MACKENZIE Investments

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Weekly Market Snapshot

For the week ending April 5, 2024

Equities

Local currency, price only, % change

	2024-04-05	Week	QTD	YTD	1 Yr
S&P/TSX Composite	22,264	0.4%	0.4%	6.2%	10.4%
S&P/TSX Small Cap	774	2.8%	2.8%	10.2%	9.2%
S&P 500	5,204	-1.0%	-1.0%	9.1%	27.2%
NASDAQ	16,249	-0.8%	-0.8%	8.2%	35.4%
Russell 2000	2,063	-2.9%	-2.9%	1.8%	17.8%
UK FTSE 100	7,911	-0.5%	-0.5%	2.3%	3.2%
Euro Stoxx 50	5,015	-1.4%	-1.4%	10.9%	16.7%
Nikkei 225	38,992	-3.4%	-3.4%	16.5%	40.2%
MSCI China (USD)	55	0.6%	0.6%	-1.6%	-17.3%
MSCI EM (USD)	1,046	0.2%	0.2%	2.1%	5.9%

Fixed income

Total return, % change

	2024-04-05	Week	QTD	YTD	1 Yr
FTSE Canada Universe Bond Index	1,098	-0.9%	-0.9%	-2.1%	0.4%
FTSE Canada All Corporate Bond Index	1,339	-0.6%	-0.6%	-0.5%	4.0%
Bloomberg Canada High Yield Index	182	0.1%	0.1%	3.3%	11.4%

Interest rates - Canada

Change in bps

	2024-04-05	Week	QTD	YTD	1 Yr
3-month T-bill	4.97	-2	-2	-7	61
GOC bonds 2 yr	4.21	4	4	33	65
GOC bonds 10 yr	3.59	13	13	48	80
GOC bonds 30 yr	3.52	16	16	49	56

Currencies and Commodities

In USD, % change

	2024-04-05	Week	QTD	YTD	1 Yr
CDN $	0.736	-0.4%	-0.4%	-2.6%	-1.0%
US Dollar Index	104.30	-0.2%	-0.2%	2.9%	2.4%
Oil (West Texas)	86.91	4.5%	4.5%	21.3%	7.8%
Natural Gas	1.79	1.2%	1.2%	-24.6%	-42.8%
Gold	2,330	4.5%	4.5%	12.9%	15.3%
Copper	4.24	5.7%	5.7%	8.4%	6.1%

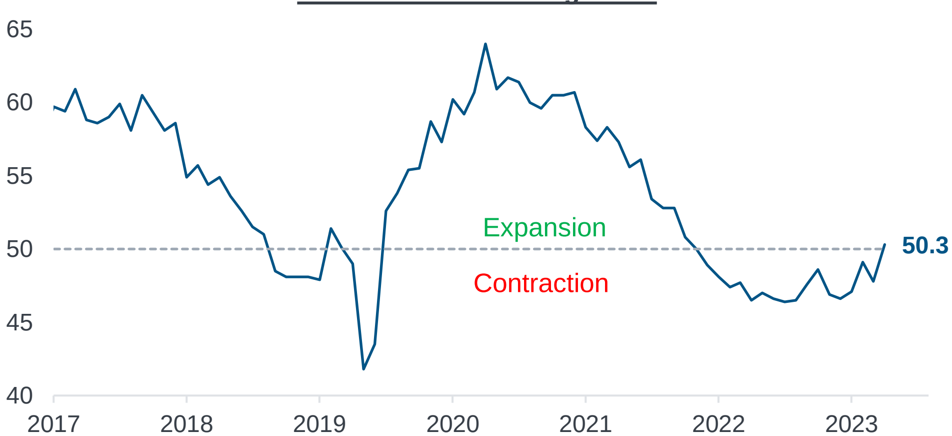
Canadian sector performance

Price return, % change

	Week	YTD
Energy	3.5%	15.6%
Materials	5.4%	11.0%
Industrials	-1.1%	9.6%
Cons. Disc.	0.0%	4.0%
Info Tech	-1.7%	3.0%
Health Care	0.7%	18.6%
Financials	-0.7%	3.7%
Cons. Staples	-1.6%	1.9%
Comm. Services	-1.7%	-11.5%
Utilities	-2.5%	-4.7%
Real Estate	-2.5%	-4.5%

Chart of the week: US Manufacturing sector coming back online?

