

Keys to the market

What happened this week

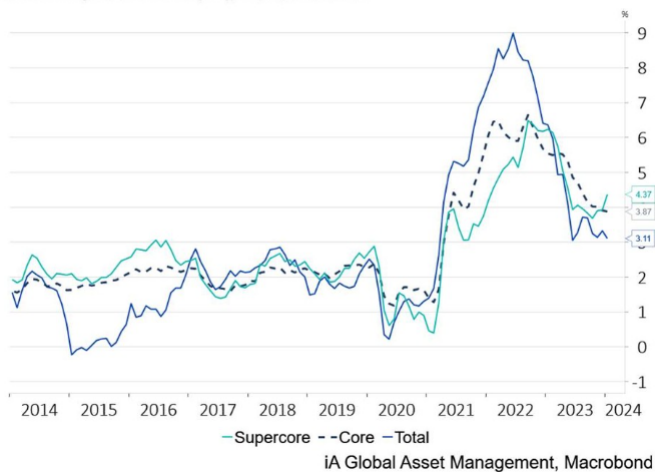
February 16, 2024

In Canada, the housing market experienced a deceleration in January, with housing starts falling by 10% compared to the previous month. On a year-over-year basis, however, housing starts have seen significant growth, driven by high multi-unit starts, notably in Toronto. Manufacturing sales for December followed a downward trend due to poor performance in motor vehicle sales. Conversely, wholesale sales saw an uptick in December, with personal and household goods leading the way.

In the U.S., the CPI report revealed stronger than expected inflation in January, primarily due to increases in rent and housing costs. This news had a negative impact on stocks and bonds as hopes of imminent interest rate cuts were dampened, and the U.S. dollar saw its most significant decline in 11 months. Meanwhile, January retail sales declined by more than expected, ending a two-month growth streak, as consumers continued to struggle with higher interest rates and draw down on their pandemic savings. Housing starts fell in January, while building permits rose, suggesting a potential rebound in the near future. Finally, PPI data released at the end of the week was higher than expected, buoyed by a rise in service costs and highlighting the sticky nature of inflation.

U.S.: Total, Core & Supercore Inflation

U.S. Bureau of Labor Statistics (BLS), YoY, %, as at 1/2024



Bond market

The stickiness of inflation in the US was the main story last week as both CPI and PPI came in hotter than expected, pushing 10-year treasuries up about 20 basis points to hover

Highlights

- In Canada, housing starts decreased significantly in January.
- In the United States, CPI and PPI were higher than expected, highlighting the sticky nature of inflation.

On our radar

- Canada: PPI, CPI, and inflation rate for January, retail sales for December 2023
- United States: Minutes of Fed's January FOMC meeting and existing home sales for January

around 4.3%. Not helping matters was talk from U.S. Fed officials that cuts, when they do come, will not start until the summer, with the data supporting their sentiment. We were never big believers in cuts for March or May and similarly view June as the more likely commencement time frame. In contrast to rates, spreads took the inflation data in stride, with both IG and HY moving lower as prices in those markets poised for perfection, offering little to no value given a backdrop of elevated geopolitical risk and uncertainty over the impact of policy rates on the economy.

Stock market

The S&P 500 ended the week mostly flat after experiencing a roller coaster ride due to the latest CPI and PPI data, which came out hotter than expected and triggered a selloff on the day of their release.

UBER held an investor update this week, providing a 3-year outlook that exceeded investors' expectations, driving the share price up by 15%. Semiconductor company Applied Materials reported first-quarter results and a better-than-expected outlook for the second quarter, fueled by DRAM (HBM) strength and stable China orders.

Furthermore, Apple has accelerated development ahead of schedule for a Microsoft GitHub Co-pilot-like tool for Xcode, which is expected to include the use of AI to generate and complete blocks of code. In other news, OpenAI unveiled a demo of 'Sora', its new AI-driven text-to-video generation model capable of producing realistic 1080p 60-second clips that could prove to be a competitor to companies like Adobe.

Markets (Total Return, in CAD)

| As of February 15, 2024 | WTD % | MTD % | YTD % | 1Y % | 3Y % | 5Y % |
|-----------------------------------|-------|-------|-------|-------|-------|-------|
| Equities | | | | | | |
| S&P 500 | 0.40 | 4.97 | 8.15 | 23.99 | 12.49 | 14.92 |
| S&P/TSX | 1.09 | 1.03 | 1.59 | 5.85 | 7.97 | 9.36 |
| NASDAQ | -0.37 | 5.22 | 8.58 | 41.51 | 11.15 | 20.79 |
| MSCI ACWI | 0.57 | 3.77 | 6.40 | 19.50 | 9.16 | 11.92 |
| MSCI EAFE | 0.91 | 0.65 | 2.57 | 10.82 | 4.65 | 7.07 |
| MSCI EM | 1.54 | 4.39 | 0.87 | 3.93 | -6.54 | 2.74 |
| Commodities (USD) | | | | | | |
| Gold | -0.98 | -1.72 | -2.84 | 9.17 | 3.29 | 8.67 |
| CRB | 0.64 | 0.56 | 2.76 | -5.06 | 3.71 | 4.87 |
| WTI | 1.55 | 2.87 | 8.90 | -0.71 | 9.48 | 7.02 |
| Fixed income | | | | | | |
| FTSE TMX Canada Universe | 0.05 | -0.97 | -2.32 | 3.28 | -2.88 | 0.51 |
| FTSE TMX Canada Long | 0.10 | -1.63 | -4.86 | 2.90 | -6.33 | -0.87 |
| FTSE TMX Canada Corporate Overall | 0.10 | -0.56 | -1.23 | 5.47 | -1.30 | 1.86 |
| Currencies | | | | | | |
| DXY | 0.18 | 0.99 | 2.92 | 0.36 | 4.85 | 1.48 |
| USDCAD | 0.04 | 0.22 | 1.68 | 0.53 | 2.13 | 0.33 |
| USDEUR | 0.11 | 0.42 | 2.47 | -0.78 | 4.03 | 0.95 |
| USDJPY | 0.43 | 2.05 | 6.30 | 11.75 | 12.47 | 6.30 |
| USDGBP | 0.23 | 0.71 | 1.04 | -4.51 | 3.34 | 0.46 |

Source: iA Global Asset Management, Bloomberg

| | CA | US |
|-----------------------|------|------|
| Bond yields | | |
| 2Y | 4.25 | 4.57 |
| 5Y | 3.68 | 4.21 |
| 10Y | 3.54 | 4.23 |
| 30Y | 3.41 | 4.41 |
| Credit spreads | | |
| IG corporate bonds | 131 | 97 |
| HY bonds | 298 | 335 |

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Rooted in history, innovating for the future.

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