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

Weekly Market Snapshot

For the week ending May 10, 2024

Equities

Local currency, price only, % change

	2024-05-10	Week	QTD	YTD	1 Yr
S&P/TSX Composite	22,309	1.6%	0.6%	6.4%	8.8%
S&P/TSX Small Cap	763	1.5%	1.4%	8.8%	8.4%
S&P 500	5,223	1.9%	-0.6%	9.5%	26.2%
NASDAQ	16,341	1.1%	-0.2%	8.9%	32.8%
Russell 2000	2,060	1.2%	-3.0%	1.6%	17.1%
UK FTSE 100	8,434	2.7%	6.1%	9.1%	8.9%
Euro Stoxx 50	5,085	3.3%	0.0%	12.5%	18.1%
Nikkei 225	38,229	0.0%	-5.3%	14.2%	31.3%
MSCI China (USD)	61	1.9%	13.3%	10.7%	-2.3%
MSCI EM (USD)	1,072	1.0%	2.7%	4.7%	9.4%

Fixed income

Total return, % change

	2024-05-10	Week	QTD	YTD	1 Yr
FTSE Canada Universe Bond Index	1,097	-0.1%	-1.0%	-2.2%	0.5%
FTSE Canada All Corporate Bond Index	1,342	-0.1%	-0.4%	-0.3%	4.0%
Bloomberg Canada High Yield Index	182	0.3%	0.5%	3.7%	11.8%

Interest rates - Canada

Change in bps

	2024-05-10	Week	QTD	YTD	1 Yr
3-month T-bill	4.88	-2	-11	-16	47
GOC bonds 2 yr	4.29	12	11	40	60
GOC bonds 10 yr	3.70	5	23	59	80
GOC bonds 30 yr	3.55	0	20	52	50

Currencies and Commodities

In USD, % change

	2024-05-10	Week	QTD	YTD	1 Yr
CDN $	0.731	0.1%	-1.0%	-3.1%	-2.2%
US Dollar Index	105.30	0.3%	0.8%	3.9%	3.8%
Oil (West Texas)	78.26	0.2%	-5.9%	9.2%	7.9%
Natural Gas	2.25	5.1%	12.8%	-10.6%	-28.4%
Gold	2,361	2.6%	5.9%	14.4%	16.3%
Copper	4.66	2.3%	15.4%	18.7%	20.0%

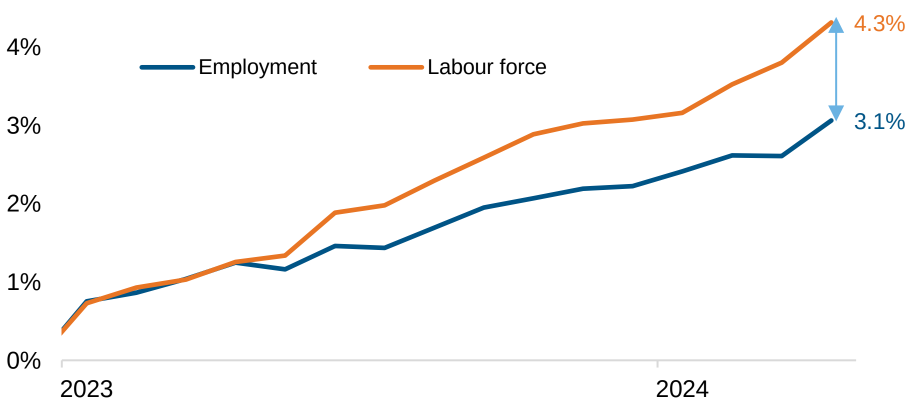
Canadian sector performance

Price return, % change

	Week	YTD
Energy	2.6%	15.9%
Materials	5.2%	17.8%
Industrials	2.3%	8.2%
Cons. Disc.	0.0%	2.5%
Info Tech	-8.9%	-7.5%
Health Care	-4.7%	-1.7%
Financials	2.4%	4.5%
Cons. Staples	1.6%	4.7%
Comm. Services	0.7%	-9.6%
Utilities	3.3%	1.0%
Real Estate	1.0%	-5.6%

Chart of the week: Surge in employment may delay BoC cut

Cumulative change in Canadian Employment vs. Labour force (normalized as of 12/31/2022)



The Bank of Canada (BoC) may have to demonstrate more patience following a surprisingly strong employment report in April. Canada added 90k jobs, well above the the 20k expected and rebounding from a dip in March. Though the solid headline gain suggests a resilient economy, investors should remain cautious for several reasons. First, Canadian employment reports are notoriously volatile, and April's spike could be an outlier in the weaker longer-term trend. Second, the impressive monthly gain must be considered alongside the surge in population growth. While employment has risen 360k in the past year, it has been outpaced by the 640k jump in the labour force. This trend was apparent in April. Despite the strong monthly gain in jobs, it was offset by a jump in labour force participation. This kept the unemployment rate steady at 6.1%, which remains well above the 5% reading a year ago. Third, the composition of the monthly gains is concerning. While the private sector accounted for most of the gain (+64k), 80% were part-time. Additionally, public sector employment was once again significant (+26k). Over the past year, public sector employment has accounted for most of the total job gains versus the private sector (208k vs. 190k). Also noteworthy from last week was the Financial Stability Report from the BoC, which painted a weaker outlook for the Canadian consumer. While the report revealed that households are generally coping well with rate hikes, most mortgage borrowers will face higher mortgage payments over the next two and a half years. Renters on the other hand, appear to be the ones that are being hit hard, feeling the brunt of rising rents, sticky inflation and a more challenging job market. These factors will likely keep the BoC on track to cut rates multiple times this year. **However, if another hot US CPI report emerges on Wednesday, the influence of a hawkish Fed could further delay the BoC's first cut past June.**

