

Keys to the market

What happened this week

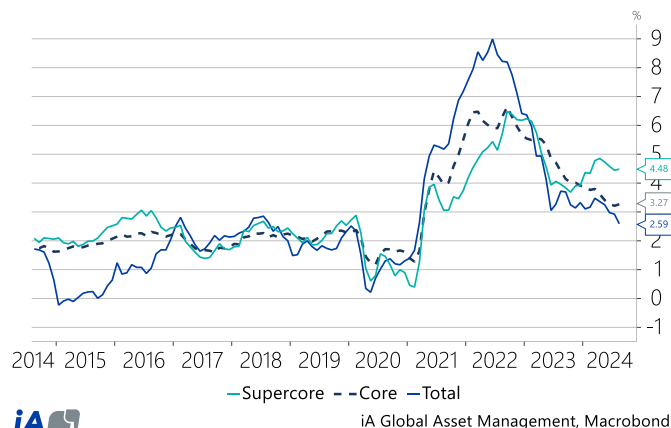
September 13, 2024

In Canada, building permits surged 22.1% in July, greatly surpassing market expectations owing to major gains in residential and non-residential permits alike. That being said, month-over-month wholesale sales ticked up only 0.4%; this slight increase contradicted the projected decline but indicated only a sluggish recovery from the previous month's dip.

In the United States, the annual core consumer price inflation for August came in at 3.2%, the lowest rate in more than three years, in line with expectations. Factory-gate prices saw a modest rise, however, and outperformed forecasts. Consumer sentiment in the U.S., as measured by the University of Michigan, has increased for two months in a row, suggesting better buying conditions and increased optimism about personal finances and the economy. These factors, combined with slowing inflation, suggest the Fed will probably cut rates by 25 basis points next week.

U.S.: Total, Core & Supercore Inflation

U.S. Bureau of Labor Statistics (BLS), YoY, %, as at 8/2024



iA Global Asset Management, Macrobond

Bond market

Bond yields continued to decline during the week as we headed toward the start of Fed rate cuts after a couple of years that saw the most aggressive tightening cycle in decades. In the Treasury market, 10-year bonds shaved off another 10 basis points to end at 3.65%, down about 25 points since the start of the month. Futures are pricing in less than 50-50 odds of a 50-basis-point move at the September 18 meeting, which is mostly consistent with our forecast of a 25-basis-point cut. We don't think the Fed will want to run the risk of triggering an outsized reaction in the global capital markets, nor will it admit to having waited too long. It's quite possible yields will drift higher in the coming weeks, should the Fed opt for only 25 basis points, especially because

Highlights

- In Canada, a notable increase in building permits contrasts with a modest rise in wholesale sales.
- In the United States, lower inflation and positive consumer sentiment seem to have set the stage for a Fed rate cut.

On our radar

- Canada: Inflation rate, new housing price index, retail sales, and GDP
- United States: Fed interest rate decision, retail sales, housing starts, and initial jobless claims

futures are pricing in a full percentage point of cuts by year-end, a prospect that is somewhat inconsistent with a more tempered start to the cutting cycle.

In spread markets, IG and HY were little moved on the week, ending just under 100 and 325 basis points, respectively. We think risk markets will remain in wait-and-see mode until the Fed's decision, with a slightly favorable bias because easing is expected to start, amid hopes that a hard or soft landing will be avoided.

Stock market

The S&P 500 Index rebounded this week on the back of a tech rally and expectations of a rate cut this month. Additionally, the in-line August CPI numbers are giving investors confidence in cooling inflation trends.

In a positive readthrough to Nvidia, Oracle reported its quarter and held an analyst day, during which it implied a staggering 16% topline CAGR over the next three years, driven by continued demand for cloud services and AI. The company is building a 1GW data centre powered by three mini nuclear reactors. Also, management said that there was no slowdown in the training of AI models and that the race toward larger and better neural networks would continue. They also see a long tail of demand from specialized industry-specific models.

Lastly, like clockwork, Apple unveiled the latest iteration of its iPhone lineup with updated processors and, most important, new AI-related capabilities, which the company has dubbed "Apple Intelligence". The event went largely as foreseen, but expectations are building that the new features will drive an iPhone upgrade supercycle despite a sluggish handset market.

Markets

(Total return, in CAD)

As of September 12, 2024	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	3.95	-0.01	22.15	27.60	12.30	15.74
S&P/TSX	3.09	0.64	14.38	19.88	7.70	10.48
NASDAQ	5.92	0.10	19.03	27.38	10.65	20.38
MSCI ACWI	3.12	-0.45	18.77	24.34	9.30	12.81
MSCI EAFE	0.72	-1.72	12.47	18.02	5.40	7.95
MSCI EM	0.63	-1.20	10.93	13.88	-0.95	4.56
Commodities (USD)						
Gold	2.42	2.18	23.99	33.66	12.69	11.28
CRB	2.36	0.13	5.24	-2.48	-1.16	6.91
WTI	1.92	-6.23	-3.74	-22.37	-0.36	4.60
Fixed income						
FTSE TMX Canada Universe	0.46	1.80	4.16	10.63	-0.61	0.82
FTSE TMX Canada Long	0.77	2.98	2.44	12.63	-3.62	-1.19
FTSE TMX Canada Corporate Overall	0.38	1.53	5.26	11.85	0.91	2.19
Currencies						
DXY	0.19	-0.33	0.03	-3.19	3.07	0.61
USDCAD	0.05	0.65	2.54	0.20	2.28	0.55
USDEUR	0.09	-0.23	-0.32	-2.89	2.17	-0.02
USDJPY	-0.34	-2.98	0.55	-3.58	8.86	5.58
USDGBP	0.03	0.01	-3.00	-4.83	1.76	-1.23

Source: iA Global Asset Management, Bloomberg

	CA	U.S.
Bond yields		
2Y	3.00	3.64
5Y	2.75	3.46
10Y	2.91	3.67
30Y	3.08	3.99
Credit spreads		
IG corporate bonds	132	99
HY bonds	337	339

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Rooted in history, innovating for the future.

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