iA Global Asset Management

Keys to the market

What happened this week

March 8, 2024

Highlights

- In Canada, the BoC left its policy rate unchanged.
- In the United States, the employment and unemployment rates both increased.

On our radar

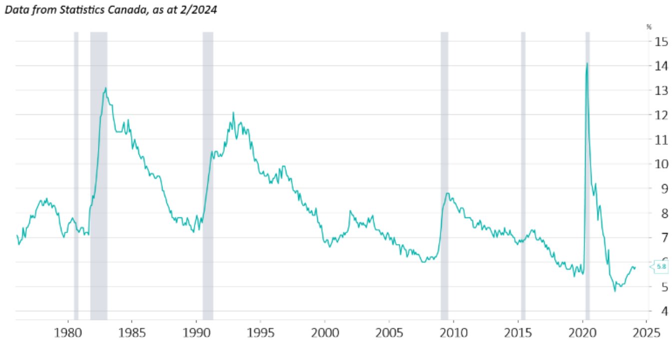
- Canada: Final manufacturing and wholesale sales for January, housing starts for February
- United States: CPI, PPI and retail sales for February

The Bank of Canada continued to be cautious in its efforts to combat inflation. As expected, it kept its overnight rate at 5% and left its quantitative tightening policy unchanged while awaiting an opportune time for rate cuts later this year. The BoC cited ongoing underlying inflation pressures, although it acknowledged signs that wage pressures may be easing and noted that growth remained below potential. In the housing sector, Canadian building permits rebounded in January, driven by an increase in residential and non-residential construction plans, and offering a favourable sign for the housing market amidst persistent shortages. On the labour front, 41,000 jobs were added in February. Even so, the unemployment rate also rose, as employment gains continued to lag population growth.

In the United States, the February ISM services index, which represents economic activity in the services sector, declined more than expected as prices continued to rise. Nonetheless, the data showed ongoing economic activity and growth in the services industry, albeit at a slower pace. The U.S. economy also added more jobs than expected in February, recording robust employment growth during the month. Even so, the unemployment rate also rose while wage gains moderated.

Canada's Unemployment Rate

Data from Statistics Canada, as at 2/2024



iA Global Asset Management, Macrobond

Bond market

Fixed income investors got some more clarity on "higher for longer" when U.S. Fed Chair Powell stated in his testimony to Congress this week that cuts to policy rates will most likely begin this year, a view reaffirmed by other Fed speakers in public appearances. Even though a 2024 start to cuts comes as no surprise, the pace is steadily being pushed back; the latest estimate expressed by policymakers is just one or two moves lower this year, possibly with a pause after the first cut. In contrast, U.S. futures are pricing in four cuts this year, so the market needs to reconcile its expectations with the guidance provided by Fed officials and their long-stated dependency on economic data. Bond yields reacted favourably to all the chatter about cuts, with 10-year U.S. Treasuries declining about 15 basis points to slightly more than 4%. This week's non-move by the BoC further indicated that it is on the verge of easing its restrictive monetary conditions. We think the BoC and the Fed will make their initial cuts this summer, and we expect both to be very cautious because inflation remains reasonably sticky, something we will get further insight into next week in the United States. In the credit market, spreads held steady for both IG and HY as the onslaught of supply continued to challenge the market's ability to absorb it, despite seemingly unending demand.

Stock market

The S&P 500 Index caught a bid this week after Powell's surprisingly dovish comments at Senate hearings. Although he reiterated that rate cuts will depend on the path of the economy, he did say that they "can and will begin" this year.

Broadcom reported what seemed to be a mixed quarter. The company beat overall expectations, but its semiconductor business came in below estimates. Diving deeper, however, we can see that the results were actually more optimistic. The core networking and storage business was weak but was offset significantly by accelerating AI demand.

In other news, China is raising more than $27 billion for its largest-ever semiconductor investment fund to accelerate domestic chip manufacturing expertise in the face of escalating U.S. export controls. Most of the money is expected to come from local governments, their investment arms, and state-owned enterprises. In comparison, the United States has earmarked close to $53 billion for similar purposes.

Markets
(Total return, in CAD)

As of March 7, 2024	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	-0.13	0.59	10.83	29.13	14.34	15.41
S&P/TSX	1.15	2.07	4.51	11.11	9.10	9.64
NASDAQ	-0.58	0.77	11.15	47.88	15.34	21.17
MSCI ACWI	0.30	1.03	9.63	24.27	11.43	12.35
MSCI EAFE	1.34	2.06	7.52	14.85	7.70	7.56
MSCI EM	0.01	0.31	3.09	5.56	-3.74	2.67
Commodities (USD)						
Gold	3.70	5.66	4.70	19.11	8.30	10.93
CRB	1.03	0.92	3.71	-3.11	2.50	5.06
WTI	-1.30	0.86	10.16	1.74	6.10	6.85
Fixed income						
FTSE TMX Canada Universe	0.49	0.85	-0.88	4.54	-1.59	0.60
FTSE TMX Canada Long	0.94	1.46	-2.50	4.12	-4.24	-0.70
FTSE TMX Canada Corporate Overall	0.31	0.61	0.14	6.81	-0.09	1.95
Currencies						
DXY	-1.00	-1.28	1.47	-2.64	3.79	1.03
USDCAD	-0.75	-0.88	1.63	-2.14	2.06	0.01
USDEUR	-1.01	-1.31	0.83	-3.64	2.85	0.44
USDJPY	-1.38	-1.29	4.97	7.94	10.98	5.82
USDGBP	-1.20	-1.44	-0.61	-7.64	2.61	0.43

	CA	U.S.
Bond yields		
2Y	4.08	4.50
5Y	3.44	4.07
10Y	3.36	4.08
30Y	3.25	4.24
Credit spreads		
IG corporate bonds	131	100
HY bonds	307	327

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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