

WEEK IN REVIEW

February 16, 2024

In focus

The majority of the global equity markets advanced for the week. Unlike global counterparts, U.S. equities registered a small decline, breaking a five-week winning streak.

In the U.S., stocks declined and bond yields jumped on Tuesday after the monthly inflation report revealed that January saw higher-than-anticipated consumer prices. The Consumer Price Index rose at an annual rate of 3.1%, according to a Reuters poll of economists. Another report on Friday confirmed the inflationary trend, with wholesale prices increasing at the quickest rate in five months.

On the economic front, Japan and the U.K. entered a recession in the fourth quarter of 2023, according to initial estimates, with their economies contracting for the second consecutive quarter. Japan's GDP declined by 0.4% in the quarter, while the U.K. economy contracted by 0.3%.

In fixed income, inflationary data dampened expectations of short-term interest rate hikes, and government bond yields rose for a second consecutive week. The yield on the benchmark ten-year U.S. Treasury rose to 4.30% on Friday, from the intraday low of 3.82% observed on February 1.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	21,255.62	1.17%	1.11%	1.42%
S&P500	5,005.57	-0.42%	3.30%	4.94%
NASDAQ	15,775.65	-1.34%	4.03%	5.09%
DJIA	38,627.99	-0.11%	1.25%	2.49%
Russell 2000	2,032.74	1.13%	4.39%	0.28%
FTSE 100	7,711.71	1.84%	1.06%	-0.28%
Euro Stoxx 50	4,765.65	1.06%	2.52%	5.40%
Nikkei 225	38,487.24	4.31%	6.06%	15.01%
Hang Seng	16,339.96	3.77%	5.52%	-4.15%
Shanghai Comp.	2,865.90	0.00%	2.77%	-3.67%
MSCI ACWI	750.24	0.31%	2.65%	3.20%
MSCI EM	1,016.23	2.08%	4.14%	-0.73%
MSCI ACWI ESG Leaders	2,751.94	0.26%	2.80%	3.92%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,093.33	-0.15%	-1.16%	-2.51%
BBG Global Agg.	456.76	-0.34%	-1.75%	-3.11%
TSX Pref	1,785.48	0.33%	-0.18%	5.62%

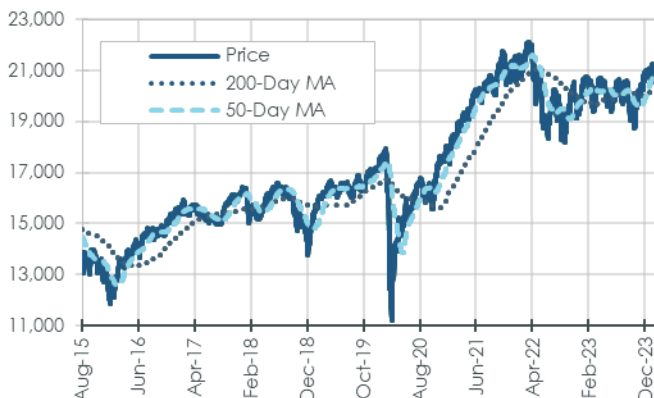
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	3.59%	4.2	26.3	47.5
10 yr U.S. Govt.	4.28%	10.4	36.7	40.0
30 yr Canada Govt.	3.43%	1.0	17.2	39.4
30 yr U.S. Govt.	4.44%	6.3	27.0	40.7

Commodities	Close	Weekly	MTD	YTD
Oil	79.19	3.06%	4.40%	10.23%
Natural gas	1.61	-12.89%	-23.38%	-30.86%
Gold	2,013.59	-0.53%	-1.27%	-2.39%
Silver	23.42	3.57%	2.02%	-1.57%
Copper	383.85	4.26%	-1.73%	-1.34%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.74	-0.19%	-0.38%	-1.79%
USD/EUR	0.93	0.06%	0.38%	2.43%
CAD/EUR	0.69	-0.10%	0.00%	0.63%
USD/JPY	150.21	0.62%	2.24%	6.50%
USD/CNY	7.19	0.00%	0.34%	1.32%
USD/MXN	17.06	-0.19%	-0.91%	0.50%
GBP/CAD	1.70	-0.03%	-0.30%	0.73%
GBP/USD	1.26	-0.21%	-0.68%	-1.01%

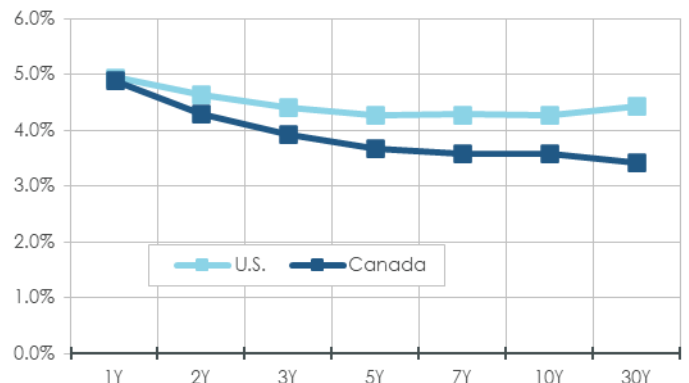
*Please refer to the Appendix for the above table in Canadian dollar terms. Natural gas prices subject to change post-settlement

