iA Global Asset Management

Keys to the market

Highlights

- In Canada, November’s GDP growth surprised on the upside.
- In the United States, the Fed kept its policy rate unchanged.

On our radar

- Canada: Building permits for December and unemployment rate for January
- United States: Wholesale inventories for December and ISM services for January

What happened this week

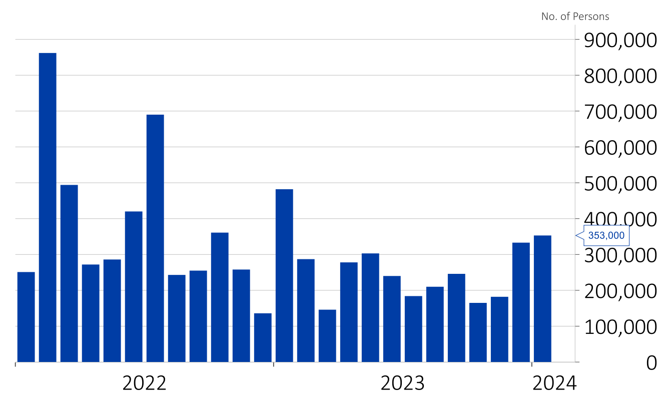
February 2, 2024

In Canada, November's GDP growth exceeded expectations, rising for the first time since May 2023, with further growth of 0.3% expected for December. As for manufacturing activity, it declined in January for the ninth consecutive month, albeit at a slower pace, as inflation pressures eased, and firms expressed greater optimism about the sector's outlook. Even though the Canadian economy has weakened over the past year, it has managed to avoid a recession so far. Nonetheless, discussions have now turned to the timing of rate cuts.

In the United States, the Federal Reserve kept its policy rate unchanged, pending more signs of stable deceleration of inflation in the next few months. Fed Chair Jerome Powell said that even though a rate cut is probably the next move, the timing is yet to be determined and will most likely be pushed back. The latest ISM manufacturing report showed improvement in January, although the sector remains in contraction territory. Finally, non-farm payrolls surged in January, while the unemployment rate held steady, highlighting the labour market’s robustness. As a result, stocks and bonds tumbled further as hopes of a rate cut in March were dashed.

U.S.: Net Change in Nonfarm Payrolls

U.S. Bureau of Labor Statistics (BLS), MoM, as at 1/2024



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Bond Market

Last week proved to be significant for bonds, as the Fed held rates steady but indicated a cut was probably its next move, albeit noting that March was probably too early. And although a March cut was summarily priced out of futures, investors did bring U.S. 10-year Treasury yields down by nearly 20 basis points at one point to just above 3.8%, all but ignoring the Fed’s additional caveat that it remains data dependent. Well, Friday’s strong U.S. labour data showed that conditions favouring a policy rate cut are not present, propelling U.S. 10-years back up toward 4%. We continue to take the Fed at face value and to heed its admonishments about higher for longer, with mid-summer being more likely for the first rate cut. Even so, we acknowledge that investors will challenge the Fed’s position and therefore expect volatility to remain elevated, as we saw this week. In spread product, January’s heavy new-issue calendar and mixed earnings finally caught up with the most crowded trade on the street, moving IG and HY higher by 5 and 10 basis points, respectively. Whether one expects a soft landing or a recession, spreads are priced for a type of perfection that most likely does not exist.

Stock Market

The S&P 500 Index was up this week on some stunning big tech earnings, despite the notably hawkish tone from the FOMC meeting.

Meta shares jumped nearly 18% on an outstanding quarter. The company beat, and indicated guidance far above, street estimates, assuaging investors’ fears of a slowdown in the ad market. In addition, the company is initiating a $50-billion buyback and its first-ever dividend at 50 cents a share. Its constructive commentary could have positive implications for other names, such as Google, which posted a miss on ad revenue for the quarter.

Amazon also posted a clean quarter, with its all-important AWS cloud segment showing sequential acceleration and margins on its core business improving, leading to operating income guidance on the high end.

Lastly, Apple reported a mixed quarter, with an iPhone beat but with services coming in a touch light. We note that its guidance disappointed, owing to lower iPhone estimates that are due partly to a continued slowdown in China.

Markets
(Total Return, in CAD)

As of February 1, 2024	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	0.08	1.66	4.73	21.89	12.50	15.10
S&P/TSX	0.03	0.46	1.02	5.18	9.34	9.72
NASDAQ	-0.69	1.61	4.86	41.24	11.01	20.90
MSCI ACWI	0.09	1.07	3.64	17.52	9.41	12.06
MSCI EAFE	0.11	-0.38	1.52	9.30	5.61	7.27
MSCI EM	-0.55	1.05	-2.36	-2.32	-6.31	1.98
Commodities (USD)						
Gold	1.81	0.76	-0.39	5.36	3.36	9.29
CRB	0.33	0.23	2.42	-6.22	4.44	4.83
WTI	-5.37	-2.68	3.03	-3.39	11.29	5.96
Fixed income						
FTSE TMX Canada Universe	1.98	0.67	-0.71	2.21	-2.69	0.96
FTSE TMX Canada Long	4.43	1.41	-1.92	1.00	-6.14	-0.08
FTSE TMX Canada Corporate Overall	1.62	0.52	-0.16	4.55	-1.14	2.20
Currencies						
DXY	-0.37	-0.22	1.69	1.81	4.24	1.52
USDCAD	-0.50	-0.36	1.08	0.71	1.37	0.43
USDEUR	-0.17	-0.50	1.53	1.09	3.52	1.05
USDJPY	-1.16	-0.33	3.82	13.53	11.75	5.98
USDGBP	-0.32	-0.43	-0.10	-2.88	2.34	0.53

	CA	US
Bond yields		
2Y	3.94	4.20
5Y	3.35	3.81
10Y	3.27	3.88
30Y	3.20	4.12
Credit spreads		
IG corporate bonds	137	104
HY bonds	318	356

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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