

Keys to the market

What happened this week

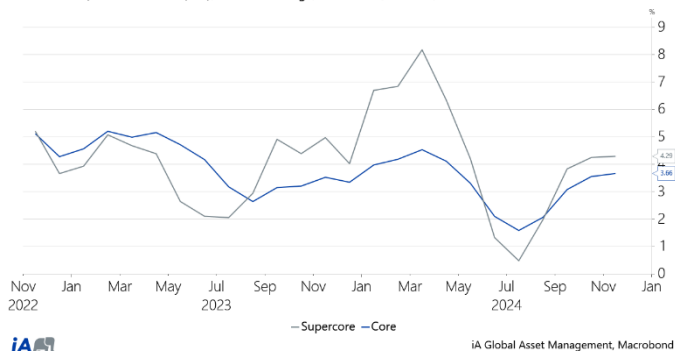
December 13, 2024

In Canada, the Bank of Canada cut its key interest rate by 50 basis points for the second consecutive time, for a total of 175 basis points of cuts from this cycle's peak. This move followed weaker-than-expected GDP growth and concerns about fourth-quarter performance. Despite the cuts, the central bank indicated a more cautious approach to future rate adjustments. Building permits fell 3.1% month over month in October, while manufacturing sales rose 2.1%, driven by petroleum and coal products. Wholesale sales increased by 1.0%, led by motor vehicles and building materials.

In the United States, core consumer prices rose by 0.3% month over month in November, consistent with the previous three months. Annual core inflation remained at 3.3%, reflecting steady underlying price trends. The overall CPI increased by 0.3%, driven by rises in shelter, food, and energy prices, indicating broad-based price increases. Producer prices also saw a notable increase of 0.4% month over month, led by a sharp rise in food prices, particularly chicken eggs. The Federal Reserve will take these price movements into consideration in its efforts to balance price stability with economic growth.

U.S.: Core & Supercore Inflation

U.S. Bureau of Labor Statistics (BLS), 3-month change, annualized, as at 11/2024



Bond market

The bond market took back some of its post-U.S.-election gains this week, with 10-year Treasuries tacking on 15+ basis points to move back above 4.35%, despite all-but-certain expectations the Fed will move ahead with another 25-basis-point rate cut at its meeting next week. The move higher in U.S. yields was steady all week and coincided with a steepening of the 2s-10s credit curve by 10+ basis points as inflation figures showed that levels remain fairly sticky.

Highlights

- In Canada, the Bank of Canada cut rates by 50 basis points; mixed economic data followed.
- In the United States, core consumer and producer prices rose in line with expectations.

On our radar

- The "Keys to the market" will be on pause for the holidays.
- Next publication: January 10, 2025.

In Canada, the BoC's 50-basis-point rate cut provided only brief respite for the bond market, with 10-years up north adding 10+ basis points to move above 3.15%, partly because the bank said it will most likely reduce its pace of accommodation. As we have noted for some time, we think yields are headed lower, albeit not in a straight line. Higher sovereign yields were no issue for credit spreads as levels continued to plumb multiyear lows, with ongoing demand spurred partially by a red-hot annuities market, a trend we see continuing, at least in the near term.

Stock market

The S&P 500 Index ended the week in positive territory, despite a volatile start marked by a pullback in the momentum factor. In a major highlight, Broadcom reported impressive fourth-quarter 2024 results, with revenue meeting and earnings surpassing Wall Street's expectations. The company's CEO, Hock Tan, made very bullish comments about the potential for the AI-chip market, projecting AI-driven revenue to soar to between \$60 billion and \$90 billion by 2027. This optimistic outlook sent Broadcom's shares surging and significantly boosted the tech sector.

Additionally, Ciena highlighted strong growth potential driven by AI and cloud computing. The company projected 8% to 11% annual revenue growth over the next three years, fuelled by increasing demand for AI infrastructure. This positive outlook led to a significant rally in Ciena's stock, further emphasizing the strength of the AI theme in the market.

The Goldman Sachs Financial Services Conference this week saw a generally positive backdrop, with many companies expressing optimism about their financial health and consumer resilience. This sentiment further bolstered market confidence and contributed to the week's overall gains.

Markets

(Total return, in CAD)

As of December 12, 2024	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	-0.30	1.68	38.27	37.78	14.51	17.32
S&P/TSX	-1.06	-0.85	24.70	29.47	10.14	11.82
NASDAQ	0.29	4.62	38.19	37.82	13.88	22.38
MSCI ACWI	-0.42	1.76	31.66	31.94	11.96	13.98
MSCI EAFE	-0.40	2.30	15.40	16.73	7.32	7.47
MSCI EM	1.13	4.64	20.16	22.35	3.22	5.19
Commodities (USD)						
Gold	1.80	1.42	29.94	35.42	14.56	12.77
CRB	0.56	0.91	5.93	4.84	-1.80	6.49
WTI	4.20	2.97	-2.27	2.06	-0.77	3.42
Fixed income						
FTSE TMX Canada Universe	-0.88	-0.32	4.62	6.86	-0.16	0.89
FTSE TMX Canada Long	-1.77	-1.23	2.86	6.31	-3.39	-1.16
FTSE TMX Canada Corporate Overall	-0.60	-0.04	7.08	9.32	1.77	2.40
Currencies						
DXY	0.85	1.15	5.55	2.98	3.63	1.89
USDCAD	0.45	1.53	7.38	4.63	3.78	1.52
USDEUR	0.95	1.04	5.45	3.12	2.63	1.23
USDJPY	1.75	1.91	8.22	4.94	10.40	6.90
USDGBP	0.56	0.48	0.46	-0.87	1.56	0.76

Source: iA Global Asset Management, Bloomberg

	CA	U.S.
Bond yields		
2Y	2.98	4.19
5Y	2.95	4.18
10Y	3.14	4.33
30Y	3.24	4.54
Credit spreads		
IG corporate bonds	109	79
HY bonds	283	266

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Rooted in history, innovating for the future.

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