

Keys to the market

What happened this week

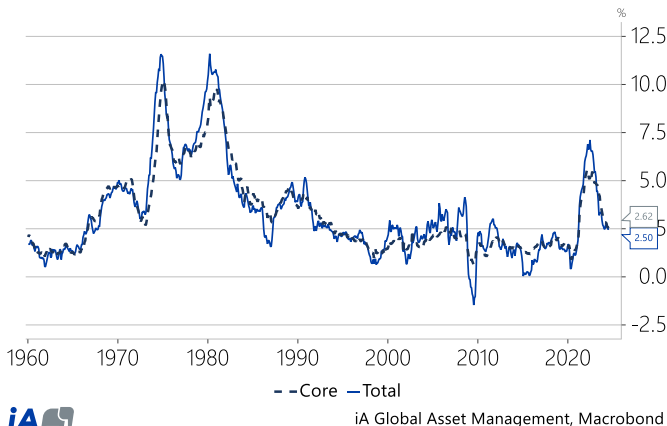
August 30, 2024

In Canada, GDP expanded by a more-than-expected 2.1% in the second quarter of 2024 on an annualized basis, the fastest pace since the first quarter of 2023. The growth was driven primarily by a significant rise in government spending fuelled by higher wages and increased business investment in machinery and equipment. Even so, household spending slowed to 0.2% in the second quarter from 0.9% in the first, mainly because of reduced purchases of goods. At the same time, exports and housing investment both declined, signalling potential areas of concern in Canada's economic landscape.

In the United States, new orders for manufactured durable goods surged 9.9% in July, despite growing concerns over a slowdown in the manufacturing sector. Meanwhile, the country's real GDP growth was revised upward to an annual rate of 3.0% for the second quarter of 2024, driven largely by increased consumer spending. This strong economic performance contrasts with the core PCE price index, the Federal Reserve's preferred measure of underlying inflation. In July, the index rose only 0.2% from the previous month, in line with market expectations, providing the Federal Reserve with justification for future rate cuts.

U.S.: Total & Core PCE Inflation

U.S. Bureau of Economic Analysis (BEA), YoY, %, as at 7/2024



Bond market

Bond yields drifted a little higher during the week, with U.S. 10-years inching toward 3.9% as none of the economic data releases down south or in Canada supported the narrative that the Federal Reserve may opt for a 50-basis-point cut at its next meeting. Even so, bond futures are still pricing in a modest chance the Fed cuts by more than 25 basis points on September 18, with roughly 100 basis points factored in by the end of the year. Despite the futures market's view on the Fed, we would

Highlights

- In Canada, GDP growth surged, hitting a yearly high, although decreased household spending and housing investment signalled potential concerns.
- In the U.S., a significant surge in durable goods orders and strong GDP growth contrasted with slight inflation, suggesting probable rate cuts.

On our radar

- Canada: BoC interest rate decision, unemployment rate, and Ivey PMI
- United States: Job openings and employment report

not be surprised to see U.S. 10-years back above 4% in the coming weeks if the economic data continue to demonstrate reasonable economic buoyancy, even though the labour market has cooled somewhat. Next week we will get more insight into U.S. labour conditions, as well as PMI and ISM data.

In credit markets, spreads were little moved as we ended the dog days of summer. Credit obviously remains squarely on the agenda, particularly for asset liability managers, now that the tumult of early August is a distant memory.

Stock market

The S&P 500 Index ended the week mostly flat, with Nvidia's earnings falling short of everyone's sky-high expectations. On the plus side, investors are returning to the soft-landing narrative after core PCE for July was in line with estimates, thereby reinforcing the probability of a rate cut in September.

Nvidia handily beat consensus by 4% and raised its guidance, but its performance was seen as insufficient owing to the perceived slowdown in data centre revenues on a quarter-over-quarter basis in a year when capex spending by its end customers is only increasing. It's worth noting that the stock had rallied into the print, and buy-side expectations had gotten significantly ahead of what was realistically possible, given the complexity of the supply chain. On the call, management was quick to point out that demand for GPUs continued to be strong and that production of their next generation of chips would ramp up in the fourth quarter, despite some delays.

Other notable earnings include Dollar General with the worst one-day draw-down in the stock's history. The company is feeling the pinch from the slowing economy, as lower-income households' excess savings seem to have been depleted.

Markets (Total return, in CAD)

As of August 29, 2024	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	-1.06	-1.10	20.91	25.02	11.51	16.00
S&P/TSX	-0.24	0.65	13.02	18.22	7.28	10.59
NASDAQ	-2.32	-2.64	17.38	24.53	10.14	20.51
MSCI ACWI	-0.78	-0.68	18.33	22.78	9.04	13.28
MSCI EAFE	0.04	0.48	14.15	18.61	6.44	8.98
MSCI EM	-0.82	-1.30	11.76	13.10	0.25	5.67
Commodities (USD)						
Gold	0.35	3.02	22.22	30.13	11.53	10.54
CRB	-0.22	0.06	4.94	-2.61	-1.55	6.64
WTI	1.44	-2.57	5.95	-6.47	3.36	6.01
Fixed income						
FTSE TMX Canada Universe	-0.64	0.55	2.55	8.40	-1.19	0.08
FTSE TMX Canada Long	-1.42	0.41	0.01	8.45	-4.58	-2.48
FTSE TMX Canada Corporate Overall	-0.46	0.41	3.84	10.01	0.42	1.58
Currencies						
DXY	0.62	-2.64	0.01	-2.11	3.02	0.57
USDCAD	-0.18	-2.34	1.83	-0.49	2.23	0.30
USDEUR	1.03	-2.27	-0.35	-1.78	2.12	-0.04
USDJPY	0.43	-3.33	2.80	-0.61	9.70	6.36
USDGBP	0.34	-2.38	-3.32	-3.98	1.48	-1.55

Source: iA Global Asset Management, Bloomberg

	CA	U.S.
Bond yields		
2Y	3.32	3.89
5Y	3.02	3.67
10Y	3.13	3.86
30Y	3.23	4.15
Credit spreads		
IG corporate bonds	132	96
HY bonds	320	315

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Rooted in history, innovating for the future.

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