

# Keys to the market

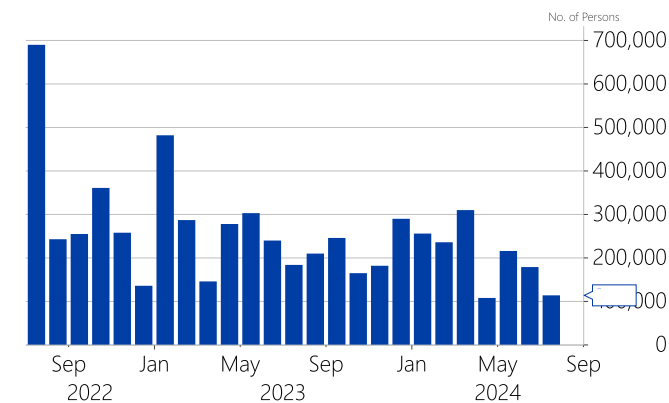
## What happened this week

August 2, 2024

In Canada, GDP is projected to see 0.1% growth for June 2024, with increases in construction, real estate, finance and insurance offsetting dips in manufacturing and wholesale trade. Meanwhile, the S&P Global Canada Manufacturing PMI contracted sharply, primarily because of challenging market conditions and inflation-induced uncertainty. Despite these trying circumstances, manufacturers maintained marginal employment growth amid muted optimism about output.

In the United States, the Federal Reserve left the federal funds rate unchanged for the eighth consecutive time in July. A significant deceleration in job growth was noted in July, when the economy added only 114,000 jobs—significantly below June's figures and forecasts—indicating a cooling labour market. Coupled with the disappointing non-farm payrolls number for July, the likelihood of rate cuts by the Federal Reserve is now markedly higher. Notably, the unemployment rate rose to 4.3%, its highest level since October 2021.

### U.S.: Net Change in Nonfarm Payrolls



### Bond market

Fixed income saw a strong rally this week on the back of Fed indications it will most likely lower rates in September, as well as U.S. labour data that were much softer than expected. The futures market is pricing in growing odds that the Fed will cut by 50 basis points in September and by a full percentage point by year-end. Also of note, U.S. 10-year Treasuries dipped below 4% for the first time since the start of the year, dropping by 30 basis points to hover around 3.85%.

In Canada, 10-year bond yields are about 3%. The curve also steepened materially, with 5s-30s in the United States well into positive territory at about 20 basis points. The lower move in

### Highlights

- In Canada, projected GDP growth and resilience in the manufacturing sector contrasted with a sharp contraction in the PMI.
- In the United States, disappointing job growth and an uptick in the unemployment rate heightened prospects of interest rate cuts.

### On our radar

- Canada: Unemployment rate and Ivey PMI for July
- United States: Initial jobless claims and ISM services PMI for July

fixed income was consistent with our overall expectation that yields will decline this year, although the action this week was quite aggressive as the narrative underpinning the market tone turned decidedly more dovish. Next week, U.S. ISM data will give us further insight into mounting concerns about a slowing economy. In credit, the carnage suffered in equities, and tech in particular, owing to disappointing corporate earnings buffeted spreads as IG moved toward 100 basis points for the first time since the first quarter, while HY broke through 325 basis points.

### Stock market

The S&P 500 rally from late last week fizzled out despite the dovish tone from the FOMC meeting, with chair Jerome Powell pointing toward a rate cut in September. After a series of disappointing prints from consumer companies and negative macro data, investors have started worrying that the soft-landing scenario may be out of reach.

In the first quarter, management teams pointed out increasing value-seeking behaviour by consumers. The story has not improved since then, with McDonald's announcing an uninspiring quarter with negative store traffic. The company doesn't expect to see an inflection for several quarters, even with its five-dollar menu offerings. Starbucks also reported continued sales and traffic declines, as well as no sign of inflection in China, one of its most important markets.

In a similar vein, Amazon's retail segment missed estimates owing to weakening consumer trends and seller fees. On the positive side, management reiterated that generative AI is on track to drive significant revenue for AWS this year. To get ahead of the demand, the firm plans to increase capex in the second half of the year. Meta echoed a similar sentiment on its earnings call this week.

## Markets (Total return, in CAD)

As of August 1, 2024	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
<b>Equities</b>						
S&P 500	-0.23	-1.20	20.79	25.85	12.91	15.96
S&P/TSX	-0.35	-1.67	10.41	14.31	7.12	10.13
NASDAQ	-0.71	-2.27	17.82	25.21	11.86	20.47
MSCI ACWI	-0.17	-1.33	17.56	22.07	10.03	12.91
MSCI EAFE	0.20	-1.47	11.93	15.11	6.66	8.03
MSCI EM	1.46	0.46	13.75	11.86	1.17	5.09
<b>Commodities (USD)</b>						
Gold	2.47	-0.05	18.58	25.82	10.48	11.10
CRB	-0.38	-0.71	4.13	-5.65	-1.86	5.74
WTI	-1.10	-2.05	6.50	-6.22	1.05	7.18
<b>Fixed income</b>						
FTSE TMX Canada Universe	1.54	0.44	2.44	8.60	-1.20	0.36
FTSE TMX Canada Long	2.99	0.77	0.36	8.86	-4.42	-1.86
FTSE TMX Canada Corporate Overall	1.26	0.35	3.77	10.18	0.46	1.73
<b>Currencies</b>						
DXY	0.10	0.31	3.05	2.07	4.25	1.20
USDCAD	0.27	0.48	4.76	4.47	3.61	0.98
USDEUR	0.61	0.32	2.30	1.79	3.22	0.54
USDJPY	-2.86	-0.41	5.90	4.20	10.83	6.83
USDGBP	1.00	0.91	-0.06	0.29	2.96	-0.97

Source: iA Global Asset Management, Bloomberg

	CA	U.S.
<b>Bond yields</b>		
2Y	3.36	4.15
5Y	3.02	3.83
10Y	3.11	3.98
30Y	3.17	4.28
<b>Credit spreads</b>		
IG corporate bonds	130	100
HY bonds	314	335

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

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