US ISM Manufacturing Index



The primary risk threatening the prevailing rally for markets is the possibility that anticipated Fed rate cuts do not materialize, driving bond yields meaningfully higher. The persistent strength in the US continues perpetuate the narrative that "good news is bad news for markets," a theme that has heavily influenced market price action in recent years. ***Last week was no different, as we received further evidence that the US economy remains resilient, leading to a more hawkish tone from several Fed members (more below).*** *Indeed, the spotlight was on yet another blowout US jobs report in March (details below), however, adding to the strength were signs that the sluggish manufacturing sector is gaining momentum. The US ISM Manufacturing Index rose 2.5 pts to 50.3 in March, marking the first time in 16 months that the index has exceeded the 50-point expansionary level. Moreover, factory orders rebounded more than expected in February (+1.4%), and durable goods orders in February saw a healthy increase (+1.3%). Combined with job openings remaining elevated at 8.76 million in February, a sharp deceleration in job cuts in March (0.7% y/y from 8.8%), initial jobless claims holding near cycle lows, an ISM Services Index that remains in expansionary territory, and oil prices posed to hit the $90/bbl level soon,* ***there is increasing skepticism about the Fed's expectation for multiple cuts this year. Nevertheless, as long as the Fed continues to signal its intention to eventually deliver a cut, the precise number of cuts may not significantly deter markets from climbing higher. While this scenario is not our base case, should rate cut expectations be entirely removed from the equation, or if rate hikes become a consideration again, the markets would likely face some weakness in the wake of higher rates.***

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The growing divide

Global equities were lower last week, marking only the third weekly decline this year. A backup in bond yields, fueled by a series of hawkish comments from Fed officials in response to more upward surprises in US economic data served as the primary catalyst for the pullback. Notably, the yield on the US Treasury rose another 20 bps to 4.4%, and now sits well above the 3.8% level near the end of last year. With commodity prices continuing to climb higher, the TSX (+0.4%) advanced for the eighth consecutive week. The gains in commodities were broadbased, with notable advances in WTI (+4.5%), copper (+5.7%), and silver (+10.1%). Escalating tensions in the Middle East, alongside OPEC+ announcing the extension of its production cuts until the end of June, have WTI prices approaching the $90/bbl level. Meanwhile, gold prices continued to surge, up >$100/oz to $2,330.

US nonfarm payrolls blew past expectations in March, up 303k compared to the consensus estimate of 214k. The household survey also saw a sizeable 498k rebound, bringing the jobless rate a tick lower to 3.8%. Notably, the labour force participation rate improved to 62.7%, a trend that has likely helped alleviate wage pressures stemming from the pandemic. Average hourly earnings rose 0.3% m/m and is up 4.1% y/y, the slowest annual pace since June 2021. **The surprising resilience of the US labour market may be partially attributable to a significant rise in immigration.** The Congressional Budget Office (CBO) doubled its estimate for immigration last year to a whopping 3.3 million people and is forecasting a similar influx in 2024. On the economic growth front, the CBO predicts immigration will boost US GDP by $7 trillion over the next decade. The strength of the labour market has been a major factor for why the US economy has not seen a significant downturn in the face of rapid interest rate increases. **As long as workers continue to be employed, it is difficult to see the US economy falling into a recession.**

The stark difference in the Canadian employment report highlights the growing divergence between the booming US economy and other countries, a theme we have repeatedly emphasized. While the US economy churned out another robust month of job gains, Canada saw a 2.2k drop, pushing the unemployment rate to 6.1% (prev. 5.8%). The disappointing Canadian results likely dampened any optimism gained from the previous week's unexpectedly strong GDP report**. The widening gap in economic growth prospects between Canada and the US is a key reason why we believe the BoC will likely have to precede the Fed in shifting directions for policy rates, just as it did on the way up two years ago.**

