MACKENZIE Investments

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Weekly Market Snapshot

For the week ending April 19, 2024

Equities

Local currency, price only, % change

	2024-04-19	Week	QTD	YTD	1 Yr
S&P/TSX Composite	21,807	-0.4%	-1.6%	4.1%	5.4%
S&P/TSX Small Cap	753	-1.3%	0.1%	7.3%	4.9%
S&P 500	4,967	-3.0%	-5.5%	4.1%	19.6%
NASDAQ	15,282	-5.5%	-6.7%	1.8%	25.7%
Russell 2000	1,948	-2.8%	-8.3%	-3.9%	8.2%
UK FTSE 100	7,896	-1.2%	-0.7%	2.1%	0.0%
Euro Stoxx 50	4,918	-0.7%	-3.3%	8.8%	11.9%
Nikkei 225	37,068	-6.2%	-8.2%	10.8%	29.6%
MSCI China (USD)	53	-1.9%	-1.4%	-3.6%	-18.7%
MSCI EM (USD)	1,004	-3.6%	-3.7%	-1.9%	1.4%

Fixed income

Total return, % change

	2024-04-19	Week	QTD	YTD	1 Yr
FTSE Canada Universe Bond Index	1,088	-0.6%	-1.8%	-3.0%	1.0%
FTSE Canada All Corporate Bond Index	1,332	-0.4%	-1.1%	-1.1%	4.4%
Bloomberg Canada High Yield Index	181	-0.1%	-0.1%	3.0%	11.0%

Interest rates - Canada

Change in bps

	2024-04-19	Week	QTD	YTD	1 Yr
3-month T-bill	4.90	1	-9	-14	51
GOC bonds 2 yr	4.25	7	7	36	37
GOC bonds 10 yr	3.74	9	27	63	68
GOC bonds 30 yr	3.65	10	29	61	51

Currencies and Commodities

In USD, % change

	2024-04-19	Week	QTD	YTD	1 Yr
CDN $	0.727	0.2%	-1.5%	-3.7%	-2.1%
US Dollar Index	106.15	0.1%	1.6%	4.8%	4.1%
Oil (West Texas)	83.14	-2.9%	0.0%	16.0%	5.0%
Natural Gas	1.75	-1.0%	-0.6%	-26.0%	-43.6%
Gold	2,392	2.0%	7.3%	15.9%	19.9%
Copper	4.53	5.5%	12.1%	15.3%	10.8%

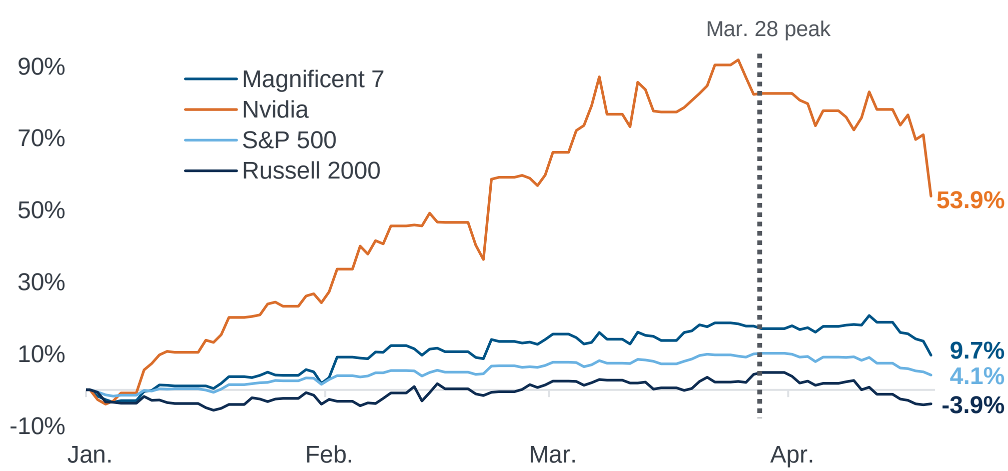
Canadian sector performance

Price return, % change

	Week	YTD
Energy	-0.8%	13.0%
Materials	0.6%	12.4%
Industrials	-1.6%	7.5%
Cons. Disc.	-0.3%	0.7%
Info Tech	-0.2%	-0.8%
Health Care	-1.4%	2.5%
Financials	-0.3%	0.8%
Cons. Staples	0.7%	1.6%
Comm. Services	0.6%	-11.8%
Utilities	0.9%	-6.7%
Real Estate	-2.1%	-8.2%

Chart of the week: From greed to fear?

YTD Performance: Mag 7, Nvidia, S&P 500, Russell 2000



Warren Buffet once famously advised that it is wise for investors "to be fearful when others are greedy and to be greedy only when others are fearful." While patience has turned to FOMO for many investors during the remarkable ~28% rally for the S&P 500 that began last October to the Mar. 28 all-time high, investors who have resisted the pull of greed might finally feel a degree of vindication if the market continues to trend lower. The catalyst for the move lower has been a shift in expectations of a US soft landing to a 'no landing' scenario, underscored by last week's robust US retail sales report, which showed that the US consumer is far from running out of steam. The recent string of hot US economic data points has led market participants (and Fed officials; see more below) to capitulate on their lofty rate cut expectations for this year as bond yields have moved towards last October's highs. ***We have consistently argued that if we are in a regime of higher inflation, expanding equity valuation multiples – which have propelled stock prices to all-time highs – would likely need to contract in the near term, particularly for more cyclical companies or those sporting higher price tags.*** *This prediction has manifested during the recent sell-off, with the largest losses seen in US tech and small caps. The NASDAQ 100 and Russell 2000 have fallen 7% and 8%, respectively. While the Fed has not met the market's expectations for rate cuts,* ***the silver lining that could reverse the tide would be a strong quarterly performance from Corporate America.*** *The early results from Q2 earnings season have been (mostly) positive, but a clearer picture will emerge after 152 S&P 500 companies report this week, with five of the Mag 7 stocks front and center.* ***In the medium term, we still view equities in a structural uptrend despite potential weakness and bumpiness in the short-term.***

