

Keys to the market

What happened this week

September 22, 2023

Stocks and bonds edged broadly lower as bearish sentiment gripped financial markets. In Canada, the latest CPI report showed that inflation surged to an annual rate of 4% in August – twice the central bank’s target – and raised the odds of another rate hike this year. Higher gasoline prices stemming from oil production cuts by Saudi Arabia and Russia, as well as increases in shelter and food prices, were the main contributors to the increase. PPI also rose during the month, coming in higher than expected and putting further pressure on the BoC. The retail sales report released at the end of the week showed that sales were up in July, bolstered by food and beverage prices, although less than expected,

Meanwhile, in the United States, August housing starts hit their lowest levels since 2020, showing the impact of reduced housing affordability. Builder confidence and existing home sales also saw a decline during the month amid rising mortgage rates. On Wednesday, the Fed’s much-anticipated interest rate decision was announced; rates were left unchanged, which came as no surprise. Even so, market participants still expect one more hike before the end of the year.

Canada: Inflation in Goods vs Services

YoY as of 8/2023



Bond market

It was a tough week for the bond market. In Canada, unexpectedly strong CPI data pushed 10-year yields up about 20 basis points, while in the United States the hawkish tone of the Fed’s non-move on rates caused 10-year Treasuries to rise about 15 basis points, piercing 4.5% for the first time since the global financial crisis and setting a new high-water mark for yields in the current cycle. In both countries a higher-for-longer scenario by the central banks was increasingly priced in further

Highlights

- Canadian CPI for August showed a significant increase.
- In the United States, the Fed left rates unchanged, in line with expectations.

On our radar

- Canada: July GDP
- United States: New home sales and PCE for August, consumer confidence for September

out on the curve, prompting some bear steepening (namely, 10s underperformed 2s). Next week, we will see GDP data in Canada and the United States, which will give us an indication of how much higher rates have bitten into economic activity in both countries. We will also get another glimpse into pricing pressures in the U.S. with PCE data. In spread product, levels seemed unfazed by the worsening market tone and avoided the shellacking that befell equities and rates, although the new-issue market did effectively shut down for a period.

Stock market

The S&P 500 Index was down this week in anticipation of the continued hawkishness that the Fed delivered on Wednesday. Although rates were not hiked this session and kept at a 22-year high, Powell reiterated the commitment to higher-for-longer. The updated dot plot includes one more rate hike this year, followed by a much slower path of rate cuts in 2024 and 2025. In M&A news, Cisco announced the acquisition of Splunk in a deal valued at \$28 billion, its biggest acquisition to date. The company will pay \$157 a share in cash, which is a 31% premium and equates to roughly 10% of Cisco’s market cap. The transaction is expected to be cash flow positive and gross margin accretive in the first fiscal year after the closing. Splunk offers a suite of software products, apps and APIs geared to analysis of machine data generated by enterprises. It has minimal overlap with Cisco and fits well with its push toward a SaaS model and away from dependence on one-time sales of expensive hardware. That being said, given Cisco’s spotty M&A record, it remains to be seen whether the acquisition will pan out.

Markets (Total Return, in \$CAD)

As of September 21, 2023	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	-2.90	-4.10	13.69	17.08	11.96	10.99
S&P/TSX	-4.02	-2.29	4.49	6.62	10.66	7.33
NASDAQ	-3.55	-5.44	33.79	27.22	10.73	15.31
MSCI ACWI	-2.73	-3.52	11.86	17.49	9.61	8.30
MSCI EAFE	-1.96	-1.97	8.53	22.02	6.92	4.33
MSCI EM	-3.11	-2.53	2.06	6.59	-0.99	1.84
Commodities (USD)						
Gold	-0.20	-1.04	5.26	14.70	0.13	9.86
CRB	-0.14	-0.20	-0.55	-2.76	10.60	5.90
WTI	-1.26	7.17	11.67	8.07	31.62	4.84
Fixed income						
FTSE TMX Canada Universe	-1.30	-2.29	-1.13	-2.15	-5.16	0.15
FTSE TMX Canada Long	-2.39	-4.83	-3.40	-6.86	-10.37	-1.41
FTSE TMX Canada Corporate Overall	-0.97	-1.66	0.80	0.45	-3.18	1.25
Currencies						
DXY	0.04	1.68	1.78	-4.77	4.00	2.26
USDCAD	-0.31	-0.19	-0.52	0.15	0.44	0.86
USDEUR	-0.03	1.71	0.42	-7.72	3.36	1.96
USDJPY	-0.18	1.41	12.56	2.45	12.14	5.56
USDGBP	0.71	3.07	-1.74	-8.35	1.39	1.24

Source: iA Global Asset Management, Bloomberg

	CA	US
Bond yields		
2Y	4.96	5.14
5Y	4.26	4.62
10Y	3.97	4.49
30Y	3.74	4.57
Credit spreads		
IG corporate bonds	158	120
HY bonds	334	389

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Rooted in history, innovating for the future.

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