

Keys to the market

What happened this week

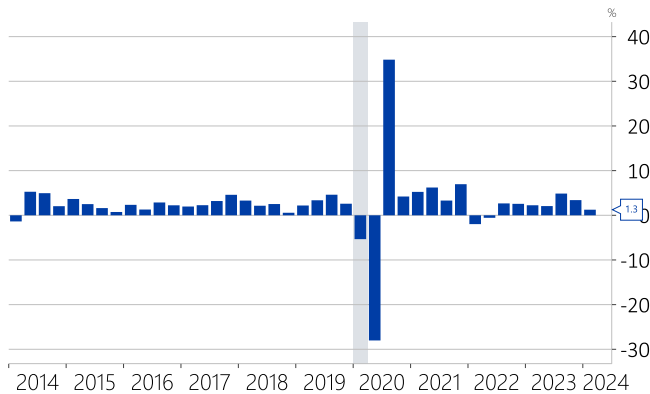
May 31, 2024

In Canada, the economy expanded by 0.4% in the first quarter of 2024, fueled primarily by increased household spending and a slight rise in the import-export sector. Business capital investment in engineering structures, particularly in the oil and gas sector, also contributed to the expansion. Even so, annual GDP growth of 1.7% fell short of expectations. Moreover, Canada's industrial producer price inflation rose to 1.5% in April, hitting an 8-month high and surpassing market forecasts. The inflation was due mainly to higher costs of primary non-ferrous metal products and industrial metals, owing to geopolitical tensions that drove up precious-metal prices.

In the United States, first-quarter economic growth came in below estimates, with an annualized expansion of only 1.3%, the lowest rate since the first half of 2022. The U.S. core PCE Price Index rose by a slower-than-expected 0.2%, indicating weaker inflation pressures. Similarly, consumer spending slowed more than expected to a mere 0.2% in April, with private inventories reducing growth. This increase is the lowest since January, perhaps signaling slowing momentum in the consumer sector and contributing to potential signs of economic weakness.

U.S.: Real GDP Growth

U.S. Bureau of Economic Analysis (BEA), %, QoQ, SAAR, as at 2024 Q1



iA Global Asset Management, Macrobond

Bond market

The bond markets ended the week on a positive note when Friday's unexpectedly modest personal consumption expectations data combined with the softish first-quarter U.S. GDP numbers announced a day earlier to reinvigorate the idea that the Fed's higher-for-longer stance may end later this year. It was only a couple of days earlier that poor pickup for several U.S. bond auctions had yields jumping 10 basis points or so, showing the current skittishness of investor sentiment about the prospect for policy rates. At week's end, however, U.S. 10-

Highlights

- In Canada, the economy experienced a first-quarter boost, but annual GDP growth fell short of market expectations.
- In the United States, unexpectedly weak first-quarter growth was due to slow consumer spending and cooling inflation.

On our radar

- Canada: BoC interest rate decision and unemployment rate for May
- United States: ISM services PMI, ISM manufacturing PMI, and unemployment for May

year Treasury yields finished about where they had started, hovering on either side of 4.5%, while futures priced in 1.5 cuts by the U.S. Fed this year.

In Canada, unexpectedly weak first-quarter GDP data helped place a cut at next week's BoC meeting squarely on the table, with three downward moves for the year now mostly priced in. Meanwhile, the slew of sentiment and labour data to be announced in Canada and the United States next week will give us further insight into conditions in both economies and the direction of rates. None of last week's data releases seemed to affect the credit markets; IG and HY stayed anchored at about 90 and 300 basis points, respectively.

Stock market

The S&P 500 Index edged lower this week amid a sell-off in the bond market and the release of strong consumer confidence data on Tuesday, even though monthly PCE data aligned with expectations. The negative sentiment was also exacerbated by continued volatile earnings to the downside in software.

Notably, Salesforce shares had their biggest drop since 2008 owing to an unexpectedly weak outlook. Revenues are projected to increase by 8% next quarter, the first ever single-digit sales growth since the company went public. The results have heightened fears that a larger portion of enterprise IT budgets will keep shifting to AI from traditional software, leading to a prolonged downturn for these expensive software stocks.

Meanwhile, Dell's shares also declined on earnings that fell short of high buy-side expectations. Revenues from its AI servers doubled from the previous quarter and the backlog increased 30% quarter over quarter. Even so, the outlook implies flat sales through the rest of the year and casts doubt on the sustainability of its competitive edge.

Markets (Total return, in CAD)

As of May 30, 2024	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	-1.29	3.59	14.45	26.99	13.87	15.59
S&P/TSX	-1.09	1.80	6.57	15.47	6.80	9.86
NASDAQ	-1.43	5.76	14.22	29.74	15.30	20.96
MSCI ACWI	-1.18	3.18	12.71	23.49	10.84	12.64
MSCI EAFE	-0.74	2.64	10.23	16.32	7.04	8.05
MSCI EM	-2.27	0.93	8.23	12.95	-1.24	4.43
Commodities (USD)						
Gold	0.40	2.49	13.58	19.59	7.17	12.70
CRB	-0.17	0.19	7.23	1.26	-0.08	5.56
WTI	0.24	-4.91	8.74	12.17	5.52	6.60
Fixed income						
FTSE TMX Canada Universe	-0.55	1.18	-2.06	2.48	-1.96	-0.15
FTSE TMX Canada Long	-1.28	2.13	-5.94	-0.16	-4.99	-2.34
FTSE TMX Canada Corporate Overall	-0.47	0.93	-0.26	5.61	-0.26	1.38
Currencies						
DXY	-0.01	-1.42	3.34	0.53	5.17	1.31
USDCAD	0.12	-0.70	3.31	0.58	4.25	0.27
USDEUR	0.14	-1.54	1.91	-0.90	4.02	0.54
USDJPY	-0.11	-0.62	11.19	12.18	12.60	7.42
USDGBP	0.04	-1.89	-0.01	-2.51	3.68	-0.19

Source: iA Global Asset Management, Bloomberg

	CA	U.S.
Bond yields		
2Y	4.27	4.92
5Y	3.77	4.57
10Y	3.70	4.55
30Y	3.55	4.68
Credit spreads		
IG corporate bonds	126	88
HY bonds	255	319

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Rooted in history, innovating for the future.

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