

# Keys to the market

## What happened this week

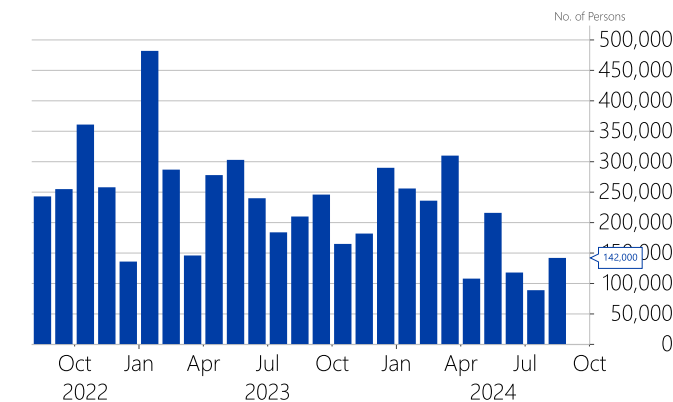
September 6, 2024

In Canada, the Bank of Canada cut its key interest rate by a quarter of a percentage point to 4.25% in response to ongoing excess supply in the Canadian economy, which is putting downward pressure on inflation. The unemployment rate rose marginally to 6.6% in August 2024 from 6.4% in the previous month, a level slightly higher than expected and the highest since October 2021. Meanwhile, GDP expanded by a more-than-expected 2.1% in the second quarter of the year, representing its second consecutive quarter of expansion.

In the United States, factory activity showed a slight improvement, with the ISM Manufacturing PMI edging higher to 47.2 in August, although still indicating an overall contraction. The ISM Services PMI also saw an increase, suggesting positive momentum in the services sector. As for employment, the U.S. economy added 142,000 jobs in August, a figure below forecasts but up from July's downwardly revised figure. Even so, the unemployment rate eased to 4.2%, in line with market expectations, indicating that, for the time being, the labour market appears to be robust despite signs of slowing.

### U.S.: Net Change in Nonfarm Payrolls

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



iA Global Asset Management, Macrobond

### Bond market

Bond yields plunged during the week in response to softer labour data, with 10-year U.S. Treasuries dropping 15 basis points to hover around 3.75%. Although the data were not weak enough to prompt a clear consensus that the U.S. Fed will cut by 50 basis points later this month, the futures market is still pricing in 50-50 odds of such a move, as well as more than 100 basis points by year-end. Admittedly, the labour data were on

### Highlights

- In Canada, rate cuts by the Bank of Canada contrast with the country's second consecutive quarter of GDP expansion.
- In the United States, modest job growth and easing unemployment are set against a slowing manufacturing sector.

### On our radar

- Canada: Inflation rate, new housing price index, retail sales, and GDP
- United States: Inflation rate, PPI, and initial jobless claims

the soft side; however, we remain skeptical that they were bad enough for the Fed to admit it waited too long to act and thus we are still leaning toward a 25-basis-point first cut instead.

In the credit markets, both IG and HY were a touch wider, but in response to record levels of new issuance for the first week after the Labour Day weekend, suggesting the appetite for spread product is still quite robust.

### Stock market

The S&P 500 Index had a jittery week while investors processed a slew of negative data points. Market sentiment seems to have shifted, and bad economic data are no longer considered "good news". The August payroll update provided little relief; headline numbers came in below expectations, including downward revisions for June and July. Consequently, traders are now pricing in a rate cut of 50 basis points at the September Fed meeting.

Perhaps providing more anecdotal evidence of the weakening state of the U.S. consumer, like Dollar General last week, Dollar Tree reported a lacklustre quarter. The company cut full-year guidance on a decline in spending by low-income consumers as well as incremental share loss to larger competitors, such as Walmart.

Lastly, Broadcom's shares fell after it reported a surprisingly mixed quarter. Although topline numbers came in ahead, the forward guidance was disappointing, and the company's non-AI-related revenues grew at a slower pace than expected. Even so, management was quick to point out that those businesses were bottoming as an aggregate and showing signs of improvement.

## Markets

(Total return, in CAD)

As of September 5, 2024	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
<b>Equities</b>						
S&P 500	-2.25	-2.25	19.42	23.11	11.16	15.41
S&P/TSX	-1.51	-1.51	11.94	16.28	6.62	10.11
NASDAQ	-3.00	-3.00	15.34	21.01	9.32	19.71
MSCI ACWI	-2.24	-2.24	16.62	20.73	8.48	12.62
MSCI EAFE	-2.13	-2.13	12.00	16.71	5.46	8.15
MSCI EM	-1.83	-1.83	10.23	11.45	-1.02	4.77
<b>Commodities (USD)</b>						
Gold	0.53	0.53	22.00	30.66	11.25	10.63
CRB	-0.16	-0.16	4.93	-3.49	-1.36	6.66
WTI	-5.98	-5.98	-3.49	-20.23	-0.07	4.20
<b>Fixed income</b>						
FTSE TMX Canada Universe	1.28	1.28	3.63	10.07	-0.92	0.47
FTSE TMX Canada Long	2.31	2.31	1.77	11.93	-4.13	-1.80
FTSE TMX Canada Corporate Overall	1.06	1.06	4.77	11.35	0.66	1.90
<b>Currencies</b>						
DXY	-0.58	-0.58	-0.22	-3.53	3.18	0.54
USDCAD	0.08	0.08	1.96	-1.02	2.54	0.41
USDEUR	-0.56	-0.56	-0.65	-3.50	2.25	-0.14
USDJPY	-1.86	-1.86	1.71	-2.89	9.35	6.05
USDGBP	-0.41	-0.41	-3.41	-4.67	1.69	-1.32

Source: iA Global Asset Management, Bloomberg

	CA	U.S.
<b>Bond yields</b>		
2Y	3.14	3.74
5Y	2.84	3.54
10Y	2.97	3.73
30Y	3.11	4.02
<b>Credit spreads</b>		
IG corporate bonds	132	99
HY bonds	326	329

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

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