S&P/TSX Composite Index



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

Treasury yield curves



Economic indicators	Period	Survey	Actual	Prior period
Canada housing starts	Jan	235.0k	223.6k	249.0k
Canada manufacturing sales MoM	Dec	-0.6%	-0.7%	1.5%
U.S. initial jobless claims	Feb-10	220k	212k	220k
U.S. CPI YoY	Jan	2.9%	3.1%	3.4%
U.S. housing starts	Jan	1460k	1331k	1562k
U.S. CPI (ex food and energy) YoY	Jan	3.7%	3.9%	3.9%

Canada

Canadian equities rallied over the week, helped by supportive global conditions and expectations that several central banks will announce interest rate cuts in the second quarter of this year. Health care and energy stocks made the main contributions, while information technology stocks dropped, tracking the NASDAQ.

In economic news, housing starts in Canada declined by 10% in January from the previous month, according to data released by the Canadian Mortgage and Housing Corporation. Statistics Canada reported that manufacturing sales in Canada decreased 0.7% in December 2023, to CDN\$71.2 billion, compared with a preliminary estimate of a decrease of 0.6%. In November, manufacturing sales rose by a revised 1.5%.

U.S.

U.S. equity markets declined for the week. Positive earnings news, mixed with disappointing inflation data, weighed on the major indexes, with the benchmark S&P 500 Index posting its first weekly decline of the year. For a second consecutive week, U.S. small and mid caps outperformed their larger counterparts by more than 1%. After underperformance in January, the small-cap index has gained nearly 4% over the past two weeks.

As earnings season draws to a close, estimates for overall performance have picked up a bit. According to data compiled from the four-fifths of S&P 500 firms that had reported earnings as of Friday, along with forecasts for those that have yet to report, net income is projected to have increased by an average of 3.2% in the current quarter compared with the same quarter last year. The growth rate was estimated at 2.8% at the end of last week.

In economic developments, consumer confidence in the U.S. economy picked up for a third consecutive month in February, reaching its highest point since July 2021, according to a survey of consumers conducted by the

University of Michigan. The preliminary February sentiment reading was 79.6, up from the previous month's reading of 61.3.

After the holiday shopping season, U.S. consumers curbed their spending more than anticipated. Retail sales in January decreased by a seasonally adjusted 0.8%, compared with the previous month, while December and November sales were revised lower than initially reported.

Rest of the world

European equities finished the week on the rise, with the prospect of lower inflation and a greater chance of interest rate cuts providing a boost to investor sentiment. The U.K. economy contracted more than expected in the third quarter of last year, and inflation remained stable in January, prompting renewed market expectations that the Bank of England could cut interest rates in June. The U.K.'s Office for National Statistics released a preliminary estimate of GDP for the three months to December that showed a drop of 0.3%. The economy contracted by 0.1% from July to September.

Eurozone economic growth in 2024 is projected to be 0.8%, down from 1.2% in November, according to the European Commission. The downward revision reflects inflationary pressures that have reduced purchasing power, as well as higher interest rates that have restricted credit.

In Asia, the Japanese stock market rose over the week, with the Nikkei 225 Index surging 4.3%. The benchmark index hovered around its 34-year high, continuing its robust performance year-to-date and into 2024, supported by a weak yen and supportive corporate earnings releases. Disappointing fourth-quarter growth figures raised doubts about the Bank of Japan's future monetary policy, which the central bank maintains is contingent on achieving its 2% inflation target.

In mainland China, financial markets were closed, and no indicators were published, due to the week-long holiday that started on Saturday, February 10.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada CPI YoY	Jan	3.2%	3.4%
Canada retail sales MoM	Dec	0.8%	-0.2%
U.S. initial jobless claims	Feb-17	218k	212k
U.S. S&P Global manufacturing PMI	Feb	52.1	52.5
U.S. S&P Global composite PMI	Feb	52.0	52.0
U.S. continuing claims	Feb 10	1880k	1895k

