

# Keys to the market

## What happened this week

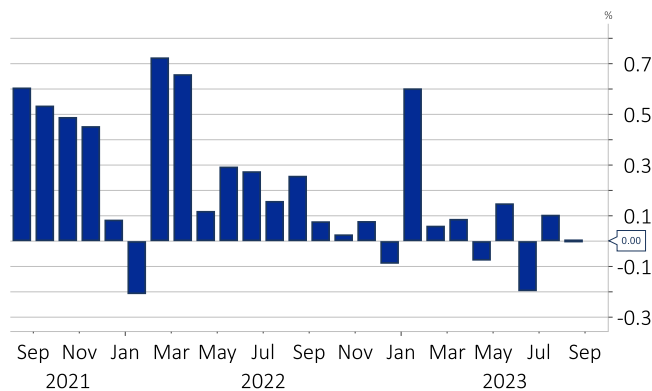
November 3, 2023

In Canada, the economy is showing signs of weakness, with GDP remaining flat in August. The effects of monetary policy are increasingly apparent, suggesting that the Bank of Canada may have finished hiking rates. Moreover, October saw the weakest job gains in more than a year, while unemployment rose to a 21-month high, indicating further deterioration of economic conditions.

In the United States, the Federal Reserve left its policy rate unchanged for the second consecutive time. Inflation has gradually decreased this year, but getting it down to the Fed's target range remains a challenge. The markets have priced in steady interest rates, with a cut expected in May 2024. The U.S. manufacturing sector contracted sharply in October as new orders and employment declined. Additionally, job growth surprised on the downside, slowing in October, while unemployment ticked slightly higher during the month. Both stocks and bonds rallied on the news, while the U.S. dollar edged lower.

### Canada: Monthly % Change in Real GDP

Statistics Canada, as at 8/2023



iA Global Asset Management, Macrobond

### Bond market

This week saw a significant rally in fixed income, with 10-year Treasuries dropping more than 40 basis points to hover around 4.5% in a complete sea change of market sentiment. The Fed's decision to leave its policy rates unchanged did not really affect the market, as softening sentiment indicators and weaker-than-forecast labour numbers drove most of the price improvement, along with lower-than-expected funding from the U.S. government over the near term. Next week we will get more insight into economic sentiment and labour conditions with

### Highlights

- Canadian GDP was flat in August, indicating a weakening economy.
- In the United States, the Fed kept its policy rate unchanged for the second consecutive month.

### On our radar

- Canada: Building permits and manufacturing sales for September, housing starts and PPI for October
- United States: Wholesale inventories for September and initial jobless claims

various data releases, but it seems market momentum has shifted toward getting prepared for slowing economic conditions and the likelihood the Fed is done. Oddly, risk assets turned in a "bad is good" performance; IG spreads dropped 5+ basis points and HY plummeted more than 40 on the week, making gains on the idea that policy rates have peaked.

### Stock market

As a result of a generally decent earnings season, the S&P 500 Index reversed course after two weeks of downward slide. Two of the main catalysts for this week's performance were a somewhat dovish tone by Fed chair Powell during the FOMC meeting and the slowing of U.S. job growth in October, with the unemployment rate rising from 3.8% to 3.9%.

Earnings season continued this week with mixed results. Apple's sales forecast for the fourth quarter missed the street's consensus, owing to weak demand for iPads and wearables. More than 80% of the S&P 500 companies have reported, with nearly 50% beating on both EPS and sales. The numbers are closer to 70% and 60% for EPS and sales alone, respectively. Most of the beat comes from mega-cap tech stocks, which speaks of their durability into the new year.

## Markets (Total Return, in \$CAD)

As of November 2, 2023	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
<b>Equities</b>						
S&P 500	4.40	2.27	15.99	18.17	12.40	12.70
S&P/TSX	4.77	3.99	4.05	5.24	11.01	8.68
NASDAQ	4.72	2.84	38.79	38.41	11.82	17.64
MSCI ACWI	3.94	2.35	13.13	17.39	10.15	9.86
MSCI EAFE	2.66	2.30	7.69	18.28	7.62	5.53
MSCI EM	0.72	1.02	1.64	11.22	-1.85	2.51
<b>Commodities (USD)</b>						
Gold	-1.03	0.10	8.87	21.44	1.56	10.00
CRB	-0.54	-0.22	-2.97	-2.20	9.57	5.20
WTI	-3.60	1.78	2.74	-8.38	30.85	5.48
<b>Fixed income</b>						
FTSE TMX Canada Universe	0.82	1.42	0.31	1.61	-4.40	0.57
FTSE TMX Canada Long	1.55	3.13	-1.92	0.17	-9.16	-0.81
FTSE TMX Canada Corporate Overall	0.69	1.12	2.22	4.21	-2.40	1.66
<b>Currencies</b>						
DXY	-0.41	-0.51	2.51	-4.69	4.08	1.91
USDCAD	-0.94	-0.98	1.36	0.20	1.30	0.94
USDEUR	-0.53	-0.43	0.79	-7.56	3.10	1.40
USDJPY	0.53	-0.81	14.74	1.72	12.84	5.85
USDGBP	-0.65	-0.40	-0.98	-6.64	1.92	1.22

Source: iA Global Asset Management, Bloomberg

	CA	US
<b>Bond yields</b>		
2Y	4.55	4.99
5Y	3.95	4.63
10Y	3.85	4.66
30Y	3.64	4.80
<b>Credit spreads</b>		
IG corporate bonds	163	129
HY bonds	363	415

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### Rooted in history, innovating for the future.

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