

# WEEK IN REVIEW

February 02, 2024

## In focus

Global equity markets ended the week on a mixed note as investors juggled a number of significant economic data releases and quarterly earnings reports. While U.S. equities advanced, mainly due to positive corporate results, Chinese equities declined sharply on worries about the health of China's economy and renewed concerns about geopolitical risks, following proposed U.S. legislation that targets Chinese biotechnology firms.

Economic data were mixed. The eurozone avoided a technical recession, with preliminary data showing that growth in the fourth quarter of 2023 was flat. However, data also revealed persistent inflation in the eurozone, reducing expectations of near-term monetary easing by the European Central Bank. In the U.S., non-farm payrolls and wages exceeded expectations in January, indicating a tight labour market.

In fixed income, U.S. Treasury yields ended the week lower, after the yield on ten-year U.S. Treasury bonds fell as low as 3.82% on Thursday, before climbing back above the 4.00% threshold the next day, and closing at 4.02% on fading hopes of a near-term rate cut.

In commodities, oil prices lost more than 7% this week, after U.S. jobs data reduced the odds of imminent rate cuts, which could dampen crude demand if restrictive monetary policy curbs the economy.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	21,085.09	-0.19%	0.30%	0.60%
S&P500	4,958.61	1.38%	2.33%	3.96%
NASDAQ	15,628.95	1.12%	3.07%	4.11%
DJIA	38,654.42	1.43%	1.32%	2.56%
Russell 2000	1,962.73	-0.79%	0.79%	-3.17%
FTSE 100	7,615.54	-0.26%	-0.20%	-1.52%
Euro Stoxx 50	4,654.55	0.41%	0.13%	2.94%
Nikkei 225	36,158.02	1.14%	-0.35%	8.05%
Hang Seng	15,533.56	-2.62%	0.31%	-8.88%
Shanghai Comp.	2,730.15	-6.19%	-2.09%	-8.23%
MSCI ACWI	740.45	0.91%	1.31%	1.85%
MSCI EM	988.21	0.32%	1.27%	-3.47%
MSCI ACWI ESG Leaders	2,709.04	0.80%	1.19%	2.30%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,104.09	1.11%	-0.19%	-1.55%
BBG Global Agg.	462.10	0.37%	-0.60%	-1.97%
TSX Pref	1,802.64	1.35%	0.78%	6.64%

Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	3.38%	-14.3	5.8	27.0
10 yr U.S. Govt.	4.02%	-11.7	10.8	14.1
30 yr Canada Govt.	3.29%	-19.2	3.2	25.4
30 yr U.S. Govt.	4.22%	-14.8	5.5	19.2

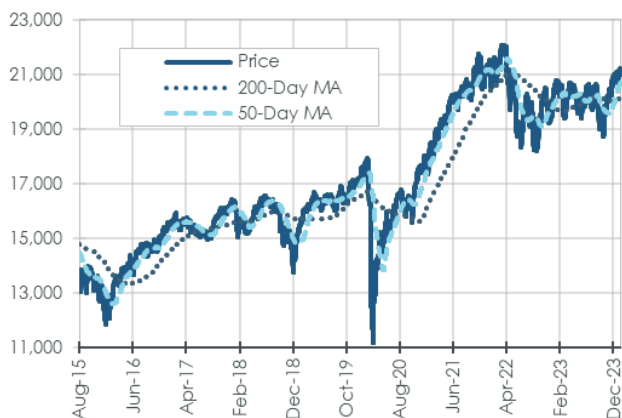
Commodities	Close	Weekly	MTD	YTD
Oil	72.28	-7.35%	-4.71%	0.61%
Natural gas	2.08	-4.41%	-1.00%	-10.66%
Gold	2,039.76	1.05%	0.01%	-1.13%
Silver	22.69	-0.49%	-1.16%	-4.64%
Copper	382.15	-0.79%	-2.16%	-1.77%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.74	-0.08%	-0.21%	-1.63%
USD/EUR	0.93	0.60%	0.27%	2.32%
CAD/EUR	0.69	0.51%	0.04%	0.67%
USD/JPY	148.38	0.16%	0.99%	5.20%
USD/CNY	7.19	0.22%	0.34%	1.32%
USD/MXN	17.14	-0.10%	-0.40%	1.02%
GBP/CAD	1.70	-0.48%	-0.22%	0.81%
GBP/USD	1.26	-0.57%	-0.45%	-0.79%