Sticky inflation weighs on the US consumer

Global equities rose for the third week in a row as another batch of soft US economic data helped arrest the move higher for US yields. The yield on the US 10-year has now fallen back to 4.5% after reaching as high as 4.74% last month. The S&P/TSX (+1.65%) hit a new all-time high, driven by gains in financials, materials and energy. Commodities rebounded slightly, with WTI crude oil, gold and copper prices ending the week in positive territory. Notably, Sweden's Riksbank became the second G10 central bank to cut rates, following the Swiss National Bank's move in March.

The April 2024 US Fed Senior Loan Officer Opinion Survey revealed a tightening in lending standards and a decline in demand for both business and household loans in Q1. Banks reported stricter conditions and reduced demand across commercial and industrial loans and commercial real estate. Household lending saw similar trends, with tightened standards for residential real estate loans and consumer credit. The tightening was attributed to a less favourable economic outlook, heightened risk aversion, and regulatory changes affecting the banking sector. **Despite this overall tightening, fewer banks reported stricter standards relative to Q4 2023, indicating a potential stabilization in the US financial system following the 2023 banking crisis.**

Persistent inflationary pressures are taking a toll on US consumer sentiment. The University of Michigan Sentiment Index fell nearly 10 points to 67.4 in May, largely due to renewed inflation concerns from consumers to start the year. One year ahead inflation expectations jumped to 3.5% from 3.2%, while long-term inflation expectations edged up to 3.1% from 3.0%. Additionally, cooling labour market conditions are weighing on consumer sentiment, with nearly 40% expecting unemployment to rise. **Overall, the decline in sentiment is yet another sign that the resilient US consumer may finally be feeling the strain of higher rates and ongoing inflationary pressures.**

All eyes will be on US CPI report on Wednesday, where the consensus is calling for another sizeable 0.4% m/m increase in the headline figure and a 0.3% gain in core prices. This April print will be critical for global central banks poised to deliver their first rate cut in the upcoming months. **Despite the upward surprise in the US inflation data to start the year, we maintain our view that inflation will re-establish its downward trend.** Factors supporting this thesis include falling oil prices below $80/bbl, decelerating wage growth, moderating used car prices, and flat rent prices for new tenants over the past year. On the supply side, seeing the New York Fed's Global Supply Chain Pressure Index falling to an eight-month low in April is encouraging. **Though the journey may be uneven, these easing pressures should enable the Fed, which has shown a dovish bias of late, to implement our forecasted two rate cuts by the end of 2024.**

The week in review

- Canadian employment (Apr.) unexpectedly rose 90.4k (versus 20.0k expected), after the prior month's -2.2k decline. However, the majority of the gain were in part-time employment (+50.3k). In addition, the participation rate edged up 65.4%, holding the unemployment rate steady at 6.1%. The hourly wage rate for permanent employees decreased from 4.8% y/y to 5.0%.
- US Fed Senior Loan Officer Opinion Survey suggests that lending standards have tightened, albeit at a lesser pace.
- The Bank of England held rates steady, but two members voting for a cut leaves the door open to a June cut.
- Sweden's Riksbank became the second G10 central bank to cut rates.
- Chinese trade surplus (Apr., US$ terms) widened to US$72.35 billion (versus US$81.00 billion expected), up from US$58.55 billion in the prior month. Chinese exports rebounded, up 1.5% y/y, while imports surged 8.4% y/y.
- China's aggregate yuan financing (Apr.) remained elevated at ¥12.73 trillion, down from ¥12.93 trillion. New loans accelerated to ¥10.19 trillion, up from ¥9.46 trillion. M2 Money Supply (Apr.) decelerated to 7.2% y/y from 8.3% y/y
- China CPI inflation (Apr.) accelerated to 0.3% y/y (versus 0.2% expected), up from 0.1% in the prior month. PPI inflation remained negative at -2.5% y/y.
- Eurozone retail sales (Mar.) rebounded 0.8% (versus 0.7% expected), after the prior month's -0.3% decline. Sales have risen 0.7% y/y.
- UK real GDP (Q1) expanded 0.6% (versus 0.4% expected), after the prior quarter's -0.3% contraction.
- UK industrial production (Mar.) rose 0.2% m/m (versus -0.5% expected), after the prior month's downwardly revised 1.0% gain.
- Purchasing Managers Index (PMI) recap (Apr, change from prior reading in brackets): Canada S&P Manufacturing 63.0 (+2.5) and China Caixin Services 52.5 (-0.2).

The week ahead

- Canadian housing data
- US CPI, retail sales, housing and industrial production data
- Chinese industrial production, retail sales and fixed asset investment data
- Eurozone GDP and industrial production data
- UK employment data