from comments by some high-profile investors that a 5% handle on U.S. 10-year Treasuries represented a good entry point into the asset class. Yields fell to about 4.8%, only to scoot back up toward 5% as the higher-for-longer narrative took hold once again. By week's end, however, U.S. yields settled below 4.9% as concerns about the economy affected sentiment. Meanwhile in Canada, a pause by the BoC did not move yields as much as hawkish rhetoric did, although volatility on the week was less pronounced than in the U.S. at about 10

Highlights

- The Bank of Canada left its policy rate unchanged on Wednesday.
- U.S. third-quarter GDP surprised on the upside, bolstered by robust consumer spending.

On our radar

- Canada: August GDP and employment and unemployment figures for October
- United States: ISM manufacturing and services for October and U.S. unemployment rate for October

basis points. In the U.S., the FOMC will meet again next week, with no hike priced into the market. In addition, as the calendar rolls over from October to November, we will be focusing on a number of economic sentiment indicators as well as labour data in the United States and GDP in Canada. In spread product, levels initially tightened this week but eventually got caught up in the malaise buffeting equities and ended roughly unchanged.

Stock market

The S&P 500 Index continued its downward march this week as the situation in the Middle East showed no signs of abating. Adding to investors' worries, the latest U.S. GDP numbers show that the economy expanded faster than expected. Annualized growth came in at 4.9%, the fastest pace in almost 2 years, buoyed by strong consumer spending.

Earnings season continued, with four of the so-called Magnificent Seven reporting this week. Microsoft posted another solid quarter, beating expectations across all segments. That said, guidance for its Azure division calls for sequential deceleration. Google had a mixed quarter, with its cloud segment coming up short relative to Azure and a miss on operating margins, which sent the stock down by double digits. Meta reported a solid quarter, with opex coming in lower than the company previously forecast and below expectations for next year as well. Even so, the company pointed out that the macro environment for ad spending is becoming more difficult. Lastly, Amazon reported strong overall results, in line with consensus, and its margins came in significantly ahead of estimates. Most important, forward commentary on its AWS business was quite positive.

Markets

(Total Return, in \$CAD)

As of October 26, 2023	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	-1.16	-1.32	11.33	11.89	10.06	12.31
S&P/TSX	-1.17	-3.26	0.00	1.19	8.70	8.16
NASDAQ	-2.22	-2.01	31.52	26.03	8.64	16.75
MSCI ACWI	-0.90	-1.78	8.89	11.96	7.89	9.62
MSCI EAFE	0.02	-2.22	4.47	15.06	5.66	5.57
MSCI EM	-0.68	-2.24	-0.34	12.34	-2.79	3.31
Commodities (USD)						
Gold	0.17	7.36	8.81	19.23	1.43	9.98
CRB	0.10	-0.84	-1.95	-2.69	9.38	5.47
WTI	-6.24	-8.35	3.68	-5.35	29.22	4.25
Fixed income						
FTSE TMX Canada Universe	0.92	0.72	-0.75	0.81	-4.80	0.19
FTSE TMX Canada Long	1.82	0.96	-3.71	-0.44	-9.83	-1.52
FTSE TMX Canada Corporate Overall	0.76	0.59	1.28	3.51	-2.80	1.32
Currencies						
DXY	0.41	0.40	2.98	-2.82	4.64	2.04
USDCAD	0.85	1.87	2.04	2.05	1.54	1.08
USDEUR	0.30	0.10	1.35	-4.57	3.79	1.54
USDJPY	0.36	0.69	14.70	2.75	12.78	6.09
USDGBP	0.29	0.59	-0.37	-4.15	2.40	1.13

Source: iA Global Asset Management, Bloomberg

	CA	US
Bond yields		
2Y	4.64	5.04
5Y	4.12	4.80
10Y	4.00	4.84
30Y	3.76	4.99
Credit spreads		
IG corporate bonds	161	130
HY bonds	367	450

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Rooted in history, innovating for the future.

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