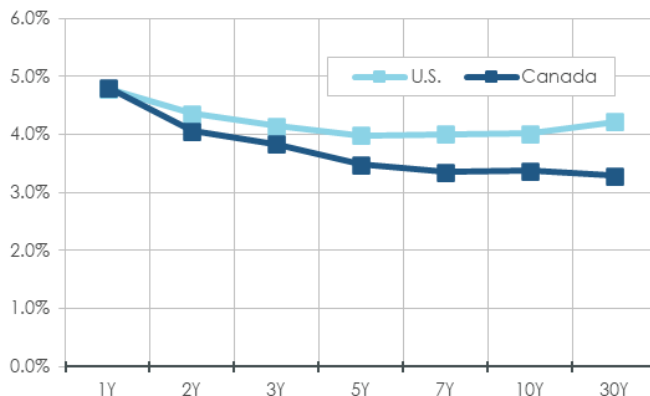
\*Please refer to the Appendix for the above table in Canadian dollar terms. Natural gas prices subject to change post-settlement

## 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



## Canada

Canadian equities declined over the week as stronger-than-expected U.S. employment data reduced expectations of interest rate cuts from the U.S. Federal Reserve (the Fed), boosting the U.S. dollar against a basket of major currencies. The energy and communication services sectors were the main laggards, while industrials and information technology made some of the largest gains.

On the economic data front, the S&P Global Canada manufacturing PMI rose to a seasonally adjusted 48.3 in January, after slumping to 45.4 in December, the lowest level since May 2020.

## U.S.

U.S. equity markets advanced during the week. A raft of economic data showed that rising productivity was helping to cap labour costs, and an increase in announced layoffs and weekly jobless claims provided further evidence of softening in the labour market.

Among economic data, U.S. job openings unexpectedly surged in December, reaching the highest in three months, and indicating that the labour market remains too solid for the Fed to lower interest rates in March. As anticipated, the Fed decided to keep its key policy rate unchanged, at a 23-year high level of 5.25% to 5.50%, at a fourth consecutive meeting. However, another set of economic data indicated some easing in the labour market. Private business hiring slowed more than anticipated in January, while employment costs rose less than expected in the fourth quarter of 2023, marking the softest pace since the second quarter of 2021. U.S. non-farm payrolls and wages exceeded expectations in January, indicating a tight labour market. The unemployment rate remained steady, at 3.7%, slightly below market expectations. These indicators suggest that the Fed will likely delay any key policy rate cuts longer than initially anticipated.

All the S&P 500 sectors ended with positive returns, except for the energy sector. Consumer discretionary, consumer staples and health care led the gains. Investors also turned their focus to a stream of fourth-quarter earnings reports. The major movers included Meta Platforms, the owner of Facebook, which saw a significant increase of 20.3%, after reporting its highest quarterly sales growth in two years and announcing its first dividend. In contrast, New York Community Bancorp took a sharp plunge of 37.7%, after reporting an unexpected loss and reducing its dividend.

## Rest of the world

European equities ended with mixed results for the week. At its first meeting of 2024, the Bank of England kept its key bank rate unchanged, at a 16-year high of 5.25%, in line with market expectations. Although the central bank dropped guidance on further tightening, it emphasized the need for a restrictive monetary policy to sustain a return to the 2.0% inflation target in the medium term.

Economic data released on Thursday revealed persistent inflation in the eurozone, reducing expectations of near-term monetary easing by the European Central Bank. Headline inflation for the currency bloc matched expectations, slowing to 2.8% in January, while the core rate, which excludes volatile food and energy prices, fell slightly less than anticipated, to 3.3%. For the full year of 2023, the eurozone economy grew by 0.5%. Among specific countries, France did not experience any growth in the fourth quarter, while the German economy contracted.

In Asia, equities in mainland China fell as official data showed that manufacturing activity had contracted for a fourth consecutive month in January, in line with expectations, due to soft domestic and external demand conditions. A Hong Kong court ordered China Evergrande, formerly the country's largest property developer, to be liquidated after the company failed to reach a restructuring agreement with its creditors, after defaulting on its offshore bonds in December 2021.

