Justin Truong, CFA
Investment Strategy
justin.truong@mackenzieinvestments.com

Weekly Market Snapshot

For the week ending September 20, 2024

Equities

Local currency, price only, % change

	2024-09-20	Week	QTD	YTD	1Y
S&P/TSX Composite	23,867	1.3%	9.1%	13.9%	18.1%
S&P/TSX Small Cap	808	1.4%	7.1%	15.1%	17.0%
S&P 500	5,703	1.4%	4.4%	19.6%	29.5%
NASDAQ	17,948	1.5%	1.2%	19.6%	33.3%
Russell 2000	2,228	2.1%	8.8%	9.9%	23.1%
UK FTSE 100	8,230	-0.5%	0.8%	6.4%	6.4%
Euro Stoxx 50	4,872	0.6%	-0.5%	7.7%	13.9%
Nikkei 225	37,724	3.1%	-4.7%	12.7%	14.2%
MSCI China (USD)	57	4.6%	0.1%	3.6%	-1.2%
MSCI EM (USD)	1,106	2.2%	1.9%	8.1%	14.0%

Fixed income

Total return, % change

	2024-09-20	Week	QTD	YTD	1Y
FTSE Canada Universe Bond	1,168	-0.1%	4.6%	4.2%	11.8%
FTSE Canada All Corporate Bond	1,421	0.2%	4.3%	5.6%	13.1%
Bloomberg Canada High Yield	188	1.0%	3.2%	6.7%	12.9%

Interest rates - Canada

Change in bps

	2024-09-20	Week	QTD	YTD	1Y
3-month T-bill	4.03	-2	-61	-101	-105
GoC bonds 2 yr	2.93	-2	-106	-96	-204
GoC bonds 10 yr	2.95	5	-55	-16	-96
GoC bonds 30 yr	3.14	5	-25	11	-51

Currencies and Commodities

In USD, % change

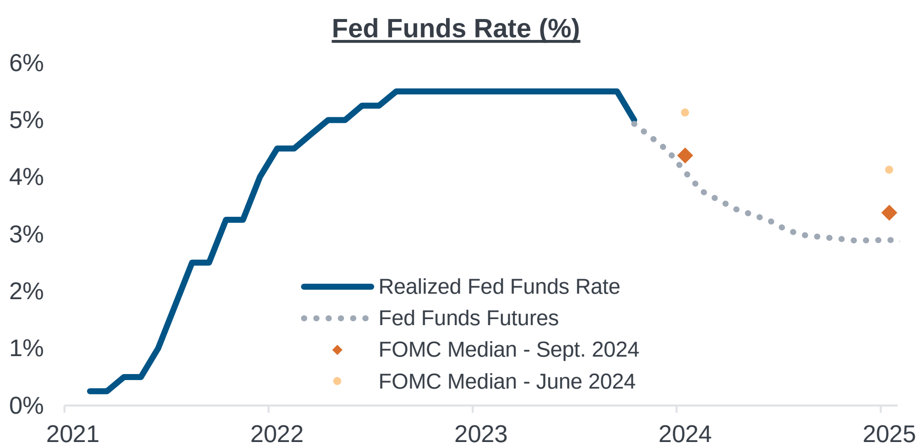
	2024-09-20	Week	QTD	YTD	1Y
CADUSD	0.737	0.1%	0.8%	-2.4%	-0.8%
US Dollar Index	100.72	-0.4%	-4.9%	-0.6%	-4.4%
Oil (West Texas)	71.92	4.8%	-11.8%	0.4%	-20.3%
Natural Gas	2.43	5.6%	-9.6%	-11.2%	-27.6%
Gold	2,622	1.7%	12.7%	27.1%	35.8%
Copper	4.34	2.5%	-1.5%	9.9%	13.0%

Canadian sector performance

Price return, % change

	Week	YTD
Energy	1.8%	11.7%
Materials	0.9%	26.3%
Industrials	-0.6%	9.0%
Cons. Disc.	1.7%	7.6%
Info Tech	4.5%	11.1%
Health Care	5.7%	9.9%
Financials	1.8%	17.5%
Cons. Staples	-0.7%	12.6%
Comm. Services	-0.9%	-6.6%
Utilities	-1.0%	9.1%
Real Estate	-0.7%	10.7%

