

Keys to the market

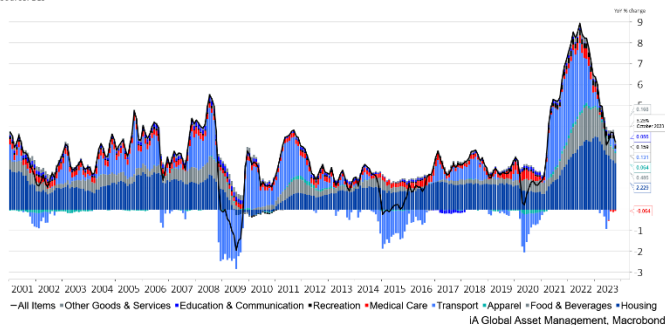
What happened this week

November 17, 2023

In Canada, manufacturing sales rose in September, bolstered by higher energy prices and surpassing expectations. Even so, real manufacturing sales actually decreased during the month, indicating a lower volume of goods sold. Housing starts pointed upward in October, driven by an increase in multi-unit and single-detached urban starts. In contrast, PPI data showed a decline in October, led by weakening crude oil prices and gasoline demand.

In the United States, all eyes were on the CPI numbers, which remained flat in October. Inflation reached a two-year low, reducing the likelihood of additional Fed rate hikes. Stocks and bonds alike rallied on the news, as market participants began pricing in the current tightening cycle. U.S. PPI for October saw the biggest decline in three and a half years amid a sharp drop in gasoline prices. Retail sales also slowed, possibly in an early warning of an economic downturn as U.S. consumers cope with higher borrowing costs and mounting credit card debt.

U.S.: Contributions to inflation
Source: BLS



Bond market

Bond yields continued to plunge, as lower-than-expected CPI and stronger jobless claims in the United States fuelled expectations that the current hiking cycle is over, with futures now pricing in a whopping four rate cuts in 2024. After peaking at about 5% in mid-October, 10-year Treasury yields have shaved off roughly 50 basis points amid a return to the high levels of fixed income volatility that have characterized much of the current hiking cycle, as investors contend with the largest and fastest policy rate increases in decades. Paradoxically, the weaker-than-expected economic data released during the week spurred risk asset pricing, as a resumption of “bad is good” sentiment gripped those markets, especially because the soft landing narrative permeates investor expectations. IG spreads narrowed several more basis points and are down almost 15 basis points since the start of November to below 120 and are approaching year-to-date lows. Conversely, HY spreads were flattish, with escalating defaults providing some cause for

Highlights

- In Canada, PPI declined in October owing to lower crude oil and gasoline prices.
- In the United States, CPI hit a two-year low in October.

On our radar

- Canada: Retail sales for September, CPI and wholesale sales for October
- United States: Existing home sales and durable goods orders for October, consumer sentiment for November

concern. We still think a soft landing in the U.S. is exceedingly optimistic, given the aggressive monetary policy of the past couple of years and the Fed’s sticktoitiveness in endeavouring to tame inflation fully.

Stock market

The S&P 500 Index was up this week on the back of a stream of positive economic data. Most notably, the October CPI report showed that consumer prices rose at a slower pace than expected across the board. The core metric was up 0.2% month-over-month, or 2.8% on an annualized basis.

In earnings news, Cisco was down almost 10% on guidance below analysts’ estimates. The company cited a difficult macro environment, particularly for large enterprises, as customers cut spending materially and pushed back installation of previously received products.

Walmart also reported a mixed quarter and issued a cautious outlook owing to signs of weakness in U.S. consumer spending, citing a “sharper falloff” in sales in the last two weeks of October. Higher interest rates and student loan repayments may also be weighing on demand. Lastly, in perhaps welcome news, the CEO made mention of a possible deflationary period in the coming months.

Markets

(Total Return, in \$CAD)

As of November 16, 2023	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	1.48	6.55	20.84	19.57	11.07	13.43
S&P/TSX	2.12	6.35	6.41	3.85	9.12	9.10
NASDAQ	1.26	8.78	46.80	39.73	11.49	19.25
MSCI ACWI	1.85	6.41	17.62	17.45	8.54	10.69
MSCI EAFE	2.73	5.82	11.39	14.86	5.22	6.44
MSCI EM	2.88	6.31	6.96	9.59	-2.17	3.71
Commodities (USD)						
Gold	2.10	-0.15	8.60	11.67	1.60	10.12
CRB	0.27	-1.13	-3.85	-6.31	8.27	5.06
WTI	-5.53	-10.02	-9.17	-14.83	20.81	5.24
Fixed income						
FTSE TMX Canada Universe	0.97	2.75	1.63	1.09	-3.93	0.62
FTSE TMX Canada Long	1.70	5.65	0.48	-0.79	-8.32	-0.72
FTSE TMX Canada Corporate Overall	0.87	2.28	3.40	3.79	-2.19	1.74
Currencies						
DXY	-1.43	-2.17	0.80	-1.82	4.05	1.58
USDCAD	-0.33	-0.86	1.48	3.20	1.71	0.91
USDEUR	-1.53	-2.55	-1.35	-4.21	2.99	1.02
USDJPY	-0.52	-0.63	14.96	8.05	12.96	5.96
USDGBP	-1.50	-2.10	-2.67	-4.03	2.07	0.67

Source: iA Global Asset Management, Bloomberg

	CA	US
Bond yields		
2Y	4.45	4.84
5Y	3.80	4.42
10Y	3.68	4.44
30Y	3.50	4.61
Credit spreads		
IG corporate bonds	159	121
HY bonds	351	402

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Rooted in history, innovating for the future.

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