## Looking ahead

Economic indicators	Period	Survey	Prior period
Canada unemployment rate	Jan	5.9%	5.8%
Canada net change in employment	Jan	15.0k	0.1k
U.S. initial jobless claims	Feb-3	220k	224k
U.S. trade balance	Dec	-\$62.2bn	-\$63.2bn
U.S. ISM services index	Jan	52.0	50.5
China CPI YoY	Jan	-0.6%	-0.3%

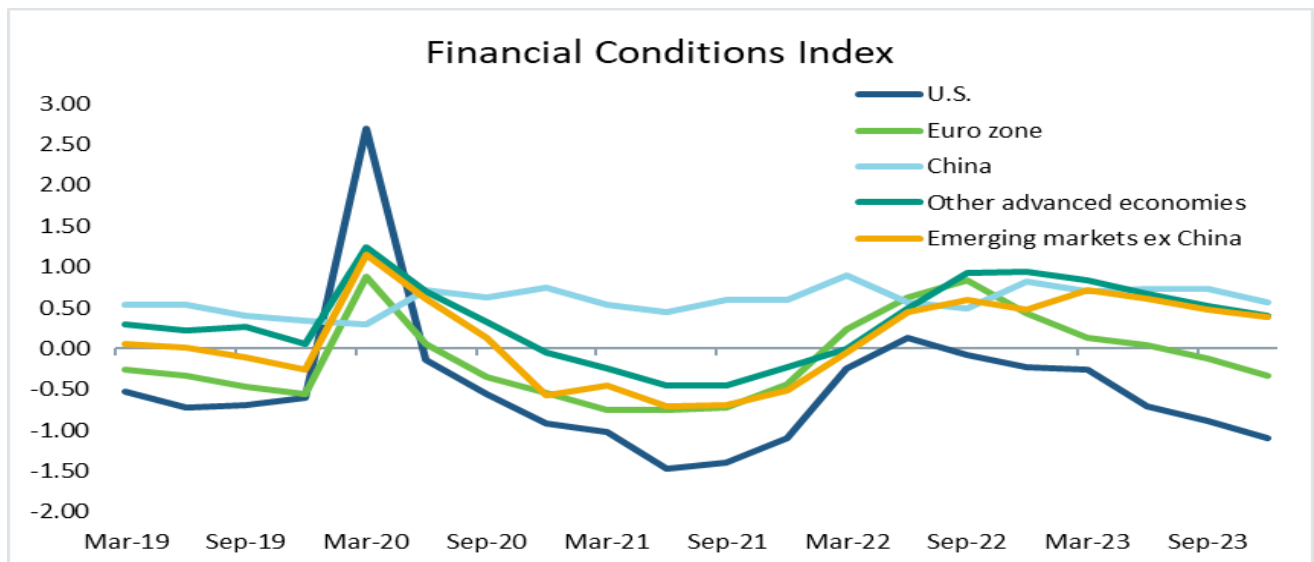
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of Canada	6-Mar-24	-12.2%	5.00%
European Central Bank	7-Mar-24	-12.3%	4.50%
Bank of Japan	19-Mar-24	23.4%	-0.10%
Federal Open Market Committee	20-Mar-24	-19.3%	5.50%
Bank of England	21-Mar-24	-11.1%	5.3%

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

### After facing brief episodes of uncertainty in 2023, risk assets are back on track due to easing financial conditions.

The chart below shows the standard deviations from the mean over the long term for financial conditions in major advanced economies of the world. Since October 2023, inflationary pressures have continued to recede, supporting expectations that monetary policy in advanced economies will ease in the coming quarters. The resulting decline in interest rate expectations in December has driven a broad-based rally in risk assets. Global financial conditions have loosened, overall, since October, driven by higher equity valuations, lower volatility and already compressed corporate bond spreads.



Source: Bloomberg Finance L.P., Haver Analytics, national data sources and IMF staff calculations.

## Appendix

Global markets (Returns in Canadian dollar terms)				
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Shanghai Comp.	2,730.15	-6.37%	-1.89%	-7.62%
MSCI ACWI	740.45	0.94%	1.88%	3.86%
MSCI EM	988.21	0.35%	1.83%	-1.57%
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Commodities	Close	Weekly	MTD	YTD
Oil	97.31	-7.27%	-4.50%	2.28%
Natural gas	2.80	-4.34%	-0.79%	-9.18%
Gold	2,746.29	1.13%	0.24%	0.48%
Silver	30.55	-0.42%	-0.95%	-3.09%
Copper	514.47	-0.71%	-1.95%	-0.15%
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7428	-0.08%	-0.21%	-1.63%
USD/EUR	0.9269	0.60%	0.27%	2.32%
CAD/EUR	0.6884	0.51%	0.04%	0.67%
USD/JPY	148.3800	0.16%	0.99%	5.20%
USD/CNY	7.1935	0.22%	0.34%	1.32%
USD/MXN	17.1444	-0.10%	-0.40%	1.02%
GBP/CAD	1.7008	-0.48%	-0.22%	0.81%
GBP/USD	1.2631	-0.57%	-0.45%	-0.79%

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

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