MACKENZIE Investments

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Weekly Market Snapshot

For the week ending March 8, 2024

Equities

Local currency, price only, % change

	2024-03-08	Week	3M	YTD	1 Yr
S&P/TSX Composite	21,738	0.9%	6.9%	3.7%	6.8%
S&P/TSX Small Cap	724	1.2%	6.8%	3.2%	0.6%
S&P 500	5,124	-0.3%	11.3%	7.4%	28.3%
NASDAQ	16,085	-1.2%	11.7%	7.2%	39.0%
Russell 2000	2,083	0.3%	10.7%	2.7%	10.8%
UK FTSE 100	7,660	-0.3%	1.4%	-1.0%	-3.4%
Euro Stoxx 50	4,961	1.4%	9.7%	9.7%	15.7%
Nikkei 225	39,689	-0.6%	22.8%	18.6%	39.5%
MSCI China (USD)	53	-1.8%	-2.1%	-4.3%	-18.2%
MSCI EM (USD)	1,037	1.2%	6.4%	1.3%	6.0%

Fixed income

Total return, % change

	2024-03-08	Week	3M	YTD	1 Yr
FTSE Canada Universe Bond Index	1,113	0.6%	1.2%	-0.7%	4.2%
FTSE Canada All Corporate Bond Index	1,350	0.4%	2.3%	0.3%	6.6%
Bloomberg Canada High Yield Index	180	0.3%	4.5%	2.4%	10.7%

Interest rates - Canada

Change in bps

	2024-03-08	Week	3M	YTD	1 Yr
3-month T-bill	4.90	0	0	-14	42
GOC bonds 2 yr	4.04	-5	-11	15	-26
GOC bonds 10 yr	3.33	-10	-4	22	7
GOC bonds 30 yr	3.24	-7	6	21	13

Currencies and Commodities

In USD, % change

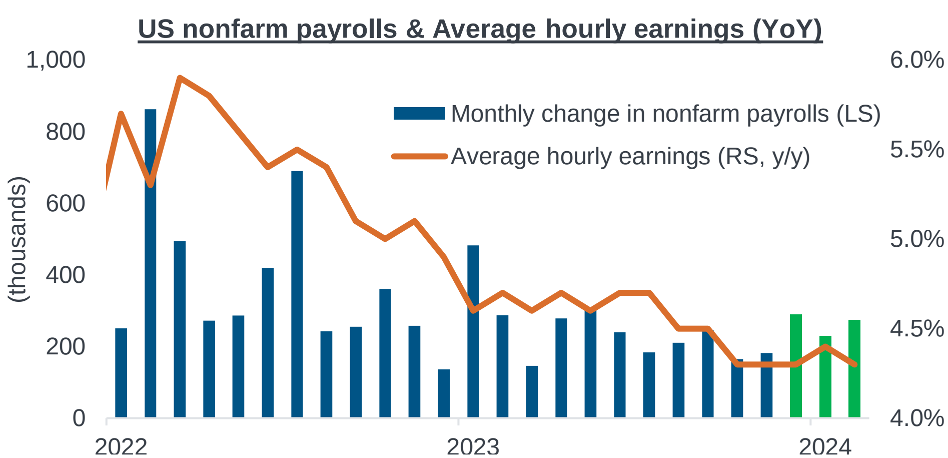
	2024-03-08	Week	3M	YTD	1 Yr
CDN $	0.742	0.6%	0.7%	-1.8%	2.4%
US Dollar Index	102.71	-1.1%	-1.2%	1.4%	-2.8%
Oil (West Texas)	78.01	-2.5%	9.5%	8.9%	1.8%
Natural Gas	1.81	-1.6%	-23.6%	-21.7%	-47.4%
Gold	2,179	4.6%	8.7%	5.6%	20.1%
Copper	3.89	0.8%	1.1%	-0.4%	-3.5%

Canadian sector performance

Price return, % change

	Week	YTD
Energy	-0.2%	6.6%
Materials	5.1%	-1.8%
Industrials	0.7%	9.4%
Cons. Disc.	0.1%	2.7%
Info Tech	-1.0%	5.3%
Health Care	-4.2%	2.3%
Financials	1.0%	2.6%
Cons. Staples	-0.3%	6.8%
Comm. Services	-1.7%	-3.5%
Utilities	2.8%	-1.1%
Real Estate	1.0%	-1.4%

Chart of the week: Jobs report keeps the Fed on track for a summer cut



February's jobs report, on the surface, bolstered the case for a soft landing. *Nonfarm payrolls exceeded expectations, rising 275k in the month, of which 223k were in the private sector. Despite a cumulative downward revision of -167k in the prior two months, the US economy has added an average 266k jobs over the past three months. The BLS diffusion index climbed to 62.6%, suggesting that the breadth of job gains is improving across industries.* ***Moreover, the gains came without an acceleration in wages,*** *with average hourly earnings inching up 0.1% m/m, reducing the annual pace to 4.3% y/y.* ***However, the details provided a more nuanced landscape.*** *Alongside the downward revisions, the unemployment rate rose two ticks higher to 3.9%, driven by the third consecutive monthly decline in the household survey's contrasting employment figure. Further, the January JOLTS report showed a decrease in job openings and a further moderation in the quits rate, which suggests labour market conditions are loosening. Despite the nuanced details, the overarching takeaway for the Fed is likely a positive one, interpreting the data as indicative of inflation eventually getting back towards its 2% target.* ***This should keep the Fed on track to begin lowering rates sometime this summer.***

A similar story played out in Canada, with the solid headline result of adding 40.7k jobs failing to offset another robust month of population growth, leading to an uptick in the Canadian employment rate (5.8%).

