

# Keys to the market

## What happened this week

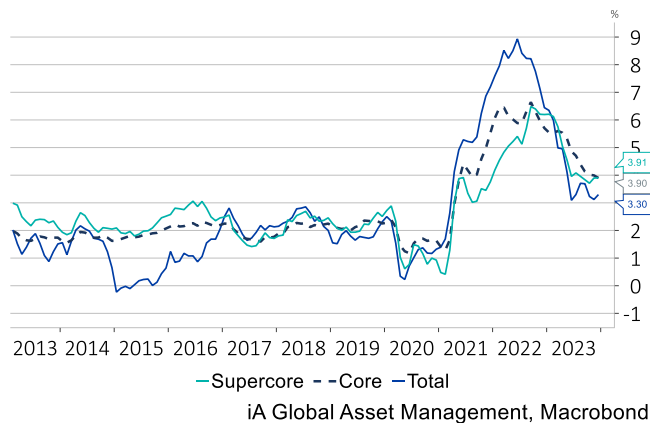
January 12, 2024

The Canadian market has started the year off slowly, with few economic releases so far. The latest building permits report showed a significant drop in November in the residential and non-residential sectors alike, hitting a seven-month low owing to higher construction costs and labour shortages.

Meanwhile, in the United States, the economy is displaying some signs of slowing and an uncertain outlook. November wholesale inventories were in line with expectations, indicating a slower pace of inventory accumulation. It was the eighth decline in nine months, with non-durable goods driving the contraction. December's Consumer Price Index (CPI) was up on a monthly and annual basis, exceeding market expectations. Shelter costs were the main reason for the increase, followed by energy and food costs. The release caused the U.S. dollar to strengthen, while stocks and bonds retreated as market participants adjusted their expectations of a rate cut in the near future. In contrast, the Producer Price Index (PPI), which serves as a gauge of wholesale prices, was softer than expected in December, providing some solace to financial markets.

### U.S.: Total, Core & Supercore Inflation

U.S. Bureau of Labor Statistics (BLS), YoY, %, as at 12/2023



### Bond market

After starting the year on weak footing, bond yields rallied a touch in the second week of January, with 10-year U.S. Treasuries settling back under 4% because inflation numbers in the United States didn't give too much cause for concern, although they came in a little higher than forecast. Despite concerns that the bond rally at the end of 2023 was overdone, investors are still pricing in decent odds that rate cuts will begin in March in the U.S., even though Fed officials have pushed

### Highlights

- In Canada, November building permits contracted significantly.
- In the United States, the December CPI figures surprised on the upside.

### On our radar

- Canada: Housing starts, CPI and PPI for December
- United States: Retail sales, housing starts and building permits for December

back against that expectation. We don't expect U.S. rate cuts to begin until closer to mid-year. Next week we will see some U.S. sentiment indicators, along with Canada's latest inflation data. Credit markets similarly rallied last week as IG fell below 100 basis points again, after some initial softness related to the heavy new-issue calendar in the first week of the year. We still think credit spreads are too tightly priced and don't reflect a meaningful economic slowdown or an escalation of geopolitical risk.

### Stock market

The S&P 500 Index started the year on a positive note in response to further relatively positive macro headlines. The overall U.S. CPI number rose only a tad more than expected, while the core was in line with forecasts. Headline PPI also declined for the third straight month, which is the longest streak since 2020.

In health care news, UnitedHealth Group kicked off the earnings season early with a surprisingly negative quarter. The company had a headline beat, but it was driven largely by investment income and a lower tax rate, while margins were significantly worse owing to higher use of medical services than was seasonally expected. Even so, the company reiterated its 2024 guidance, which indicates that the increased usage is most likely a one-off event.

Lastly, the situation in the Red Sea seems to be escalating and could contribute to renewed inflation pressures. It's worth noting, however, that this route mainly serves Europe, and therefore the impacts on the North American market may be more muted.

## Markets (Total Return, in CAD)

As of January 11, 2024	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
<b>Equities</b>						
S&P 500	2.60	2.11	2.11	22.40	11.41	15.22
S&P/TSX	-0.03	-0.08	-0.08	7.97	8.49	10.33
NASDAQ	3.98	1.82	1.82	47.51	11.00	20.89
MSCI ACWI	2.00	1.49	1.49	18.83	8.32	12.15
MSCI EAFE	0.63	0.39	0.39	11.49	4.53	7.31
MSCI EM	0.07	-1.00	-1.00	0.77	-5.49	3.01
<b>Commodities (USD)</b>						
Gold	-0.81	-1.65	-1.65	8.17	3.24	9.48
CRB	-0.24	-1.03	-1.03	-9.19	3.87	4.17
WTI	-2.43	0.52	0.52	-6.96	11.29	6.90
<b>Fixed income</b>						
FTSE TMX Canada Universe	0.23	-0.98	-0.98	3.41	-2.74	1.03
FTSE TMX Canada Long	0.19	-2.34	-2.34	2.74	-6.26	0.00
FTSE TMX Canada Corporate Overall	0.24	-0.74	-0.74	5.76	-1.28	2.30
<b>Currencies</b>						
DXY	-0.12	0.95	0.95	-0.87	4.18	1.35
USDCAD	0.24	1.15	1.15	-0.22	1.57	0.19
USDEUR	-0.27	0.61	0.61	-1.96	3.46	0.89
USDJPY	0.46	3.01	3.01	9.69	11.70	6.02
USDGBP	-0.32	-0.23	-0.23	-4.81	1.94	0.13

Source: iA Global Asset Management, Bloomberg

	CA	US
<b>Bond yields</b>		
2Y	3.99	4.25
5Y	3.31	3.88
10Y	3.24	3.97
30Y	3.19	4.17
<b>Credit spreads</b>		
IG corporate bonds	140	103
HY bonds	350	355

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### Rooted in history, innovating for the future.

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