Chart of the week: Recalibrating to neutral



*From "transitory", to "higher for longer", Fed Chairman Powell has now rolled out **"recalibration"** as the latest and greatest slogan to describe monetary policy after last week's jumbo 50 bps rate cut. The move marked the first reduction in four years, bringing the Fed Funds Rate (FFR) target range to 4.75-5.0%. While a cut was expected, many were caught off guard, predicting the Fed would settle on a more conventional 25 bps reduction. **But in a world where inflation is no longer the priority, and the spotlight redirecting toward the cooling labour market, the Fed is adjusting its script accordingly.** In its Summary of Economic Projections, the Fed revised its unemployment forecast to 4.4% (up from the 4.0% June forecast) and lowered its Core PCE inflation projection to 2.6% y/y (from 2.8%). As a result, the Fed built in additional rate cuts in its updated dot plot, with the FFR expected to drop to 4.4% by year-end (down from 5.1%), and 3.4% by the end of 2025. **In total, this suggests the Fed is planning to cut rates by an additional 50 bps in 2024, and an additional 100 bps in 2025.** Despite the outsized move, Treasury yields finished the week higher, as markets anticipated a more dovish outlook. Behind the move higher in yields may have been Powell emphasizing that 50 bps pace should not be viewed as the new norm. In fact, Powell revealed that **had the Fed received the July jobs report before their previous meeting in July, rate cuts may have started sooner.** This implies the Fed is course correcting from its decision to hold rates steady in July, while also building in some insurance due to the long gap between now and the next meeting in six weeks. Bottom line, the Fed has begun its journey to neutralizing policy rates, moving away from its single-minded focus on inflation to pursuing the historically elusive soft-landing. **While some may worry that this pivot could reignite a 1970s-style inflation resurgence, it also boosts the odds of a navigating the US economy to a soft landing. For now, markets are seeing this as a positive.***

Weekly Market Snapshot

For the week ending September 20, 2024

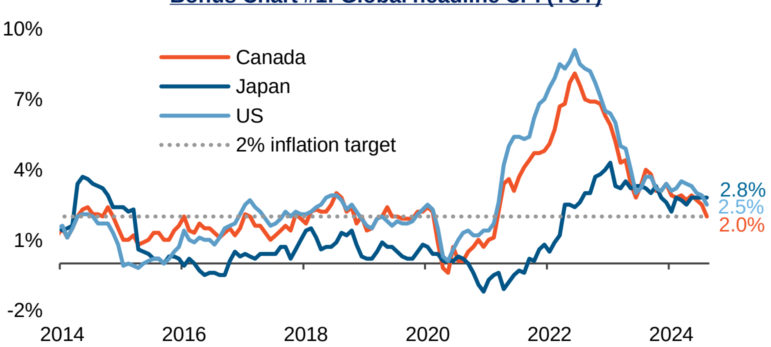
BoC to follow in the Fed's footsteps?

Global equities ended the week at new all-time highs after the Fed delivered a 50 bps cut, surprising many economists and market participants. Defensive sectors such as consumer staples and health care lagged the broader S&P 500 as markets priced in a higher probability of a US soft landing. Oil prices (+4.8%) rebounded sharply on the Fed news, boosting energy stocks. Despite the Fed's move, bond yields rose as Fed Chair Powell's tone, alongside the updated Summary of Economic Projections, were slightly more hawkish than markets expected. Despite rising yields, small caps outperformed large caps in Canada and the US.

While most major central banks are cutting rates, the Bank of Japan (BoJ) has been going the other way by hiking rates. Though the BoJ held rates steady at 0.25% at last week's meeting, Governor Kazuo Ueda's tone has pivoted more dovish. This shift was driven by the recent softening in US economic data, which has pushed the Fed to accelerate its rate-cutting timeline. Recall, coupled with the BoJ's July rate hike, the Japanese yen surged against the US dollar, triggering the violent sell-off in early August as the world's carry trade unwound. **Now, with the yen stabilizing around USDJPY 144 (see bonus chart #2), the BoJ has more breathing room to be patient.** At its weakest, the yen was pushing against the USDJPY 160 level, forcing the Japanese Ministry of Finance to intervene multiple times to support its currency. The weakness in the yen was also a key motivation for hiking rates, as it was inflating import prices and dampening domestic consumer sentiment. **Overall, Ueda's more dovish tone suggests no immediate action is expected at the next meeting in October, as the BoJ waits for more clarity on whether the US can successfully engineer a soft landing.** Despite this delay, inflation in Japan remains above the 2% target (see bonus chart #1), and wage growth remains robust, indicating that further tightening is likely necessary. However, with the timeline pushed further out, markets currently see just a ~30% probability of another hike by the end of the year.