No landing view gains steam

Global equities saw their sharpest weekly decline of the year. The S&P 500 (-3.0%) fell sharply due to a significant drop in IT stocks (-7.3%), leaving the index 5.5% below its March 28 all-time high. The S&P/TSX (-0.4%) continues to outperform, benefitting from minimal exposure to tech and a boost from cyclically-oriented sectors amid the growing consensus for a US ‘no landing’ scenario. While Israel followed through with its well-telegraphed retaliatory attack on Iran, Iranian officials signalled no intention for further a counterstrike. The comments allowed oil prices to take a breather, with WTI and Brent crude prices down roughly 3%. Meanwhile, gold prices continued its ascent, climbing an additional 2% to bring yellow metal closer to the $2,400/oz level. Meanwhile, Canada released its federal budget for 2024. For every you need to know about the release, please see our Federal Budget 2024 analysis and Highlights from Canada’s 2024 Federal Budget article published on Morningstar.ca.

Markets remain fixated on comments made by Fed members, who are sounding increasingly hawkish in response to this year’s inflation data. Most notable was Chair Powell, who confirmed that the unexpectedly high inflation readings in the first quarter had not given the FOMC greater confidence to begin lowering policy rates. Fed Vice Chair Jefferson also chimed in, saying that the Fed’s goal of sustainably reaching 2% inflation is “not yet done.” In response, bonds sold off, with yields approaching levels not seen since last October. The yield on the US 2-year Treasury rose another 9 bps to 4.99%, while the 10-year Treasury jumped 10 bps to 4.62%. Markets have drastically reduced their rate cut bets, now pricing in just 39 bps of cuts for 2024, with the first one not expected until November. **We reiterate that the biggest risk facing markets today is the potential for sticky inflation to restrict the Fed from cutting rates this year, pushing yields higher and valuation multiples lower.**

Canada’s March inflation data provides further evidence that the Bank of Canada’s (BoC) restrictive monetary policy is effectively slowing inflation pressures. While headline inflation edged up slightly to 2.9% y/y (from 2.8%) due to higher mortgage interest costs and gasoline prices, the average of the BoC two core measures has eased below 3% for the first time since June 2021. On a three month basis, the median measure of core CPI is running at a mere 1.1% clip. Moreover, the sharp monthly increase in headline CPI (+0.6% m/m) was largely due to seasonality factors, with the seasonally adjusted figure up a more modest 0.3%. **For the BoC, last month’s inflation data likely keeps them on track to deliver its inaugural cut for this cycle in June.**

Next week promises to be another pivotal week in the ongoing tug-of-war between inflation and growth. In the US, the Q1 GDP report is expected to confirm that the world’s largest economy continues to run above its potential. The Fed’s preferred measure of inflation, the PCE inflation data, is expected to come in much lighter than the more popular CPI report. Meanwhile, US personal spending data should underscore the ongoing resilience of the US consumer. Contrary to the US, the Canadian February retail sales data is expected to point in the opposite direction for the Canadian consumer as the lagged effects of higher interest rates continue to take their toll.

The week in review

- Canadian CPI inflation (Mar.) rose 0.6% m/m (versus 0.7% expected), after the prior month’s 0.3% gain. On annual terms, CPI accelerated to 2.9% y/y (in line with expectations), up from 2.8% in the prior month. The average of the Bank of Canada’s two core measures decelerated to 2.95% y/y (versus 3.1% expected), down from 3.1% in the prior month.
- US retail sales (Mar., m/m) rose 0.7% (versus 0.4% expected), after the prior month’s upwardly revised 0.9% advance. The control group rose 0.1% m/m.
- US existing home sales (Mar.) fell -4.3% m/m to 4.19 million units annualized (versus 4.20 million expected)
- US industrial production (Mar., m/m) rose 0.4% (in line with expectations), following the prior month’s upwardly revised 0.4% advance. The capacity utilization rate rose to 78.4% from 78.2% in the prior month.
- Chinese real GDP (Q1) accelerated to 5.4% (versus 4.8% expected), up from 5.2% in the prior quarter.
- China’s central bank held key policy rates steady, with the one-year medium-term lending facility at 2.5%.
- Chinese retail sales (Mar., y/y) rose 3.1% (versus 4.8% expected).
- Chinese industrial production (Mar., y/y) rose 4.5% (versus 6.0% expected). Fixed asset investments accelerated to 4.5% y/y (versus 4.0% expected), up from 4.2% in the prior month.
- Chinese foreign direct investment (Mar., YTD y/y, CNY) has fallen -26.1% (versus -19.9% in the prior month).
- Eurozone industrial production (Feb., m/m) rose 0.8% (in line with expectations), after the prior month’s -3.0% decline.
- Japanese CPI (Mar., y/y) decelerated to 2.7% (versus 2.8% expected), down from 2.8% in the prior month. Core CPI also decelerated to 2.6% (versus 2.7% expected), down from 2.8% in the prior month.

The week ahead

- Canadian retail sales data
- BoC Summary of Deliberations from the April meeting
- US GDP, durable goods orders, personal income and spending data
- BoJ monetary policy announcement
- Eurozone and UK consumer confidence data
- Global PMIs
- 159 S&P 500 and 26 S&P/TSX companies report earnings