

Keys to the market

What happened this week

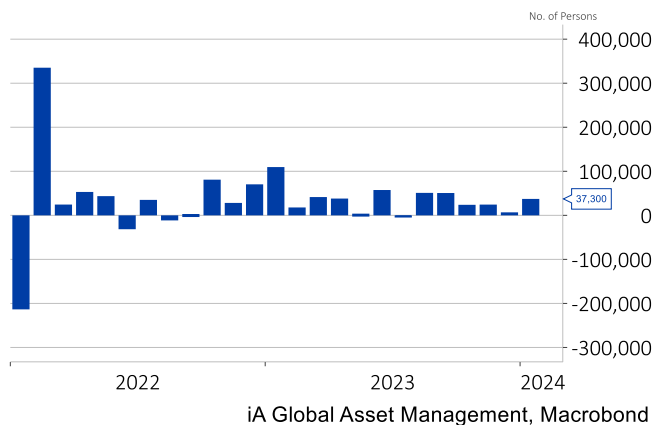
February 9, 2024

In Canada, building permits unexpectedly plunged 14% in December from the previous month, with Ontario recording the country’s steepest decline. Their value fell to the lowest level in more than three years, revealing a significant decrease in construction activity. On the labour front, the unemployment rate fell for the first time since December 2022, with the addition of 37,000 jobs in January. Employment increased in various sectors, including wholesale and retail trade as well as finance, insurance, real estate, rental, and leasing. On the other hand, employment in the accommodation and food services industry faced the most significant decrease.

Meanwhile, in the United States, ISM Services for January rose for the 13th consecutive month, surpassing expectations, and highlighting the sector’s resilience in a challenging environment. Even so, the inflation rate and the geopolitical landscape still call for caution. Moreover, wholesale inventories also increased in December, bolstered by an uptick in motor vehicles and indicating a potential increase in demand as inflation subsides.

Canada: Net Change in Employment

Labour Force Survey, MoM, as at 1/2024



Bond Market

With little news to move the fixed income markets during the week, 10-year U.S. Treasuries were relatively unchanged, hovering just under 4.2% and trading within a range of 5 to 10 basis points. Despite speculation that CPI revisions at week’s end might provide some direction, there was little change there as well. Importantly, next week we have CPI and PPI in the U.S.

Highlights

- In Canada, the unemployment rate fell for the first time since December 2022.
- In the United States, ISM Services surprised on the upside, highlighting the sector’s robustness.

On our radar

- Canada: Manufacturing and wholesale sales for December, housing starts for January
- United States: CPI, PPI, retail sales and housing starts for January

in addition to Michigan sentiment indicators. These data points will most likely confirm the market’s recent bearishness on rates and a higher-for-longer scenario or will further encourage investors to postulate that rate cuts will begin in May or June (we think June or July is more probable). In spreads, after touching 100 basis points last week, IG remained solidly at 95 basis points, while HY shaved off more than 10 basis points. Being long credit seems to be one of the more crowded trades these days, with flat curves and not much in the way of relative value. Accordingly, we prefer shorter-dated, higher-quality credit.

Stock Market

The S&P 500 Index was up this week, with no major macro developments and earnings season in full swing.

In a sign of continued market hype over AI, Arm Holdings was up more than 50% despite announcing earnings that appeared to be only modestly better than expected. The company’s core revenues from smartphone chips benefitted from a recovery in demand and a shift toward higher-priced products. Significantly, the company has started gaining traction from customers seeking its designs relating to AI accelerators.

In contrast, Snapchat was down more than 30% on a revenue miss and weak guidance. The company cited a challenging operating environment, including the situation in the Middle East. Its results contrast sharply with the stunning earnings that Meta reported last week, suggesting that Snap’s issues may be more idiosyncratic.

Markets (Total Return, in CAD)

As of February 8, 2024	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	0.90	3.97	7.12	23.70	12.20	15.29
S&P/TSX	-0.78	-0.49	0.06	4.54	7.71	9.33
NASDAQ	0.89	4.58	7.92	42.70	11.09	21.14
MSCI ACWI	0.67	2.71	5.31	18.81	8.93	12.21
MSCI EAFE	0.07	-0.37	1.53	9.25	4.82	7.29
MSCI EM	1.05	3.04	-0.44	0.96	-6.37	2.38
Commodities (USD)						
Gold	-0.26	-0.25	-1.38	8.48	3.58	9.13
CRB	0.08	-0.52	1.65	-6.36	3.79	4.66
WTI	5.45	0.49	6.38	-2.87	9.55	7.65
Fixed income						
FTSE TMX Canada Universe	-0.99	-1.17	-2.52	1.38	-3.01	0.49
FTSE TMX Canada Long	-1.97	-2.18	-5.39	-0.81	-6.68	-0.95
FTSE TMX Canada Corporate Overall	-0.65	-0.78	-1.45	3.83	-1.41	1.83
Currencies						
DXY	0.23	0.86	2.79	0.73	4.63	1.51
USDCAD	-0.04	0.17	1.62	0.08	1.85	0.27
USDEUR	0.10	0.37	2.42	-0.61	3.79	0.99
USDJPY	0.63	1.63	5.87	13.64	12.37	6.36
USDGBP	0.11	0.57	0.90	-4.32	2.89	0.51

Source: iA Global Asset Management, Bloomberg

	CA	US
Bond yields		
2Y	4.19	4.45
5Y	3.65	4.12
10Y	3.55	4.15
30Y	3.43	4.35
Credit spreads		
IG corporate bonds	133	99
HY bonds	308	338

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Rooted in history, innovating for the future.

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