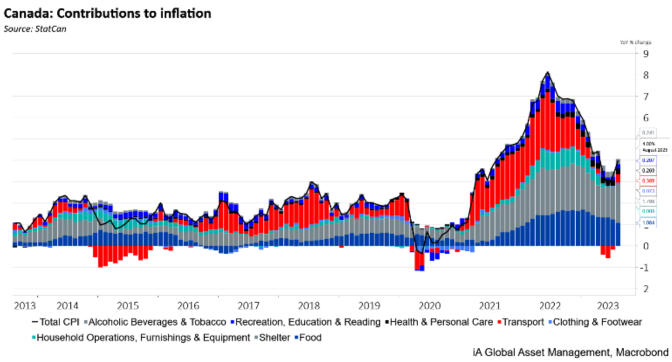
Keys to the market

What happened this week

September 29, 2023

Stocks and bonds continued to lose momentum as market participants acknowledged that interest rates are likely to remain higher for longer. In Canada, the GDP figures released on Friday revealed that the economy was flat in July, with no changes from the previous month. The data showed a slight increase in the services sector, offset by a shrinking manufacturing sector, and painted a picture of a stalling economy. In the United States, the real estate sector has been losing steam, with new-home sales falling more than expected in August, while inventory levels continued to rise. A surge in mortgage rates has reduced affordability for many potential buyers, and the trend is expected to persist in the coming months. The Consumer Confidence Index for September also tumbled and came in worse than expected, reflecting weakened consumer sentiment amid concerns over rising prices, higher interest rates, and political uncertainty. Finally, August's Personal Consumption Expenditures (PCE) report came in softer than expected, indicating a slowdown in consumer spending and a decline in inflationary pressures, providing relief for stocks and bonds alike.



Bond market

Bonds seem to have survived a scare during the week as 10-year Treasuries initially shot up almost 10 basis points to pierce 4.6%, mostly on the back of hawkish "Fed speak" but also on concerns over sticky inflation caused by higher oil prices. By week's end, however, a reasonably tame PCE print in the U.S. and a soft GDP number in Canada took 10-year yields in both countries back almost to where they had started. Even so, the building momentum behind a higher-for-longer scenario stirred a chorus of pundits to call for U.S. 10-year yields to exceed 5% and steepened 2s-10s by about 5 basis points, as the message took hold further out on the curve. With the coming week marking a new month (and quarter), we will get a fresher picture of labour conditions in Canada and the U.S., as well as ISM data down south. We seem to be at an inflection point in the North American bond market; softening economic data will allow yields to subside, while any pronounced signs of strength could push U.S. 10s toward 5%. As has been the case for some time, IG spreads weren't fazed by any news, staying the course at about 120 basis points, where they have been since the beginning of August. At the same time, HY inched closer to 400 basis points, up 25 on the month as concerns about cracks in the economy showed up in the riskier part of the market.

Highlights

- Canadian GDP was flat in July, pointing to a stalling economy.
- In the United States, PCE for August revealed a slowdown in consumer spending and a decline in inflationary pressures.

On our radar

- Canada: Employment and unemployment rates for September
- United States: ISM manufacturing, ISM services and unemployment report for September

Stock market

The S&P 500 Index was flat as the market debated the prospects of another rate hike this year. As noted, the PCE data for August showed underlying inflation moderating. Core PCE fell from an upwardly revised rate of 4.3% in July to a 3.9% year-over-year rate, the lowest level since September 2021. In the biggest news of the week, the FTC, along with 17 states, announced an antitrust lawsuit against Amazon, alleging the company uses its platform's monopoly power to overcharge consumers, stifle competitors and abuse third-party sellers. Among other things, the FTC accused Amazon of punishing sellers who offer products at lower prices on alternative platforms and restricting their Prime shipping benefits. Given the track record of the current FTC chair, it is not clear how successful the case will be. Lastly, Nike reported a mixed quarter with an EPS beat and a topline miss, providing something for both the bulls and the bears. Sales in North America declined less than expected, but China missed expectations significantly. That being said, the company's full-year guidance remains unchanged and implies an acceleration in the second half of the fiscal year.

Markets
(Total Return, in $CAD)

As of September 28, 2023	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	-0.16	-4.74	12.94	15.98	10.67	10.93
S&P/TSX	-0.82	-3.13	3.59	8.56	9.72	7.31
NASDAQ	0.30	-5.37	33.88	26.16	9.25	15.02
MSCI ACWI	-0.48	-4.45	10.78	17.50	8.44	8.21
MSCI EAFE	-1.48	-3.97	6.30	24.32	5.77	4.06
MSCI EM	-1.76	-3.70	0.83	9.65	-1.01	1.62
Commodities (USD)						
Gold	-3.14	-3.88	2.24	12.34	-0.30	9.38
CRB	-0.02	0.13	-0.22	-0.83	11.09	5.93
WTI	1.87	9.66	14.27	11.64	31.21	4.60
Fixed income						
FTSE TMX Canada Universe	-0.90	-2.92	-1.77	-2.55	-5.31	-0.01
FTSE TMX Canada Long	-2.33	-6.65	-5.25	-8.15	-10.77	-1.88
FTSE TMX Canada Corporate Overall	-0.61	-2.04	0.42	0.67	-3.19	1.14
Currencies						
DXY	0.61	2.51	2.61	-5.67	4.06	2.23
USDCAD	0.03	-0.16	-0.49	-0.89	0.29	0.88
USDEUR	0.83	2.64	1.33	-7.86	3.36	1.90
USDJPY	0.63	2.59	13.87	3.57	12.27	5.60
USDGBP	0.29	3.85	-0.99	-10.77	1.69	1.31

Source: iA Global Asset Management, Bloomberg

	CA	US
Bond yields		
2Y	4.92	5.06
5Y	4.31	4.62
10Y	4.07	4.57
30Y	3.87	4.70
Credit spreads		
IG corporate bonds	158	123
HY bonds	339	409

About iAGAM

A magnet for top investment talent, iA Global Asset Management is one of Canada's largest asset managers, with over $100 billion under management across institutional and retail mandates. We help investors achieve their long-term wealth creation goals through innovative investment solutions designed for today's complex markets. We are building upon our historic success, supporting the growth of our core strengths, and exploring innovative ways to meet investor needs. We are rooted in history and innovating for the future. Our experienced portfolio managers use a proprietary investment methodology, rooted in iAGAM's unifying commitment to strong risk management, analytical rigour and a disciplined, process-driven approach to asset allocation and security selection.

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