WEEK IN REVIEW

January 12, 2024

In focus

Global equity markets advanced for the week. Markets were volatile due to disappointing inflation and labour market data. However, an unexpected fall in producer prices in December and mixed earnings reports from leading U.S. banks eased investors' concerns that a rate cut later in the year might be less likely. U.S. and Canadian treasury bond yields edged lower, and bond prices increased. The Japanese stock market registered notable returns: the Nikkei Index rose more than 6%, posting its biggest weekly gain since March 2020. Chinese equities declined amid persistent deflationary pressures and concerns about a fragile economic recovery.

On the economic front, two reports pointed to a recent pattern of uneven progress in curbing inflation. The Consumer Price Index in the U.S. posted higher-than-expected consumer inflation figures and a third consecutive monthly increase. However, the Produce Price Index fell unexpectedly in December, primarily due to a decrease in the price of diesel fuel.

In fixed income, a mixed assessment of inflation trends and changing perspectives on the interest rate outlook led to some volatility in the bond market. The ten-year benchmark U.S. Treasury yield climbed to 4.07% on Thursday, only to retract and close at 3.96% on Friday.

In commodities, oil prices saw a modest upswing amid heightened geopolitical tensions and fears of a wider conflict in the Middle East after the U.S. and the U.K. launched joint air and sea strikes against Houthi forces in Yemen.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	20,990.22	0.25%	0.15%	0.15%
S&P500	4,783.83	1.84%	0.29%	0.29%
NASDAQ	14,972.76	3.09%	-0.26%	-0.26%
DJIA	37,592.98	0.34%	-0.26%	-0.26%
Russell 2000	1,950.96	-0.01%	-3.75%	-3.75%
FTSE 100	7,624.93	-0.84%	-1.40%	-1.40%
Euro Stoxx 50	4,480.02	0.37%	-0.92%	-0.92%
Nikkei 225	35,577.11	6.59%	6.31%	6.31%
Hang Seng	16,244.58	-1.76%	-4.71%	-4.71%
Shanghai Comp.	2,881.98	-1.61%	-3.12%	-3.12%
MSCI ACWI	724.77	1.31%	-0.31%	-0.31%
MSCI EM	996.30	-0.58%	-2.68%	-2.68%
MSCI ACWI ESG Leaders	2,650.21	1.72%	0.08%	0.08%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,111.74	0.34%	-0.87%	-0.87%
BBG Global Agg.	466.62	0.38%	-1.01%	-1.01%
TSX Pref	1,740.96	1.20%	2.99%	2.99%

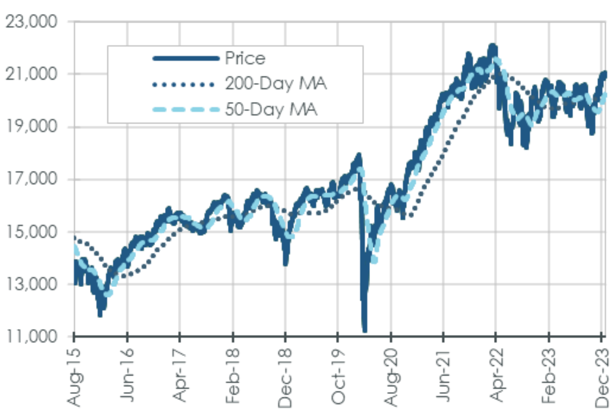
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	3.22%	-3.8	11.0	11.0
10 yr U.S. Govt.	3.94%	-10.7	6.0	6.0
30 yr Canada Govt.	3.18%	0.5	15.0	15.0
30 yr U.S. Govt.	4.18%	-2.7	14.7	14.7

Commodities	Close	Weekly	MTD	YTD
Oil	72.68	-1.53%	1.44%	1.44%
Natural gas	3.31	14.52%	31.78%	31.78%
Gold	2,049.06	0.18%	-0.67%	-0.67%
Silver	23.19	0.01%	-2.52%	-2.52%
Copper	374.05	-1.72%	-3.86%	-3.86%

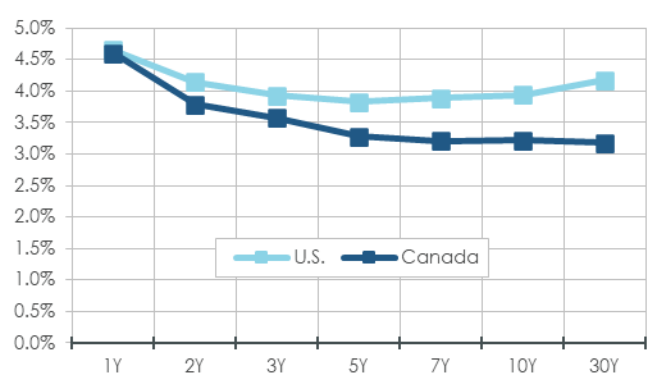
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.75	-0.36%	-1.24%	-1.24%
USD/EUR	0.91	-0.08%	0.81%	0.81%
CAD/EUR	0.68	-0.41%	-0.38%	-0.38%
USD/JPY	144.88	0.17%	2.72%	2.72%
USD/CNY	7.17	0.29%	0.95%	0.95%
USD/MXN	16.87	-0.06%	-0.61%	-0.61%
GBP/CAD	1.71	0.60%	1.33%	1.33%
GBP/USD	1.28	0.26%	0.17%	0.17%

