Keys to the market

What happened this week

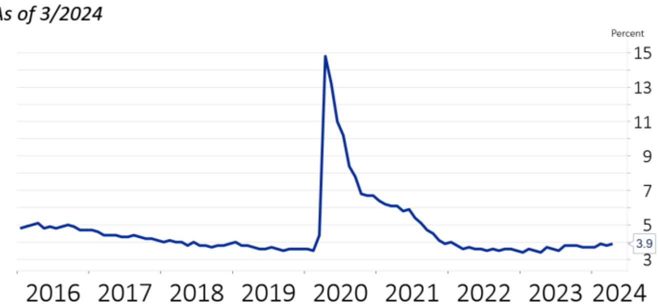
May 3, 2024

In Canada, higher gasoline prices pushed the annual inflation rate to 2.9% in March, in line with the Bank of Canada's projections. But March also saw a dip in core inflation to 2%, the lowest level since March 2021, and flat GDP growth, reflective of mixed economic conditions. These factors, paired with a contraction in manufacturing activity, affected the stock and bond markets, causing a measured response this week on the part of investors.

In the United States, the Fed kept the target range for the federal funds rate unchanged, marking the sixth consecutive hold against a backdrop of elevated inflation and a tight labour market. The persistent inflationary pressure is affecting the job market, with an underwhelming 175,000 jobs added in April and a rise in the unemployment rate to 3.9%, defying market expectations. Even so, the markets responded optimistically, as the weaker-than-expected job report bolstered hopes for a potential rate cut by the Fed. Expectations of a monetary policy shift to lower rates fuelled positive market sentiment, indicating that what's troublesome for the job market might be beneficial for investors.

Unemployment Rate

As of 3/2024



iA Investment Management, Macrobond

Highlights

- In Canada, mixed economic conditions and a dip in core inflation influenced a cautious investor response.
- In the United States, a weaker job report subtly hinted at potential favourable policy adjustments, fuelling market optimism.
- On our radar
- Canada: Unemployment rate and Ivey PMI for April
- United States: Wholesale inventories and monthly federal budget for April

Bond market

After April's sticky inflation data had U.S. investors thinking the Fed might not cut policy rates at all this year, a dovish interpretation of the language surrounding the non-move at last week's FOMC meeting, combined with labour numbers that were much weaker than expected, shaved roughly 20 basis points off the 10-year Treasury yield to bring it back to about 4.5%. As we have noted for some time, we think the Fed will begin reducing rates this year and we have always expected the path to lower yields to be bumpy. Nonetheless, the 50-basis-point rise in 10-year Treasuries in April and the subsequent 20-basis-point reduction at the start of May show just how wound up the North American fixed income market is over the Fed's policy-rate intentions. The market is now pricing in a 25-basis-point cut in September and 50 basis points for the whole year.

Meanwhile, in Canada, it's increasingly looking like the BoC will start chopping this summer, with three cuts by year-end. IG and HY credit seem undeterred by all the volatility in underlying rates, with both staying near recent lows of about 90 and 300 basis points, respectively. Decent earnings performances so far this quarter have underpinned the tightness, even though the equity markets have been more volatile of late, largely because of policy-rate concerns.

Stock market

The S&P 500 Index was up this week on a slight de-escalation of tensions in the Middle East, and the Fed's reiterating its messaging at the FOMC meeting. As expected, rates were left unchanged, and the door was left open for cuts later this year, should the economic data improve.

Bellwether stock Mastercard reported surprisingly negative results this week. Even though it beat on profits, consumer spending on its payment network in the first quarter fell short of expectations. Moreover, spending declined in April, leading the company to cut full-year net revenue guidance to the lower end of low-double digits.

In contrast, Qualcomm rose the most in two years after it issued an optimistic forecast for the year, suggesting the bottom is in for the smart-phone cycle. The company suggested demand would return gradually, led by China. The only sore spot was IoT, which remains sluggish.

Lastly, Apple surpassed expectations with its results and offered guidance indicating an acceleration in growth. It hinted that AI features would be unveiled at the WWDC conference in June, a development that is likely to drive a fresh upgrade cycle for iPhone users.

Markets
(Total return, in CAD)

As of May 2, 2024	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	-0.52	0.35	10.87	25.61	12.25	13.97
S&P/TSX	-0.64	0.50	5.21	10.50	7.77	9.19
NASDAQ	-0.83	0.36	8.38	34.58	12.14	18.27
MSCI ACWI	-0.19	0.29	9.55	21.11	9.70	11.16
MSCI EAFE	0.64	-0.05	7.34	11.19	6.70	6.71
MSCI EM	1.33	0.47	7.74	12.11	-1.61	2.80
Commodities (USD)						
Gold	-1.46	0.77	11.67	14.24	9.20	12.64
CRB	-1.50	-0.91	6.06	-0.46	0.57	5.28
WTI	-5.84	-3.64	10.19	10.17	7.48	5.02
Fixed income						
FTSE TMX Canada Universe	0.75	0.62	-2.60	-0.32	-2.00	0.08
FTSE TMX Canada Long	1.37	1.03	-6.95	-4.33	-5.03	-1.91
FTSE TMX Canada Corporate Overall	0.62	0.50	-0.68	3.28	-0.28	1.55
Currencies						
DXY	-0.60	-0.87	3.91	3.28	4.88	1.48
USDCAD	0.02	-0.75	3.25	0.35	3.63	0.29
USDEUR	-0.30	-0.55	2.93	2.56	3.87	0.82
USDJPY	-2.96	-2.64	8.93	12.52	12.02	6.62
USDGBP	-0.34	-0.34	1.57	-0.54	3.29	0.78

	CA	U.S.
Bond yields		
2Y	4.25	4.87
5Y	3.77	4.57
10Y	3.74	4.58
30Y	3.63	4.73
Credit spreads		
IG corporate bonds	125	90
HY bonds	268	316

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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