Canadian inflation is cooling sharply, raising the odds that the Bank of Canada (BoC) will follow in the Fed's footsteps in delivering its own 50 bps cut. In August, headline CPI fell -0.2% m/m, lowering the annual rate to 2.0% y/y (prev. 2.5%, see bonus chart #1). Meanwhile, the average of the BoC's two core measures cooled to 2.35% y/y. Shelter costs remain the only significant underlying inflationary pressure, up 5.3% y/y. **Excluding shelter, inflation is tracking at just 0.4% y/y, well below policymakers' 2% target.** While we did see a resurgence in retail sales in July, it was mostly due to a rebound in vehicle sales after June's cyberattacks. The more discretionary and interest-rate sensitive categories, such as building materials (-2.0%) and electronics and appliances (-2.0%), declined in the month. All the while lower rates have not elicited a reaction in Canada's housing market, with existing home sales down -2.1% y/y and new listings continuing to rise gradually, up 1.1% in August. We have long argued that the Canadian economy remains in a structurally weak position due to its sensitivity to interest rates. **If the Fed is justifying a more aggressive path towards neutral, then Canada should, too.** Markets are currently pricing in a ~50% chance of an outsized 50 bps cut at the next BoC meeting on October 23.

Bonus Chart #1: Global headline CPI (YoY)



Bonus Chart #2: USDJPY

The week in review

- The US Federal Reserve (Fed) cut interest rates for the first time in four years, reducing the target range for the Federal Funds rate to 4.75% to 5%.
- The Bank of Japan held its policy rate steady, leaving the target at 0.25%.
- Canadian retail sales (Jul.) rebounded 0.9% m/m (versus 0.6% expected), following the prior month's -0.2% decline. Sales are up 0.9% y/y over the past year. StatCan's preliminary estimate for August calls for another increase of 0.5% m/m.
- Canadian CPI inflation (Aug.) fell -0.2% m/m (versus 0.0% expected), lowering the annual pace to 2.0% y/y from 2.5% in the month prior. The average of the Bank of Canada's two core measures eased to 2.35% y/y from 2.55%.
- Canadian existing home sales (Aug.) rose 1.3% m/m seasonally adjusted, after the prior month's -0.7% decline. In annual terms, sales have fallen -2.1% y/y. Housing starts decelerated to 217.4k from 279.8k in the prior month.
- US retail sales (Apr.) were flat m/m (versus 0.4% expected), following a downwardly revised 0.6% gain in the prior month. Sales are still up 3.0% y/y. The control group saw a -0.3% m/m decline.
- US industrial production (Aug.) rose 0.8% m/m (versus 0.2% expected), after the prior month's downwardly revised -0.9% decline. Industrial production is flat y/y. The capacity utilization rate rose to 78.0% from 77.4%.
- US existing home sales (Aug.) fell -2.5% m/m to 3.86 million units annualized (versus 3.90 million expected). In annual terms, Sales are down -4.2% y/y.
- UK CPI inflation (Aug.) rose 0.3% m/m (in line with expectations), holding the annual rate steady at 2.2% y/y. Core prices accelerated to 3.6% y/y from 3.3% in the prior month.
- UK retail sales (Aug.) rose 1.0% m/m (versus 0.4% expected), after the prior month's upwardly revised 0.7% increase in the prior month. In annual terms, sales have risen 2.5% y/y.

The week ahead

- Canadian GDP data
- US PCE inflation data
- US durable goods orders, and personal spending and income data
- Global PMI data
- Minutes from BoJ's July meeting
- Australian and Mexico monetary policy announcements