*Please refer to the Appendix for the above table in Canadian dollar terms. Natural gas prices subject to change post-settlement

S&P/TSX Composite Index



Treasury yield curves



Source: Bloomberg and Refinitiv DataStream. Index returns are in local currency. All equity indexes are price returns and do not include dividends.

Economic indicators	Period	Survey	Actual	Prior period
Canada building permits MoM	Nov	-1.4%	-3.9%	3.0%
Canada international merchandise trade	Nov	2.00b	1.57b	3.20b
U.S. initial jobless claims	Jan-6	210k	202k	203k
U.S. CPI YoY	Dec	3.2%	3.4%	3.1%
U.S. CPI (ex food and energy) YoY	Dec	3.8%	3.9%	4.0%
China CPI YoY	Dec	-0.4%	-0.3%	-0.5%

Canada

Canadian equities rose over the week to post their highest weekly closing level in 21 months. Gains in information technology and materials sectors, as well as bullish technical signals for the market. Mirroring the trend in the U.S., information technology, consumer discretionary and communication services experienced the largest gains.

Energy rose as oil settled at a higher price, following air and sea strikes by the U.S. and U.K. against Houthi forces in Yemen. Gold prices increased, benefiting from safe-haven buying and prospects of rate cuts by the U.S. Federal Reserve. Expectations of a rate cut gained further traction following softer-than-expected producer price inflation figures in the U.S.

U.S.

U.S. equity markets posted gains, rebounding from the declines in the previous week and breaking a nine-week streak of negative performance. Most of the S&P sectors ended with positive returns, with information technology, communication services and consumer discretionary enjoying the most sizable gains, while energy, utilities and financials declined over the week. Earnings season kicked off on Friday, with three of the biggest banks posting a fall in their fourth-quarter net income compared with the corresponding period in the previous year.

In economic developments, the annual inflation rate in the U.S. exceeded expectations, reaching 3.4% in December. This increase was mainly due to a slower decline in energy prices. Meanwhile, the annual rate of core inflation eased less than anticipated, coming in at 3.9%. In contrast, producer price data released on Friday were relatively encouraging. Producer prices in the U.S. fell unexpectedly in December, primarily due to a decrease in diesel fuel prices. Meanwhile, prices for services remained unchanged for the third consecutive month. The number of initial new claims for unemployment benefits dropped unexpectedly to a two-month low, highlighting the persistent tightness in the labour market.

In the fixed income market, investors seemed unfazed by the slight increase in consumer inflation data; the benchmark ten-year Treasury yield retreated below 4% over the week to close at 3.96% on Friday.

Rest of the world

European equities recorded positive weekly returns, except for the U.K.'s FTSE 100. After a bumpy start to the week, European equities rebounded strongly on Friday, driven by falling bond yields and the prospect of early interest rate cuts following cooler-than-expected U.S. producer inflation and dovish comments from European Central Bank President Christine Lagarde.

In economic data, France's annual inflation rate was confirmed at 3.7% in December, up from 3.5% in the previous month, primarily driven by higher energy and service prices. The U.K.'s economy rebounded in November slightly more than expected, with growth of 0.3% month-on-month, led by a 0.4% increase in services output, and marking the strongest GDP growth in five months.

In Asia, the Japanese stock market continued its upward trend over a holiday-shortened week. Gains in the Nikkei Index propelled it to finish at the highest level since early 1990. The outperformance was mainly driven by a continuation of stimulative monetary policy, a falling yen and optimism that persistent deflation might soon come to an end. In contrast, Chinese equities retreated, logging a second consecutive weekly loss owing to deflationary concerns. Data showed that consumer prices fell for a third consecutive month in December, albeit at a slower pace, while producer prices posted their 15th consecutive monthly decline.

