

Keys to the market

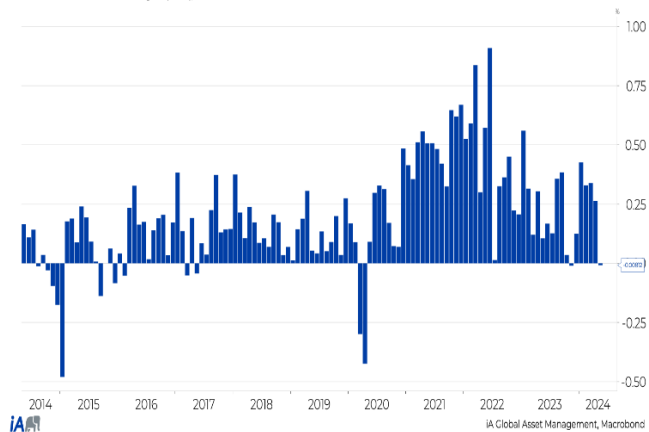
What happened this week

June 28, 2024

In Canada, the annual inflation rate rose unexpectedly to 2.9% in May, contrary to the market's expectations of a slowdown. The contributing factors included higher prices for transportation, food products, and health and personal care. Canada's GDP is projected to have grown by 0.1% in May, driven by increases in manufacturing, real estate, rental and leasing, despite a drop in retail and wholesale trade.

In the United States, the PCE Price Index was almost unchanged in May, recording its smallest increase in six months. Sales of new single-family houses declined by 11.3% during the month, as high prices and mortgage rates reduced affordability. Furthermore, spending in the United States edged up 0.2% in May from the previous month, falling short of the market's expectations of a 0.3% rise. The increase in spending was seen mainly in services, such as health care, housing, utilities and transportation services.

US PCE: Total MoM%
U.S. Bureau of Economic Analysis (BEA), as at 5/2024



Bond market

U.S. bond yields were almost unchanged on the week because the economic data releases didn't alter the narrative that the Fed will most likely cut twice by year-end. Even so, levels in Canada softened by 10+ basis points to bring 10-year GoC bonds back to about 3.5% on higher-than-expected CPI data, which pretty much took a July cut out of the picture in the futures market. Next week we will have a host of labour data that should give some signs about how the underlying economy will fare in the coming months.

Highlights

- In Canada, economic activity was characterized by an unexpected inflation rise and modest GDP growth.
- In the United States, the PCE Index remained unchanged amid falling home sales and slow spending growth.

On our radar

- Canada: Unemployment rate and Ivey PMI for June
- United States: Unemployment rate, ISM manufacturing PMI and ISM services PMI for June, FOMC minutes

The credit markets also moved very little on the week, with both IG and HY about 10 basis points higher in June, as the rally that has been in place since November 2023 showed a bit of fatigue. Nonetheless, investors continued to absorb decent amounts of supply, as many issuers looked to transact well ahead of the coming U.S. election. Moving into July, we will have corporate earnings season to help shape the narrative on spreads.

Stock market

The S&P 500 Index continued its upward march this week, with seemingly no impact from the first presidential debate. As well, the PCE report was dovish, showing softer inflation and spending in May.

FedEx jumped double digits after reporting profits above sell-side expectations and announcing a \$2.5-billion share buyback over the next year. Management expects revenues to grow in the low-to-mid single digits, driven by ecommerce, lower inventory levels and an improving demand environment throughout the year. Most surprisingly, the company also announced a potential divestiture of its freight business. Such a move would dilute its margins but in theory unlock shareholder value, given the valuation differential.

In contrast, Micron fell after failing to meet lofty buy-side expectations. Even though its earnings were propped up by strong demand on the AI side, the core business in PC and smartphone memory remained muted. The company noted that ramping up output for AI-related memory has been a challenge but that revenues from it will increase to multiple billions in 2025.

Markets

(Total return, in CAD)

As of June 27, 2024	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	0.19	4.38	20.10	33.71	14.35	16.30
S&P/TSX	1.12	-1.91	5.52	14.95	5.72	9.30
NASDAQ	0.20	7.04	21.91	39.95	15.36	21.96
MSCI ACWI	0.30	2.73	16.31	28.51	10.80	12.97
MSCI EAFE	0.48	-0.98	9.61	18.21	6.21	7.56
MSCI EM	-0.09	4.36	11.70	17.73	-1.28	4.47
Commodities (USD)						
Gold	-1.02	-1.25	11.40	19.50	8.86	10.28
CRB	-0.06	-1.28	5.65	-1.62	-0.83	5.63
WTI	0.21	5.08	12.91	16.62	2.99	6.38
Fixed income						
FTSE TMX Canada Universe	-0.79	1.27	-0.23	4.39	-1.62	0.03
FTSE TMX Canada Long	-1.34	2.17	-2.86	2.32	-4.74	-2.08
FTSE TMX Canada Corporate Overall	-0.64	1.04	1.24	6.92	0.05	1.47
Currencies						
DXY	0.24	1.32	4.66	3.27	4.91	1.97
USDCAD	0.07	0.54	3.47	4.16	3.69	0.86
USDEUR	0.12	1.57	3.36	2.12	3.77	1.26
USDJPY	0.63	2.22	14.02	12.05	13.24	8.33
USDGBP	0.18	0.96	0.87	0.72	3.22	0.11

Source: iA Global Asset Management, Bloomberg

	CA	U.S.
Bond yields		
2Y	4.02	4.71
5Y	3.51	4.30
10Y	3.47	4.29
30Y	3.36	4.43
Credit spreads		
IG corporate bonds	127	96
HY bonds	274	321

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Rooted in history, innovating for the future.

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