Central bankers continue to preach patience

Global equity indices were mostly higher on the week. The advance occurred despite some weakness in US big tech (Nasdaq 100 down 0.3%), contrasting with strength seen in cyclical stocks. Recent strength in the Russell 2000 (+0.3%) and the KBW US Regional Bank Index (+3.5%) may be signalling that a sector rotation is underway, a bullish trend that prevailed in the final two months of 2023. Notably, small caps continue to be heavily influenced by the direction of bond yields, which were lower on the week partly in response to Fed Chair Powell's comments (more below). Declining bond yields have also been supportive of gold, with spot prices climbing to a new all-time high of $2,179/oz.

The performance of the Chinese economy remains a pivotal factor for global growth prospects this year. In their recent Government Work Report, Chinese policymakers confirmed a ~5% real GDP target for 2024. The ambitious target, mirroring the level of last year, reflects a **concerted effort to revitalize both consumer and business confidence domestically while attempting to restore confidence among foreign investors.** The latter has been notable, given the weakness in Chinese equity markets and the substantial drop in foreign direct investment (-11.7% y/y in January) into the world's second largest economy. Recent efforts by policymakers to stabilize the equity market have begun to bear fruit, with double-digit rallies seen in the CSI 300 and Hang Seng indices from the lows set earlier this year. **However, the durability of the rebound likely hinges on the authorities' willingness and ability to implement additional fiscal and monetary support measures.** A critical area of focus is on stimulating domestic consumption, which remains anemic largely due to a national savings that sits well above 40% of GDP. **This tells us that more aggressive measures are likely required to shift consumer behaviour from saving towards spending. This will likely be necessary for policymakers in order to reach their desired economic growth target this year.**

Central bankers took center stage last week, but there was little new to glean for investors. Central bankers continued to preach patience, signalling that rate cuts are on the horizon but likely not until this summer. In the US, Chair Powell's testimony to Congress underscored the need for greater confidence that inflation is on a sustainable path towards the 2% **target. Notably, Powell's indication that the Fed is nearing the confidence level needed to begin cutting rates elicited a positive reaction from markets.** Meanwhile, the Bank of Canada (BoC) and the European Central Bank (ECB) expectedly held rates steady. Interestingly, ECB President Lagarde was uncharacteristically specific about a June target for the first rate cut. Unlike their US counterpart, the BoC and ECB have to contend with a weaker and more challenging economic outlook. **While this would historical give the green light to begin lowering rates, elevated wages, sticky core CPI, and the lingering shadow of the 1970s have policymakers in a bind.** Indeed, the risk to the growing consensus for a soft landing is a scenario where central bankers are unable to lower rates quick enough. While persistently elevated rates could necessitate a recalibration of valuation multiples – potentially leading to a pullback in equities – markets continue to cheer on the fact that earnings are coming in better-than-expected earnings and the prevailing disinflationary trend, despite the blip in January, remains intact.

The week in review

- The Bank of Canada (BoC) held the overnight rate at 5.0% and will maintain its quantitative tightening policy.
- The European Central Bank (ECB) held their benchmark interest rates steady (main refinancing rate: 4.50%, marginal lending facility: 4.75% and deposit facility rate :4.0%).
- Fed Chairman Powell reaffirms the Committee's expectation for cuts sometime this summer. However, more data is needed to ensure inflation is sustainably cooling to the 2% target.
- Canadian employment (Feb.) rose 40.7k (versus 20k expected), following the 37.3k increase in the prior month. More impressively, full-time employment (+70.6k) accounted for all of the monthly gain. However, the pace of job growth trailed the increase in the labour force (76.4k), pushing the unemployment rate a tick higher to 5.8%.
- Canada's merchandise trade balance (Jan.) improvd to a surplus of $0.5 billion narrowed to $1.7 billion (versus $0.0 billion expected), from a revised $0.86 billion deficit in the prior month. Exports and imports fell -1.7% m/m and -3.8% m/m, respectively.
- The US trade deficit (Jan.) widened to $67.4 billion (versus $63.5 billion expected), from a revised US$64.2 billion in the prior month.
- US non-farm payrolls (Feb.) rose 275k (versus 200k expected). The prior two month's were revised lower by a total of 167k jobs. The unemployment rate rose two ticks to 3.7%, with the household survey revealing a -184k declined. The labour force participation rate held steady at 62.5%. Average hourly earnings (y/y) decelerated to 4.3% (prev. 4.4%).
- US ISM Services (Feb.) deteriorated to 52.6 (versus 53.0 expected), down from 53.4 in the prior month. However, the new orders component improved to 56.1 (prev. 55.0), indicating that services activity remains robust.
- China's exports (Feb., YTD US$ terms) increased 7.1% (versus 1.9% expected), while imports rose 3.5% (versus 2.0% expected).
- China CPI inflation (Feb., y/y) accelerated to 0.7% (versus 0.3% expected), after the prior month's -0.8% decline. PPI inflation (Feb., y/y) was -2.7% (prev. -2.5%).
- China's Caixin PMI Services (Feb.) fell to 52.5 (versus 52.9 expected), from 52.7 in the prior month.
- Eurozone retail sales (Jan, m/m) inched up 0.1% (versus 0.2% expected), after the prior month's revised -0.6% decline. Sales have fallen -1.0% y/y.

The week ahead

- Canadian National Balance Sheet and Financial Flow Accounts (Q4)
- US inflation, retail sales, and industrial production data
- Chinese inflation, and aggregate yuan financing data
- Japanese GDP data
- Eurozone industrial production data
- UK employment, GDP, industrial production, and trade data