Looking ahead

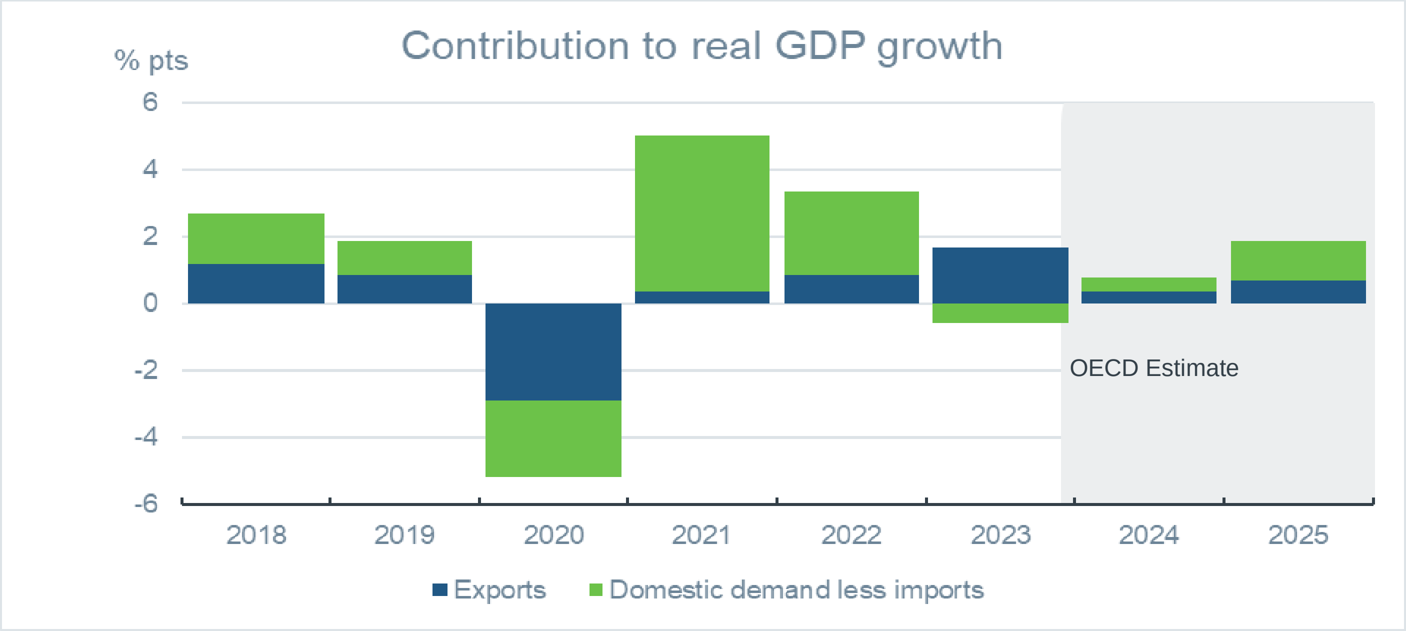
Economic indicators	Period	Survey	Prior period
Canada CPI YoY	Dec	3.4%	3.1%
Canada housing starts	Dec	247.5k	212.6k
U.S. initial jobless claims	Jan-13	206k	202k
U.S. University of Michigan sentiment	Jan	70.0	69.7
U.S. housing starts	Dec	1425k	1560k
U.S. existing home sales	Dec	3.83m	3.82m

Central bank meetings			
Central banks	**Date**	**Probability of change**	**Current rate**
Bank of Canada	23-Jan-24	1.0%	-0.10%
European Central Bank	24-Jan-24	-7.0%	5.00%
Bank of Japan	25-Jan-24	-3.5%	4.50%
Federal Open Market Committee	31-Jan-24	-4.5%	5.50%
Bank of England	1-Feb-24	-3.3%	5.3%

Source: Bloomberg. Probability of change implies the possibility of a central bank hiking interest rates during their upcoming meeting. A negative number in this case means chances of a rate cut rather than a hike.

Spotlight

Canada's domestic demand growth is expected to ease in 2024.
Despite increases in crude oil prices over recent months, Canadian commodity export prices remain below the peaks attained in mid-2022. The terms-of-trade decline has caused a negative income shock that is contributing to moderating demand.



Source: OECD Economic Outlook, November 2023, and Statistics Canada.

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Appendix

Global markets (Returns in Canadian dollar terms)				
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Oil	97.47	-1.17%	2.72%	2.72%
Natural gas	4.44	14.93%	33.44%	33.44%
Gold	2,747.17	0.52%	0.51%	0.51%
Silver	31.10	0.35%	-1.36%	-1.36%
Copper	501.61	-1.37%	-2.64%	-2.64%
Currencies	**Close**	**Weekly**	**MTD**	**YTD**
CAD/USD	0.7457	-0.36%	-1.24%	-1.24%
USD/EUR	0.9132	-0.08%	0.81%	0.81%
CAD/EUR	0.6812	-0.41%	-0.38%	-0.38%
USD/JPY	144.8800	0.17%	2.72%	2.72%
USD/CNY	7.1675	0.29%	0.95%	0.95%
USD/MXN	16.8683	-0.06%	-0.61%	-0.61%
GBP/CAD	1.7095	0.60%	1.33%	1.33%
GBP/USD	1.2753	0.26%	0.17%	0.17%

Source: Bloomberg, Refinitiv DataStream. All equity indexes returns are price returns and do not include dividends.

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