

Keys to the market

What happened this week

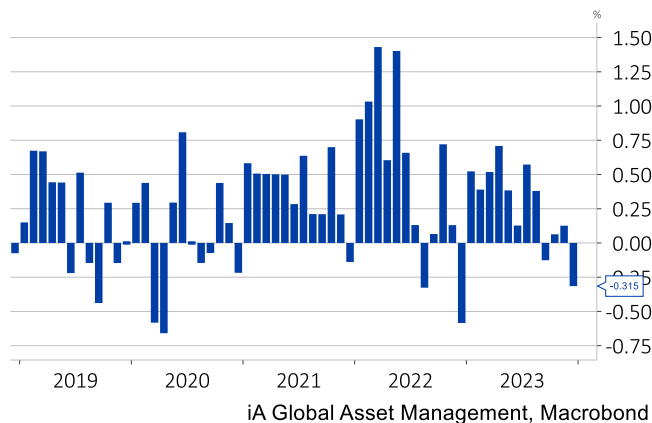
January 19, 2024

In Canada, housing starts for December exceeded expectations, driven by an increase in multiunit urban starts in Vancouver and Montreal and marking a significant rise from the previous month (+18%). That being said, on an annual basis, starts for 2023 were down 7% from 2022, mainly because of a decline in single-detached starts. Moreover, Canada's monthly Consumer Price Index (CPI) for December contracted slightly, but annual inflation rose in line with estimates, dashing hopes that the central bank would start cutting rates early this year. Meanwhile, the latest retail sales figures for November revealed a slowdown in the sector, led by declining sales for food and beverage retailers, as well as general merchandise retailers.

In contrast, the United States experienced an increase in retail sales in December, surpassing expectations and highlighting the resilience of the U.S. economy during the holiday-shopping season, despite recession fears. As for the housing sector, starts fell in December, marking the first decrease in four months. Even so, building permits, which represent future construction, saw an increase during the month, rising to the strongest pace since May 2022 and reflecting a positive outlook amid falling mortgage rates.

Canada: Total Inflation

Statistics Canada, % change MoM, as at 12/2023



Bond market

There was not much holiday spirit in the fixed income market despite the holiday-shortened week in the United States as 10-year Treasury yields rose about 20 basis points to close in on 4.20%. There was notable pushback from U.S. Fed officials, who reiterated their higher-for-longer mantra, putting a damper on the market's expectations of when cuts will start, with March

Highlights

- In Canada, annual CPI for December rose as expected.
- In the United States, retail sales edged higher in December, showcasing the economy's resilience.

On our radar

- Canada: BoC interest rate decision, new housing price index and wholesale sales for December
- United States: PCE for December and S&P flash U.S. services PMI for January

now mostly taken off the table. We still think bond yields are ultimately headed lower, but as we noted previously, they will not follow a straight line down. Next week we have U.S. GDP and PCE data to guide the fixed income markets, as well as the BoC's rate decision. Spread product continued to see some support this week, with IG shaving off several more basis points, while HY was roughly unchanged. Fund flow data for the past few weeks have shown consistent movement into corporate bond funds, in a sign that investors are ignoring the possibility of a meaningful slowdown in economic activity.

Stock market

The S&P 500 Index was flat this week, amid a trickle of economic data supporting the view of a continuously resilient U.S. economy. Weekly jobless claims fell to a 16-month low, and retail sales for December came in hotter than expected.

In another bullish sign of sustained AI hardware demand, Meta's CEO announced that it will be the company's biggest investment area in 2024. By year-end, the company expects to have acquired 350,000 Nvidia H100 GPUs for a total of almost 600,000 H100 equivalents. At the low end, the cost will be \$9 billion, or 30% of Meta's estimated capex spending for 2024.

As well, much like UnitedHealth Group last week, Humana also reported quite a negative quarter. The company issued an 8-K detailing a significant miss on margins for the fourth quarter of 2023 because of an uptick in procedures and also gave anemic guidance for 2024.

Markets (Total Return, in CAD)

As of January 18, 2024	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	0.92	2.81	2.81	24.74	12.10	14.73
S&P/TSX	-1.10	-0.84	-0.84	5.29	8.20	9.63
NASDAQ	1.87	3.46	3.46	50.09	12.00	20.62
MSCI ACWI	0.18	1.71	1.71	18.75	8.73	11.71
MSCI EAFE	-1.55	-0.45	-0.45	6.95	4.45	6.91
MSCI EM	-2.57	-3.71	-3.71	-3.06	-6.48	2.10
Commodities (USD)						
Gold	-1.26	-1.92	-1.92	6.26	3.19	9.55
CRB	0.56	-0.55	-0.55	-9.38	3.78	4.29
WTI	1.93	3.39	3.39	-6.79	12.26	6.61
Fixed income						
FTSE TMX Canada Universe	-1.71	-2.56	-2.56	-0.15	-3.35	0.77
FTSE TMX Canada Long	-3.50	-5.71	-5.71	-3.73	-7.49	-0.54
FTSE TMX Canada Corporate Overall	-1.26	-1.89	-1.89	2.76	-1.79	2.06
Currencies						
DXY	1.11	2.17	2.17	1.15	4.49	1.45
USDCAD	0.57	1.84	1.84	-0.04	1.87	0.34
USDEUR	0.68	1.49	1.49	-0.76	3.55	0.88
USDJPY	2.26	5.05	5.05	14.94	12.63	6.18
USDGBP	0.37	0.19	0.19	-2.82	2.26	0.26

Source: iA Global Asset Management, Bloomberg

	CA	US
Bond yields		
2Y	4.06	4.35
5Y	3.54	4.05
10Y	3.49	4.14
30Y	3.43	4.37
Credit spreads		
IG corporate bonds	139	101
HY bonds	338	358

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Rooted in history, innovating for the future.

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