

# Keys to the market

## What happened this week

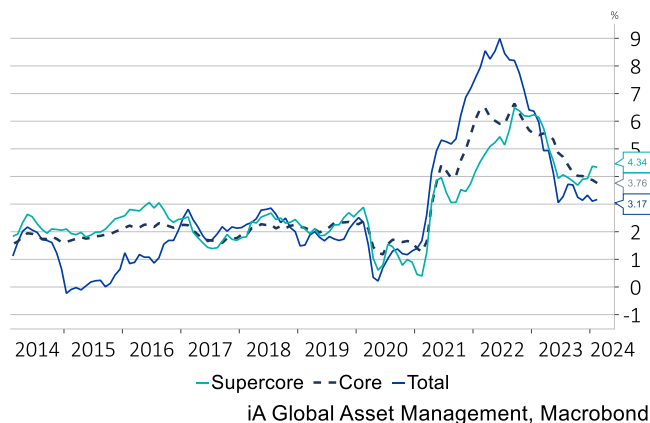
March 15, 2024

Canada's manufacturing sector expanded in January but fell short of estimates. Sales increased in 11 of the 21 subsectors, with notable growth in transportation equipment and chemical products. Wholesale trade also edged higher during the month, owing to strong sales of computer and communications equipment. In the housing sector, starts jumped by a surprising 14% in February, fuelled by a surge in multi-unit projects, particularly in Toronto and Vancouver.

Meanwhile, in the United States, the Consumer Price Index recorded its largest increase since September 2023, rising by 0.4% in February. The uptick in inflation was driven by higher gasoline and shelter costs, signaling that the Fed's rate cuts may be delayed. In line with this trend, the Producer Price Index saw an unexpected surge in February, while retail sales grew but failed to meet expectations. Consequently, both stocks and bonds retreated, as the state of the economy remains robust and inflation above target, dimming hopes of an imminent rate cut.

### U.S.: Total, Core & Supercore Inflation

U.S. Bureau of Labor Statistics (BLS), YoY, %, as at 2/2024



### Bond market

Sticky inflation was the story of the markets during the week as both CPI and PPI in the United States came in a touch hotter than expected, reinforcing the higher-for-longer scenario and causing investors to consider the possibility of only two cuts in 2024, because three are no longer fully priced into the futures market. As a result, U.S. 10-year Treasury yields tacked on another 20 basis points to reach about 4.3% yet again. We still expect U.S. 10-year yields to head toward a more entrenched three-handle later this year but have long maintained that the process will not be a straight line. In the coming week, all eyes

### Highlights

- In Canada, housing starts surprised on the upside.
- In the United States, CPI recorded its largest increase since September 2023.

### On our radar

- Canada: PPI, CPI, and inflation rate for February
- United States: Housing starts and building permits for February, FOMC interest-rate decision

will be on the U.S. Fed's dot plot, released in tandem with its rate decision (expected to be a non-move). Will the members of the central bank reduce the number of expected cuts in 2024 to just two? Remember, not that long ago investors were expecting six or more cuts this year, with the first move set to come at the Fed's March meeting next week; thus there has been a fundamental transition in sentiment. Other than the U.S. Fed meeting, we expect the North American bond market to be driven by sentiment indicators in the United States and the release of CPI data in Canada. In credit, IG shaved off several basis points and HY narrowed almost 15 basis points to end just above 300 basis points as investors used the considerable backup in underlying Treasury yields to add more all-in yield to their portfolios, without regard for relative value.

### Stock market

The S&P 500 Index was flat this week, given mixed economic data releases. U.S. CPI rose above estimates, buoyed by sticky services prices.

Dollar General was down modestly after announcing mixed earnings for the quarter, possibly providing an indicator of the main street economy. Same-store sales showed a surprising gain, but the profit outlook was disappointing. Management noted that shoppers continued to feel the impact of inflation and that markdowns on products would have to return to the elevated pre-pandemic levels.

Lastly, the Chinese government has directly instructed local EV companies to dramatically increase their purchases from homegrown semiconductor manufacturers in a bid to lessen the country's dependence on Western sources and to support its own semi industry. A number of companies could be affected, given that a significant portion of growth in the analog market comes from Chinese EV demand.

## Markets (Total return, in CAD)

As of March 14, 2024	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
<b>Equities</b>						
S&P 500	1.04	0.80	11.06	31.99	13.99	15.15
S&P/TSX	0.56	2.40	4.84	14.61	8.27	9.64
NASDAQ	0.47	-0.49	9.77	45.97	14.64	20.35
MSCI ACWI	0.59	1.11	9.72	27.07	10.96	12.18
MSCI EAFE	-0.46	1.97	7.43	17.17	7.16	7.53
MSCI EM	1.71	2.51	5.36	13.12	-2.77	3.20
<b>Commodities (USD)</b>						
Gold	-0.77	5.77	4.81	13.56	7.78	10.78
CRB	0.82	1.11	3.90	-2.21	2.22	4.86
WTI	4.17	3.83	13.41	13.92	7.39	6.75
<b>Fixed income</b>						
FTSE TMX Canada Universe	-1.22	-0.25	-1.96	0.76	-1.66	0.35
FTSE TMX Canada Long	-2.44	-0.95	-4.83	-2.16	-4.27	-1.26
FTSE TMX Canada Corporate Overall	-0.92	-0.18	-0.65	3.99	-0.16	1.78
<b>Currencies</b>						
DXY	0.63	-0.76	2.00	-0.23	4.08	1.32
USDCAD	0.37	-0.34	2.19	-1.12	2.75	0.30
USDEUR	0.51	-0.71	1.44	-1.37	3.18	0.76
USDJPY	0.86	-1.10	5.17	10.51	10.81	5.84
USDGBP	0.81	-1.01	-0.18	-4.67	2.96	0.75

Source: iA Global Asset Management, Bloomberg

	CA	U.S.
<b>Bond yields</b>		
2Y	4.22	4.69
5Y	3.60	4.29
10Y	3.53	4.29
30Y	3.41	4.43
<b>Credit spreads</b>		
IG corporate bonds	131	94
HY bonds	296	315

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

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