

Keys to the market

What happened this week

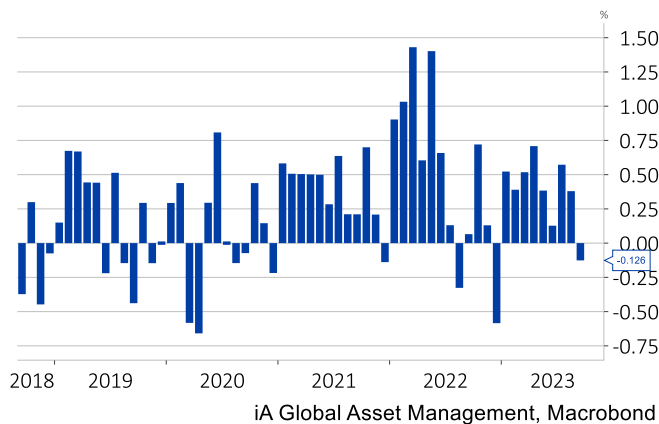
October 20, 2023

We saw several major economic releases in Canada this week. Wholesale sales rose sharply in August, but retail sales were down for the month, pointing to a deceleration in consumer spending. Despite higher interest rates, the pace of housing starts increased and exceeded forecasts in September, led by urban multifamily properties. Even so, September's CPI edged lower, driven by falling grocery and airfare prices, which were partially offset by the continued rise in gasoline prices. As a result, investors expect the Bank of Canada to hold rates steady at its meeting next week.

In the United States, retail sales rose for the sixth consecutive month, boosted by specialty-store and online sales. Consumer spending has remained robust owing to high employment and wage levels, amid diminishing concerns about a recession. The September housing starts report, which showed an increase for the month, also displayed the resilience and interest rate insensitivity that have characterized the U.S. economy lately.

Canada: Total Inflation

Statistics Canada, % change MoM, as at 9/2023



Bond market

Bond yields resumed their march higher last week as term premia associated with the higher-for-longer narrative gripped investors once again; 10-year yields rose about 40 basis points to crest near 5% before concerns about an Israeli incursion into Gaza on the weekend brought levels back down toward 4.9%. Certainly, volatility has ratcheted up of late, with investors having to contend with an array of escalating event risks, including geopolitical worries, a ballooning U.S. deficit, sticky inflation and uncertainty about a recession in North America. The trepidation cascading over the markets also adversely

Highlights

- Canadian CPI dipped in September, indicating an economic slowdown.
- Retail sales in the United States increased for the sixth consecutive month, pointing to a persistently robust consumer.

On our radar

- Canada: BoC interest rate decision and wholesale sales for September
- United States: New home sales and PCE index for September, third-quarter GDP

affected spread product; IG rose by 5+ basis points and HY tacked on about 20.

Stock market

The S&P 500 Index was down this week, given the market's consternation over the escalating situation in the Middle East. Additionally, in a speech at the Economic Club of New York, Jerome Powell reiterated the Fed's commitment to higher for longer but signalled that a rate hike at the next meeting was unlikely.

In earnings news, Tesla reported a lacklustre quarter across all metrics, sending the stock down by double digits. The company issued negative guidance, noting that high interest rates would continue to hamper the affordability of its vehicles. Moreover, the sluggish, difficult ramp-up to full production of the Cybertruck is also contributing to concerns that profitability will rebound more slowly than expected.

Lastly, the Biden administration unveiled its latest round of semiconductor export controls in an update to the existing rules. The overhauled policy requires a notification for the export of chips with a performance density of less than 370 gigaflops and speeds of 150 to 300 teraflops and places an outright ban on higher-spec'd products. In practice, these controls would affect most or all of the Nvidia chips designed specifically for the Chinese market, which makes up 20-25% of the company's revenues. It remains to be seen whether this excess capacity will be absorbed by western markets.

Markets

(Total Return, in \$CAD)

As of October 19, 2023	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	-0.62	1.40	14.40	17.34	10.96	12.04
S&P/TSX	-0.59	-0.92	2.43	7.08	9.16	7.87
NASDAQ	-0.89	2.03	36.95	32.69	9.88	16.86
MSCI ACWI	-0.79	0.58	11.51	17.33	8.51	9.28
MSCI EAFE	-1.15	-1.02	5.75	19.85	5.64	5.01
MSCI EM	-1.63	-0.74	1.19	10.45	-2.05	2.95
Commodities (USD)						
Gold	2.15	6.81	8.25	21.17	1.22	9.99
CRB	0.52	-0.36	-1.48	-1.50	9.75	5.58
WTI	1.92	-1.56	11.35	4.47	29.84	5.27
Fixed income						
FTSE TMX Canada Universe	-1.15	-0.58	-2.03	1.09	-5.30	0.04
FTSE TMX Canada Long	-2.76	-1.32	-5.88	-0.56	-10.72	-1.74
FTSE TMX Canada Corporate Overall	-0.84	-0.48	0.21	3.53	-3.21	1.17
Currencies						
DXY	-0.37	0.07	2.64	-5.96	4.38	2.11
USDCAD	0.43	1.05	1.22	-0.33	1.31	0.92
USDEUR	-0.68	-0.08	1.17	-7.64	3.61	1.70
USDJPY	0.15	0.29	14.25	-0.07	12.42	5.88
USDGBP	0.00	0.46	-0.50	-7.62	2.17	1.48

Source: iA Global Asset Management, Bloomberg

	CA	US
Bond yields		
2Y	4.89	5.16
5Y	4.36	4.96
10Y	4.20	4.99
30Y	3.93	5.11
Credit spreads		
IG corporate bonds	159	131
HY bonds	354	437

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Rooted in history, innovating for the future.

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