The unexpectedly strong start to the year for the US economy has prompted several FOMC members to adopt a more hawkish tone of late. Atlanta Fed President Bostic expects only one rate cut this year in the fourth quarter, below the FOMC median prediction of three cuts. Chicago Fed President Goldsbee anticipates two rate cuts, while Minneapolis Fed President Kashkari notably questioned the necessity for any rate cuts this year, stating that the January and February inflation readings were a "little bit concerning". **Despite this, the consensus among the FOMC is that rate cuts are on the horizon this year, with the most influential member Chair Powell, reaffirming this view last week.**

This shift in tone underscores the importance of the upcoming data points. Next week, all eyes will be on the US CPI report, with the consensus expecting headline and core consumer prices to increase by 0.3% m/m, a pace consistent with the Fed's 2% target. In addition, The BoC and ECB are expected to hold rates steady in Canada and Europe, but markets will be closely watching for more definitive guidance on the timing of the first rate cut. **In our base case, we expect both banks to deliver their first cut of four for the year in June.**

The week in review

- BoC Business Outlook Survey (Q1) noted an improvement in inflation expectations in a persistingly soft demand environment. The Survey of Consumer Expectations echoed a similar weak demand outlook, with little change in inflation expectations.
- Canadian employment (Mar.) fell -2.2k (versus 25k expected), after the prior month's 40.7k rebound. The unemployment rate jumped 0.3% to 6.1% (versus 5.9% expected), while the participation rate held steady at 65.3%. The hourly wage rate for permanent employees accelerated to 5.0% (in line with expectations) from 4.9% in the prior month.
- Canada's merchandise trade surplus (Feb.) expanded to $1.4 billion (versus $0.7 billion expected) from an upwardly revised $0.6 billion in the prior month. Exports jumped 5.8 % m/m, while imports increased 4.6%.
- US nonfarm payrolls (Mar.) blew past expectations, jumping 303k (versus 214k expected). The prior two month's saw a combined 22k upward revision. There was a big jump in the labour force participation rate to 62.7% (versus 62.6% expected), from 62.5% in the prior month. The unemployment rate ticked down to 3.8% (in line with expectations) from 3.9% in the prior month. Average hourly earnings (y/y) decelerated to 4.1% (in line with expectations) from 4.3%.
- US JOLTs job openings (Feb.) were largely unchanged at 8.76 million (versus 8.73 million expected), up slightly from 8.75 million in the prior month.
- Eurozone retail sales (Feb., m/m) fell -0.5% (versus -0.4% expected), after the prior month's downwardly revised flat reading. Sales are down -0.7% y/y. Headline CPI inflation (Mar., y/y) decelerated to 2.4% (versus 2.5% expected, prev. 2.6%). Core CPI inflation (Mar., y/y) decelerated to 2.9% (versus 3.0% expected, prev. 3.1%). The unemployment rate (Feb.) held steady at 6.5%.
- OPEC+ extends its current production cuts of 2.2 mbpd until the end of June.
- Purchasing Managers Index (PMI) recap (May, change from prior reading in brackets): Canada S&P Manufacturing 47.0 (-0.1), S&P Services 46.4 (-0.2), Ivey 57.5 (+3.6); US ISM Manufacturing 50.3 (+2.5), ISM Services 51.4 (-0.8); and China Caixin Manufacturing 51.1 (+0.2), Caixin Services 52.7 (+0.2).

The week ahead

- BoC and ECB monetary policy announcements
- Canadian housing data
- US CPI report
- FOMC Minutes from March meeting
- Chinese aggregate yuan financing, inflation and trade data
- Japanese industrial production data
- UK GDP, industrial production and trade data
- US Big banks kick off Q1 earnings season

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