

Keys to the market

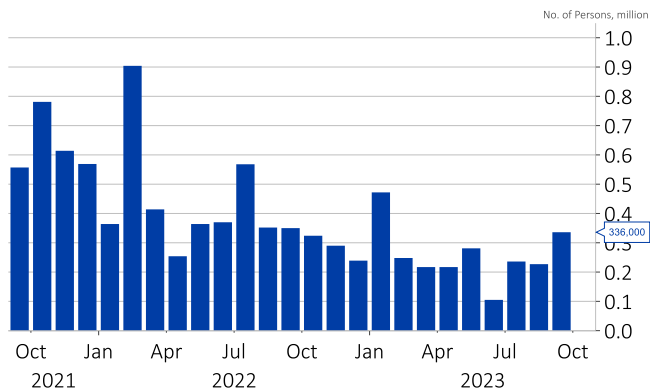
What happened this week

October 6, 2023

In Canada, we added 64,000 new workers in September, more than triple the expected increase. This number was driven by job growth in the education, transportation, and warehousing sectors, which more than offset declines in the finance, insurance, real estate, and construction sectors. Despite the newly created jobs, Canada's jobless rate remained steady at 5.5% owing to population growth. In the United States, private payroll growth weakened significantly in September according to the ADP report released on Wednesday, signalling a potential loosening of the labour market. Even so, Friday's release of nonfarm payrolls painted a very different picture, with solid growth in September. Nonetheless, employment in the manufacturing sector contracted for the 11th consecutive month, although it exceeded market expectations and exhibited signs of improvement, and the services sector also experienced a slight pullback. Demand for services is still being supported by a shift in spending away from goods, serving as a testament to the economy's resilience to the headwinds of higher rates and increasing the likelihood of a rate hike in November. The U.S. unemployment rate remained unchanged.

U.S.: Net Change in Nonfarm Payrolls

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



iA Global Asset Management, Macrobond

Bond market

It was another week of deteriorating performance for fixed income. The 10-year Treasury yield jumped about 15 basis points to exceed 4.8% as we seem inescapably destined to punch through 5% in short order, as the 30-year bond has already done. Even in Canada, the 10-year bond yield has marched steadily higher, going from 2.8% in the first quarter to more than 4.2% today. Persistent strength in the job market is the latest culprit pushing yields higher. Sticky inflation, a higher-for-longer central bank dictum and a ballooning U.S. deficit are conspiring to push fixed income to an unheard-of third consecutive year of negative all-in performance. We have taken

Highlights

- Canada's employment surged by more than triple the expected amount in September.
- Employment in the United States continued to rise during the month, while unemployment remained steady.

On our radar

- Canada: Building permits and existing home sales for August
- United States: Core PPI and CPI for September, minutes of Fed's September FOMC meeting

the central banks at face value in their fight against inflation all along but are admittedly a little taken aback as to how violently the market capitulated of late in its resignation to a higher-for-longer scenario, a move that may push the North American economy toward the hard landing that we have been concerned about for some time. The spread markets are expressing a similar fear, with IG tacking on 10 basis points since mid-September and HY moving up more than 80 basis points on trepidation about worsening corporate profitability and rising default rates, validating our ongoing strategy of improving credit quality this year.

Stock market

The S&P 500 Index was down slightly toward the end of the week as investors awaited Friday's monthly U.S. jobs report. The nonfarm payroll report showed the surprising resilience of the labour market, with 336,000 jobs added last month – twice economists' expectations. As a result, the odds of another rate hike at the Fed meeting in November have increased. In automotive news, TSLA has once again cut U.S. prices on its Model 3 and Model Y vehicles to boost sales, only days after missing third-quarter expectations. The company will have to ship a record 476,000 vehicles to meet its annual target of 1.8 million vehicles. This task may prove to be quite difficult, given the rising-rate environment and intensifying competition. Lastly, in a sign of the surprisingly wide-ranging impact that GLP-1s are starting to have on the broader economy, Walmart commented that it was already seeing an impact on food-shopping demand from customers taking these weight loss medications. The company noted that such shoppers tend to buy less food but do spend more overall.

Markets

(Total Return, in \$CAD)

As of October 5, 2023	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	0.88	0.88	13.82	14.82	10.67	11.31
S&P/TSX	-2.00	-2.00	1.31	2.89	8.49	6.99
NASDAQ	1.62	1.62	36.39	27.61	9.81	16.14
MSCI ACWI	0.27	0.27	11.16	14.89	8.31	8.60
MSCI EAFE	-0.84	-0.84	5.95	18.46	5.58	4.48
MSCI EM	-0.83	-0.83	1.09	5.78	-1.29	2.61
Commodities (USD)						
Gold	-1.53	-1.53	-0.20	6.06	-1.65	8.63
CRB	-0.23	-0.23	-1.34	-2.63	10.55	5.57
WTI	-9.34	-9.34	2.55	-6.21	28.03	2.06
Fixed income						
FTSE TMX Canada Universe	-0.51	-0.51	-1.96	-1.12	-5.23	0.15
FTSE TMX Canada Long	-1.39	-1.39	-5.95	-5.26	-10.68	-1.59
FTSE TMX Canada Corporate Overall	-0.40	-0.40	0.28	1.85	-3.10	1.28
Currencies						
DXY	0.15	0.15	2.71	-4.38	4.38	2.15
USDCAD	0.94	0.94	1.11	0.63	1.10	1.16
USDEUR	0.22	0.22	1.48	-6.32	3.76	1.78
USDJPY	-0.58	-0.58	13.26	2.68	11.98	5.48
USDGBP	0.06	0.06	-0.89	-7.10	2.11	1.47

Source: iA Global Asset Management, Bloomberg

	CA	US
Bond yields		
2Y	4.80	5.02
5Y	4.29	4.69
10Y	4.13	4.72
30Y	3.91	4.89
Credit spreads		
IG corporate bonds	161	129
HY bonds	353	438

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Rooted in history, innovating for the future.

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