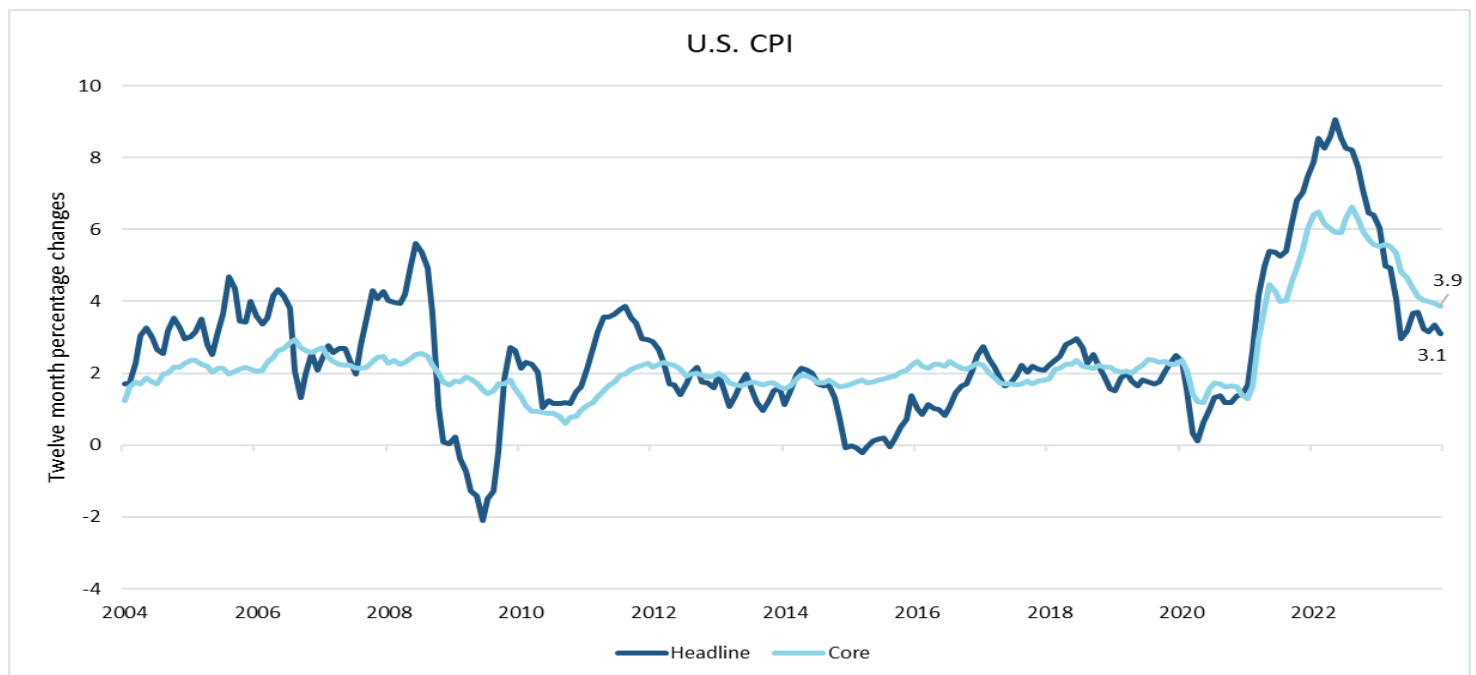
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of Canada	6-Mar-24	-12.1%	5.00%
European Central Bank	7-Mar-24	-6.4%	4.50%
Bank of Japan	19-Mar-24	31.5%	-0.10%
Federal Open Market Committee	20-Mar-24	-11.6%	5.50%
Bank of England	21-Mar-24	-1.6%	5.3%

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

U.S. CPI surprises on the upside.

The latest U.S. Consumer Price Index report for January sent shockwaves through the markets. The report was hotter than many had expected, leading to a drastic change in expectations for Federal Reserve policy. U.S. inflation fell in January by less than expected, to 3.1%, while core inflation was 3.9%, double the Federal Reserve's 2% target. Combined with January's strong job report, these reports prompted a rise in yields on U.S. Treasuries and other government bonds.



Source: Fathom Consulting and LSEG DataStream.

Appendix

Global markets (Returns in Canadian dollar terms)

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30 yr Canada Govt.	3.43	1.0	17.2	39.4
30 yr U.S. Govt.	4.44	6.3	27.0	40.7
Commodities	Close	Weekly	MTD	YTD
Oil	106.78	3.25%	4.80%	12.24%
Natural gas	2.17	-12.72%	-23.09%	-29.60%
Gold	2,715.23	-0.34%	-0.90%	-0.66%
Silver	31.58	3.74%	2.40%	0.18%
Copper	517.60	4.46%	-1.36%	0.46%
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7416	-0.19%	-0.38%	-1.79%
USD/EUR	0.9279	0.06%	0.38%	2.43%
CAD/EUR	0.6881	-0.10%	0.00%	0.63%
USD/JPY	150.2100	0.62%	2.24%	6.50%
USD/CNY	7.1936	0.00%	0.34%	1.32%
USD/MXN	17.0562	-0.19%	-0.91%	0.50%
GBP/CAD	1.6994	-0.03%	-0.30%	0.73%
GBP/USD	1.2602	-0.21%	-0.68%	-1.01%

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

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