

Keys to the market

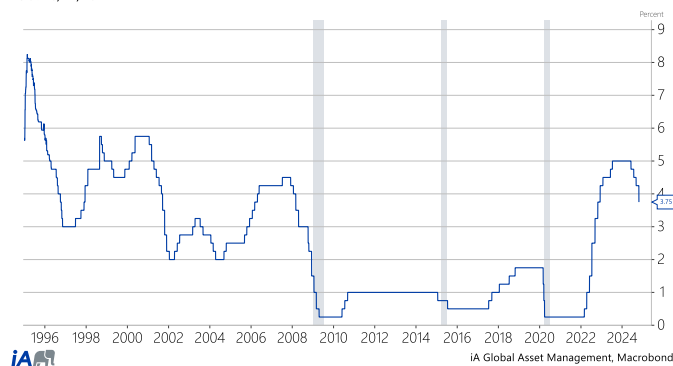
What happened this week

October 25, 2024

In Canada, the Bank of Canada took the significant step of lowering its key interest rate by 50 basis points to 3.75%. This decision, which increased the pace of rate cuts after three quarter-point cuts, aligns with recent data showing a sharp slowdown in Canadian inflation. This move points to an extended cutting cycle. On the housing front, new home prices were static for the second month running, but housing starts rose by 0.2% on an annual basis. As for Canadian retail sales, they are expected to have extended their growth trajectory, with a 0.4% rise predicted for September.

In the United States, positive economic indicators were seen, such as sales of new single-family homes, which surged 4.1% in September to an annual rate of 738,000 – the highest level since May 2023. Initial jobless claims also brought good news, dropping to a month low of 227,000 for the week ending October 19 and signalling a robust U.S. labour market. Manufacturing was less promising, however, with new orders for durable goods tapering off by 0.8% to \$284.8 billion in September, the third decrease in four months.

Bank of Canada: Overnight Rate
As at 10/24/2024



Bond market

Bonds were flattish on the week, with U.S. 10-year Treasuries hovering around 4.2% after the roughly 60-basis-point run-up in yields since the Fed undertook its first cut back in September. The deteriorating bond prices reflect the growing belief in a Republican sweep in the coming U.S. election, followed by upward inflationary pressure resulting mostly from a promised increase in tariffs and mounting trade discord.

Even though there may be some further weakness in bonds in the near term, we expect levels to settle by year-end as the Fed continues its easing posture, albeit at a slower pace than what was priced in only a few weeks ago. That said, the widely

Highlights

- In Canada, a significant interest rate cut points to an extended easing cycle by the Bank of Canada.
- In the United States, robust home sales and a reduction in jobless claims present a healthier outlook, despite a manufacturing slowdown.

On our radar

- Canada: GDP for August, S&P global manufacturing PMI for October
- United States: Core PCE price index and job openings for September, nonfarm payrolls and unemployment rate for October

expected 50-basis-point cut by the BoC last week failed to spur any rally in Canada.

In credit, U.S. IG and HY spreads bounced modestly off their multiyear lows during the week, most likely as a result of profit taking rather than a meaningful shift in sentiment toward the asset class, especially because the start of earnings season has been benign. We will see lots of economic data releases in the coming week (labour, GDP, inflation and more) but we expect the looming U.S. election to take an even greater hold on sentiment.

Stock market

The S&P 500 Index ended the week mostly flat, given the lack of major macro catalysts or earnings from the larger weights in the index.

Tesla's shares jumped by double digits after it reported higher-than-expected profits for the quarter and, what is more important, forecast a rebound in deliveries in the rest of the year and into 2025. Musk said that sales could rise by 20% to 30% with bigger discounts on existing models and declining interest rates. Interestingly, he also refuted the widely held assumption of the need for a cheaper mass-market model, stating that the focus was on making current vehicles more affordable. Also, after many delays, the company's much-anticipated Semi truck will begin its production run by the end of the year.

In other news, McDonald's Quarter Pounder hamburgers have been linked to an E. coli outbreak that has killed one person and sickened at least 75 others. A food-safety misstep is a rare occurrence for the fast-food chain. It can, however, take years to win back customers once perception changes. Combined with the company's already flagging sales, investors are understandably skittish ahead of its earnings announcement.

Markets

(Total return, in CAD)

As of October 24, 2024	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	-0.62	3.43	29.36	39.96	14.51	17.22
S&P/TSX	-1.03	2.45	20.11	33.53	8.34	11.85
NASDAQ	-0.13	3.39	26.29	38.38	13.88	21.87
MSCI ACWI	-0.90	2.12	24.35	35.42	11.39	13.86
MSCI EAFE	-1.73	-1.95	13.50	24.54	7.05	7.86
MSCI EM	-1.47	-0.63	19.36	27.98	2.55	5.91
Commodities (USD)						
Gold	0.54	3.86	32.63	38.82	15.14	12.71
CRB	-0.24	-1.99	3.76	-2.72	-2.33	6.25
WTI	1.40	2.96	-2.04	-16.18	-5.72	4.53
Fixed income						
FTSE TMX Canada Universe	-0.56	-1.42	2.79	10.67	-0.33	0.50
FTSE TMX Canada Long	-1.01	-2.81	-0.71	12.99	-3.53	-1.98
FTSE TMX Canada Corporate Overall	-0.42	-0.80	5.03	12.54	1.43	2.08
Currencies						
DXY	0.55	3.25	2.69	-2.08	3.58	1.28
USDCAD	0.41	2.44	4.62	0.83	3.86	1.17
USDEUR	0.37	2.84	1.95	-2.19	2.46	0.51
USDJPY	1.54	5.71	7.65	1.28	10.18	6.93
USDGBP	0.59	3.08	-1.88	-6.29	1.96	-0.19

Source: iA Global Asset Management, Bloomberg

	CA	U.S.
Bond yields		
2Y	3.08	4.08
5Y	3.01	4.03
10Y	3.24	4.21
30Y	3.37	4.47
Credit spreads		
IG corporate bonds	119	86
HY bonds	303	293

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Rooted in history, innovating for the future.

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