

Keys to the market

What happened this week

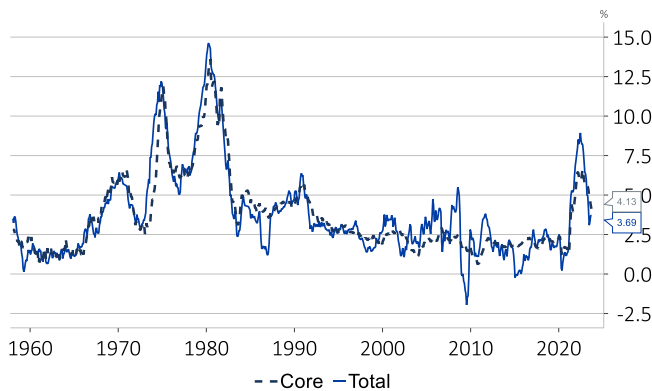
October 13, 2023

Canada saw few economic updates this week. Notably, building permits increased by more than expected in August, driven by strong gains in the non-residential sector, which offset declines in the residential sector.

Meanwhile, in the United States, the Fed minutes released on Wednesday highlighted the consensus amongst officials that monetary policy has been effective in curbing economic growth. The Fed's primary focus is no longer on the degree of restrictions required but, rather, on sustaining the current stance to help inflation reach its target. September's PPI figures came in stronger than expected, bolstered by higher gasoline prices, and suggested that inflation remains sticky, despite being well below the levels seen last year. Surprisingly, the cost of goods outpaced the cost of services for the second consecutive month, in a departure from the recent trend. CPI for September also surprised on the upside, driven by shelter costs, while displaying a slight deceleration from the previous month. Additionally, geopolitical tensions in the Middle East led to increased market volatility as investors continued to monitor the situation closely.

U.S.: Total & Core Inflation

U.S. Bureau of Labor Statistics (BLS), YoY, %, as at 9/2023



iA Global Asset Management, Macrobond

Bond market

We saw several big swings in bond yields this week as the markets reacted strongly to the crisis unfolding in Israel. Levels initially dropped 10 basis points, only to give it all back and then some on U.S. CPI data that were modestly stronger than expected. Even so, the week ended with yields coming down again, as the situation in Israel seemed about to intensify; 10-year Treasuries ended at about 4.6%, or 10 basis points or so below where they started. We expect market sentiment to

Highlights

- Building permits in Canada came in stronger than expected, led by the non-residential sector.
- U.S. PPI and CPI exceeded expectations, indicating that inflation remains sticky.

On our radar

- Canada: Wholesale and retail sales for August; housing starts, CPI and PPI for September
- United States: Retail sales and housing starts for September

vacillate over the near term between a flight to quality caused by geopolitical risks and selling pressure caused by the intensifying higher-for-longer tone. In Canada, CPI data will be released in the coming week, giving us another look into inflation, but the U.S. does not really have any potentially market-moving data coming out. Meanwhile, spread product was relatively unmoved during the week, despite all the goings-on in the markets, and remained below recent peaks, as we entered corporate earnings season.

Stock market

The S&P 500 Index was up this week, with the latest CPI print being mixed. Core CPI surprised on the upside in September on a month-over-month basis and recorded a year-over-year decline. Given the lack of progress, this data point raises the probability of a rate hike at the next Fed meeting in November.

In GLP-1-related news, Novo Nordisk announced that its trial studying Ozempic for treatment of chronic kidney failure in type 2 diabetics would be stopped almost a year ahead of schedule because of overwhelming signs of efficacy. This news sent the overall medtech sector down, with dialysis companies being hit the hardest on concerns that these drugs will shrink the number of patients requiring such procedures. It's worth noting that we're still in the early innings; reimbursement, the big headwind for these drugs, has not yet been figured out.

Markets (Total Return, in \$CAD)

As of October 12, 2023	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	0.56	2.53	15.68	22.53	10.37	12.43
S&P/TSX	1.32	-0.14	3.23	10.70	8.81	8.12
NASDAQ	0.99	4.24	39.91	39.49	9.39	17.34
MSCI ACWI	0.96	2.15	13.24	22.71	8.31	9.74
MSCI EAFE	1.97	1.52	8.47	26.13	6.18	5.66
MSCI EM	2.31	2.11	4.09	13.65	-1.28	3.47
Commodities (USD)						
Gold	1.96	1.10	2.46	11.70	-0.94	8.96
CRB	-0.20	-0.17	-1.29	-1.95	10.14	5.57
WTI	0.14	-8.68	3.30	-5.00	28.11	3.05
Fixed income						
FTSE TMX Canada Universe	0.69	0.11	-1.35	0.71	-4.99	0.16
FTSE TMX Canada Long	1.51	0.17	-4.46	-1.35	-10.08	-1.50
FTSE TMX Canada Corporate Overall	0.52	0.04	0.73	3.15	-2.94	1.27
Currencies						
DXY	0.52	0.40	2.97	-5.93	4.63	2.28
USDCAD	0.21	0.83	1.00	-0.91	1.44	1.00
USDEUR	0.55	0.42	1.68	-7.84	3.91	1.89
USDJPY	0.33	0.29	14.25	1.97	12.46	5.95
USDGBP	0.50	0.20	-0.76	-8.84	2.38	1.56

Source: iA Global Asset Management, Bloomberg

	CA	US
Bond yields		
2Y	4.83	5.07
5Y	4.24	4.69
10Y	4.04	4.70
30Y	3.79	4.85
Credit spreads		
IG corporate bonds	163	126
HY bonds	357	425

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Rooted in history, innovating for the future.

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