iA Global Asset Management

Keys to the market

What happened this week

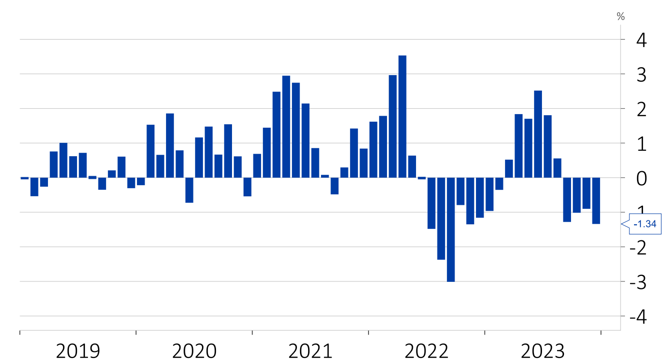
January 26, 2024

On Wednesday, the Bank of Canada left its policy rate at 5% for the fourth consecutive time owing to sticky inflation that is gradually easing but remains above target. The BoC has given no clear indication of when its first rate cuts will occur. Meanwhile, the Canadian housing market continues to be weighed down by high borrowing costs, causing new home prices to fall in December.

South of the border, an uptick in business activity was recorded in the manufacturing and services sectors, which reached their highest levels since June of last year. This indicator supports the narrative of a soft landing, as the economy continues to grow, albeit at a moderate pace. New home sales in December also rose on monthly and annual bases, as falling interest rates at the end of 2023 attracted buyers to the market. Additionally, the latest personal consumption expenditure report revealed a better-than-expected increase in consumer spending for December, highlighting the economy's resiliency. Even so, inflation dropped below a 3% annual rate in December, indicating that price increases are steady and heading back to the central bank’s target.

Canada: Monthly Change in Housing Prices

Teranet-National Bank Index as of 12/2023



▪Canada, Real Estate Prices, Composite 11, Index, Teranet, Residentia…

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Bond market

It wasn’t necessarily a quiet week for the fixed income market as U.S. GDP and PCE data came out and the BoC decided to stay the course with its latest rate decision; that being said, pricing was relatively unmoved, with U.S. 10-years hovering around 4.15%. Obviously, the big news next week will be the decision by the U.S. Fed, which is widely expected to leave its policy rate unchanged, although a move lower in March is still inexplicably almost 50% priced in, as investors continue to ignore guidance to the contrary from Fed speakers – behaviour that repeatedly caused yields to whipsaw last year. Conversely, we are still taking the Fed at face value, as we did all last year, and therefore do not expect any rate cuts until mid-year. Moreover, we think the BoC is likely to reduce rates before the Fed. In spread product, IG and HY both tightened by a few basis points, even though U.S. IG seems to have experienced record amounts of new issuance in January. The corporate bond market is priced for perfection and isn’t incorporating any risk, largely because of outsized demand from asset-liability matchers who are scooping up any product with yield before the Fed starts to cut rates.

Highlights

- In Canada, the BoC left its policy rate unchanged.
- In the United States, the economy’s strength was emphasized by higher-than-expected consumer spending.

On our radar

- Canada: GDP for November, S&P Global Manufacturing PMI for January
- United States: Fed interest-rate decision, unemployment rate and ISM for January

Stock market

The S&P 500 Index advanced this week on upbeat economic data. U.S. GDP growth for the fourth quarter beat expectations, coming in at 3.3% annualized. Although this is a deceleration from the preceding quarter, the economy showed significant resilience in a year when output was expected to deteriorate.

Visa’s earnings seem to confirm this trend. The company posted a beat and reiterated its full-year guidance, with the expectation of an acceleration in the second half of the year. Even so, investors seem skeptical, given Visa’s comments about a slowdown in January.

Tesla dropped by double digits after posting an unequivocally bad print with a fourth straight quarter of falling profits. The company noted that volume growth may be “notably lower” this year amid waning demand, growing competition and higher interest rates. Year to date, Tesla is now the worst-performing stock of the Magnificent Seven.

Markets
(Total Return, in CAD)

As of January 25, 2024	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	1.41	5.14	5.14	24.73	12.11	15.28
S&P/TSX	1.00	0.87	0.87	5.86	8.87	9.90
NASDAQ	1.45	6.60	6.60	49.29	11.23	21.32
MSCI ACWI	1.45	3.84	3.84	19.28	8.95	12.15
MSCI EAFE	1.74	1.27	1.27	8.58	4.99	7.16
MSCI EM	2.08	-1.10	-1.10	-1.55	-6.76	2.35
Commodities (USD)						
Gold	-0.43	-2.04	-2.04	3.84	2.88	9.14
CRB	2.31	1.94	1.94	-7.15	4.36	4.79
WTI	5.38	7.97	7.97	-3.48	13.60	7.58
Fixed income						
FTSE TMX Canada Universe	0.20	-2.41	-2.41	0.34	-3.30	0.70
FTSE TMX Canada Long	-0.05	-5.77	-5.77	-3.04	-7.50	-0.72
FTSE TMX Canada Corporate Overall	0.35	-1.59	-1.59	3.20	-1.69	2.00
Currencies						
DXY	0.28	2.21	2.21	1.90	4.64	1.57
USDCAD	0.34	1.75	1.75	0.62	1.89	0.39
USDEUR	0.48	1.78	1.78	0.64	3.83	1.02
USDJPY	-0.31	4.69	4.69	13.94	12.48	6.15
USDGBP	-0.04	0.18	0.18	-2.41	2.48	0.76

	CA	US
Bond yields		
2Y	4.01	4.29
5Y	3.52	4.00
10Y	3.48	4.12
30Y	3.45	4.37
Credit spreads		
IG corporate bonds	135	98
HY bonds	323	345

Source: iA Global Asset Management, Bloomberg

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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