

Keys to the market

What happened this week

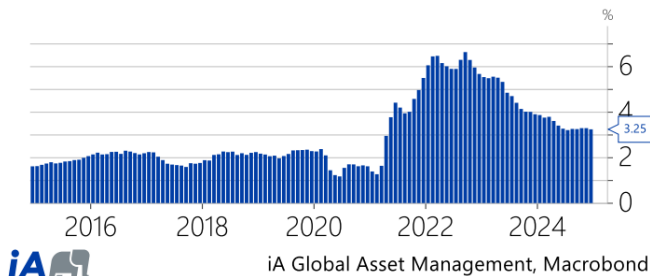
January 17, 2025

In Canada, December's housing market data showed that housing starts were down by 13.35% month over month, although Montreal experienced a recovery. Vancouver and Toronto saw 15% and 20% year-to-date declines from their historically high levels in 2023. In contrast, manufacturing sales rose by 0.8% on record sales in the aerospace sector. Wholesale sales fell 0.2% on a month-over-month basis in November, although the preliminary estimate was a 0.7% decline after a 1.0% increase in October.

In the United States, the December inflation figures showed the core consumer price index, which excludes items linked to food and energy, had slowed, rising only 0.2% from the previous month. The annual inflation rate in the U.S. saw the third consecutive monthly increase, going from 2.7% in November to 2.9% in December. Additionally, building permits fell by 0.7% in December, exceeding the initial prediction. Meanwhile, housing starts surged by 15.8%, indicating a robust building industry. Furthermore, retail sales were up by 0.4% on a month-over-month basis in December; it was the lowest rate in four months and possibly indicated a mild slowdown in consumer spending.

US CPI: Core YoY%

U.S. Bureau of Labor Statistics (BLS), as at 12/2024



iA Global Asset Management, Macrobond

Bond market

The fixed income market enjoyed a strong rally this week as softer-than-expected inflation data in the United States allayed concerns that the Fed would halt or even reverse its accommodative orientation. After cresting near 4.8%, the 10-year U.S. Treasury yield fell more than 20 basis points to dip below 4.6%, as the futures market began pricing in the next cut for June and a second by year-end. Canada's 10-year saw a similar improvement to hover around 3.3%, with futures pricing in an 80% chance the BoC will cut later this month and once more after that by year-end. Despite the market's concerns that escalating trade tensions and tariffs may accelerate inflation, we are still convinced that yields will head lower this year, given the

Highlights

- Canada had a 13.35% decline in housing starts but saw a recovery in Montreal. Manufacturing sales rose by 0.8%.
- In the United States, the annual inflation rate increased to 2.9% in December, and housing starts surged by 15.8%.

On our radar

- Canada: Inflation rate, retail sales, manufacturing sales, and new housing price index for December.
- United States: Inauguration Day, existing home sales for December and S&P Global Composite PMI for January.

backdrop of easing central bank policy in both Canada and the U.S., albeit with ongoing volatility.

In the credit space, spreads remained pretty firm after softening a little in the second half of December. U.S. IG still sits at about 80 basis points, while U.S. HY is hovering at 270. A decent start to the earnings season maintained support for spread product, allowing U.S. investors to absorb considerable new issue supply without any problems, while Canada was rather quiet after heavy prefunding last year.

Stock market

This week, investors felt a sense of relief when the December CPI inflation reading brought few surprises in contrast to last week's employment report. The headline inflation number rose less than expected, while the core inflation metric slowed for the first time in four months, leading to a rally on the S&P 500 and raising hopes of an earlier interest rate cut.

In other news, Taiwan Semiconductor reported quarterly sales and capital expenditures that exceeded analysts' estimates, reigniting optimism about strong demand for AI hardware this year. The company plans to spend \$38 billion to \$42 billion on capacity expansion in 2025, a significant increase from less than \$30 billion last year. This news spurred a rally among U.S. and European chip equipment companies, including Applied Materials and ASML Holding.

Lastly, shares of Eli Lilly declined after fourth-quarter revenues from its weight-loss drugs fell short of high expectations, raising concerns about the sustainability of demand. Management attributed the shortfall to temporary stocking issues and provided a bullish forecast for 2025. Even so, as with Novo Nordisk, the management team faces credibility challenges after missing estimates for two consecutive quarters.

Markets (Total return, in CAD)

As of January 16, 2025	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	1.66	1.05	1.05	34.82	15.24	16.40
S&P/TSX	0.33	0.58	0.58	22.29	8.54	10.64
NASDAQ	0.92	0.43	0.43	33.76	15.72	20.59
MSCI ACWI	1.63	1.14	1.14	28.95	12.39	13.16
MSCI EAFE	1.45	1.01	1.01	14.05	6.78	6.88
MSCI EM	0.68	-0.66	-0.66	19.62	2.18	3.50
Commodities (USD)						
Gold	0.91	3.42	3.42	33.81	14.29	11.82
CRB	-0.14	-0.13	-0.13	5.85	-2.50	5.47
WTI	2.76	9.70	9.70	8.67	-2.09	6.10
Fixed income						
FTSE TMX Canada Universe	0.75	-0.62	-0.62	5.42	0.09	0.47
FTSE TMX Canada Long	1.29	-1.66	-1.66	3.95	-3.38	-2.14
FTSE TMX Canada Corporate Overall	0.61	-0.42	-0.42	7.89	2.04	2.01
Currencies						
DXY	-0.63	0.43	0.43	5.42	4.61	2.28
USDCAD	-0.19	0.08	0.08	6.67	4.67	1.99
USDEUR	-0.54	0.51	0.51	5.58	3.48	1.57
USDJPY	-1.63	-1.30	-1.30	5.41	10.76	7.09
USDGBP	-0.26	2.27	2.27	3.26	3.77	1.34

Source: iA Global Asset Management, Bloomberg

	CA	U.S.
Bond yields		
2Y	2.96	4.23
5Y	3.06	4.40
10Y	3.34	4.61
30Y	3.47	4.85
Credit spreads		
IG corporate bonds	105	83
HY bonds	277	273

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Rooted in history, innovating for the future.

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