iA Global Asset Management

Keys to the market

What happened this week

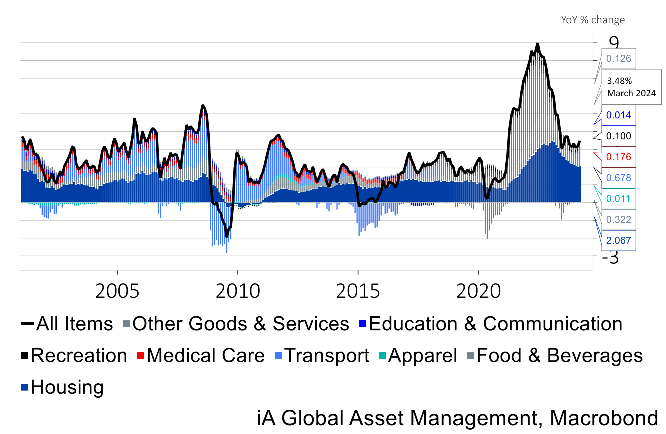
April 12, 2024

In Canada, the central bank held its key rate at 5% amid concerns about persistent upward pressure on prices, particularly in light of uncertain economic conditions and higher-than-expected commodity prices, notably for oil. The BoC expects inflation to hover around 3% in the first half of 2024, before falling to its target of 2% by 2025. Meanwhile, in February, the total value of building permits in Canada increased by a significant 9.3% to reach $11.8 billion, signalling a robust surge in construction and renovation across various regions of the country.

In the United States, core consumer prices rose by 0.4% from the previous month, coming in hotter than expected. Notable price increases were seen in transportation services and apparel, while prices remained high for shelter and rebounded for medical services. On an annual basis, core consumer inflation held steady at 3.8%. Additionally, producer prices in the United States increased by 0.2% month over month in March, the smallest rise in three months, with service prices up by 0.3% and goods costs declining by 0.1%. The Producer Price Index recorded a significant year-over-year increase, with the most notable surge since April of last year. These indicators have heightened the uncertainty over a potential 2024 rate cut.

U.S.: Contributions to inflation

Source: BLS



Bond market

Some volatility returned to the bond market this week as hotter-than-expected inflation down south saw higher-for-longer sentiment priced further out on the yield curve, with U.S. 10-year Treasury yields jumping almost 20 basis points on the data release to move well above 4.5%. Geopolitical concerns in the Middle East, however, stoked a flight-to-safety rally at week's end, bringing 10-year U.S. Treasuries back down toward 4.5%.

Highlights

- The Bank of Canada maintained its 5% policy rate amid persistent inflation concerns.
- In the United States, core consumer and producer prices increased, potentially reducing the likelihood of rate cuts in the short term.

On our radar

- Canada: Housing starts, inflation rate, and CPI for March
- United States: Housing starts, building permits, and retail sales for March

Despite sticky inflation, U.S. Fed officials seem intent that rate cuts will begin this year, even though the market is less certain and is now pricing in only two reductions for 2024. As the year progresses, we must acknowledge that a summer start to rate cuts seems less likely. The rates outlook has grown cloudy because if the first rate cut comes in the fall, it could affect the U.S. election.

Meanwhile in Canada, the central bank left rates unchanged as expected, so Government of Canada bond yields generally followed the action in the United States. In credit products, investors kept buying bonds, attracted by higher returns due to the rise in sovereign bond yields. Investment-grade bonds moved below 90 basis points again, while high-yield bonds hovered around 300.

Stock market

The S&P 500 Index had a tumultuous week after an unexpectedly negative U.S. CPI print. Inflation seems to be staying stubbornly above the 2% target, with the three-month average of core CPI running above 4%. As a result, the Fed's first cut is now fully priced in for November, as opposed to mid-year.

Earnings season has begun, with the first set of banks reporting this week. Both JP Morgan and Citigroup reported better-than-expected results on the back of the Fed's reluctance to cut interest rates.

Elsewhere, the decoupling of the semiconductor market is accelerating, with the Chinese government ordering the nation's largest telecom carriers to phase out foreign chips that are core to their networks by 2027. The effects on western companies will vary, although Intel and Advanced Micro Devices have the largest exposure.

Markets
(Total return, in CAD)

As of April 11, 2024	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	0.75	0.34	13.85	30.70	12.97	14.96
S&P/TSX	-0.64	-0.16	6.46	11.88	8.01	9.50
NASDAQ	1.95	1.66	13.19	43.62	13.05	19.86
MSCI ACWI	0.52	0.03	11.78	25.25	10.08	11.92
MSCI EAFE	0.03	-0.80	7.70	13.77	6.27	7.00
MSCI EM	1.77	2.60	7.86	11.04	-1.78	2.82
Commodities (USD)						
Gold	1.84	6.40	15.00	18.41	10.81	12.92
CRB	0.41	1.81	7.00	0.05	2.22	5.16
WTI	-2.17	2.22	18.66	4.28	12.75	5.98
Fixed income						
FTSE TMX Canada Universe	-0.76	-1.63	-2.83	0.29	-2.22	0.06
FTSE TMX Canada Long	-1.39	-3.57	-7.05	-3.22	-5.56	-1.88
FTSE TMX Canada Corporate Overall	-0.55	-1.12	-1.05	3.98	-0.57	1.58
Currencies						
DXY	0.94	0.76	3.90	3.01	4.54	1.62
USDCAD	0.73	1.10	3.37	1.65	2.99	0.45
USDEUR	1.03	0.59	2.91	1.74	3.52	0.97
USDJPY	1.09	1.27	8.67	14.65	11.80	6.54
USDGBP	0.67	0.56	1.41	-1.03	2.97	0.79

	CA	U.S.
Bond yields		
2Y	4.36	4.96
5Y	3.78	4.63
10Y	3.73	4.59
30Y	3.61	4.68
Credit spreads		
IG corporate bonds	128	89
HY bonds	280	316

Source: iA Global Asset Management, Bloomberg

About iAGAM

A magnet for top investment talent, iA Global Asset Management is one of Canada's largest asset managers, with over $100 billion under management across institutional and retail mandates. We help investors achieve their long-term wealth creation goals through innovative investment solutions designed for today's complex markets. We are building upon our historic success, supporting the growth of our core strengths, and exploring innovative ways to meet investor needs. We are rooted in history and innovating for the future. Our experienced portfolio managers use a proprietary investment methodology, rooted in iAGAM's unifying commitment to strong risk management, analytical rigour, and a disciplined, process-driven approach to asset allocation and security selection.

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