

WEEK IN REVIEW

March 15, 2024

In focus

Global equity markets ended with mixed results for the week. All the major U.S. indexes fell on worries that hotter-than-expected inflation figures could delay the U.S. Federal Reserve's plans to cut interest rates. European equities, however, extended their gains. In Asia, Japan's Nikkei Index ended lower. In contrast, Chinese equities rose as the government's recent market stabilization measures boosted investor confidence, despite a weak economic outlook.

A pair of reports showed that inflationary pressures in U.S. remain stubborn, even as interest rates remain at historically high levels. The U.S. Labor Department's consumer price index rose 0.4% in February, in line with consensus expectations, but core prices (less food and energy) rose slightly more than expected, also by 0.4%. The producer price index rose 0.6% in February, roughly double the consensus estimates, amid a surge in the cost of goods such as gasoline and food.

In commodities, oil prices rose around 4% for the week, supported by a drop in U.S. crude inventories, as well as a bigger-than-expected decline in U.S. gasoline stocks. Potential supply disruptions after Ukrainian attacks on Russian refineries also contributed to volatility.

In fixed income, yields on U.S. government bonds rose as the latest inflation data produced a shift in the interest-rate outlook. The yield of the ten-year U.S. Treasury bond rebounded from last week's level to close at 4.31% on Friday.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	21,849.15	0.51%	2.27%	4.25%
S&P500	5,117.09	-0.13%	0.41%	7.28%
NASDAQ	15,973.17	-0.70%	-0.74%	6.41%
DJIA	38,714.77	-0.02%	-0.72%	2.72%
Russell 2000	2,039.32	-2.08%	-0.76%	0.60%
FTSE 100	7,727.42	0.88%	1.28%	-0.08%
Euro Stoxx 50	4,986.02	0.50%	2.22%	10.28%
Nikkei 225	38,707.64	-2.47%	-1.17%	15.67%
Hang Seng	16,720.89	2.25%	1.27%	-1.92%
Shanghai Comp.	3,054.64	0.28%	1.31%	2.68%
MSCI ACWI	767.62	-0.48%	0.83%	5.59%
MSCI EM	1,034.74	-0.23%	1.35%	1.07%
MSCI ACWI ESG Leaders	2,823.23	-0.41%	1.13%	6.62%

Fixed Income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,098.82	-1.28%	-0.32%	-2.02%
BBG Global Agg.	460.18	-1.29%	0.25%	-2.38%
TSX Pref	1,825.91	0.78%	1.95%	8.01%

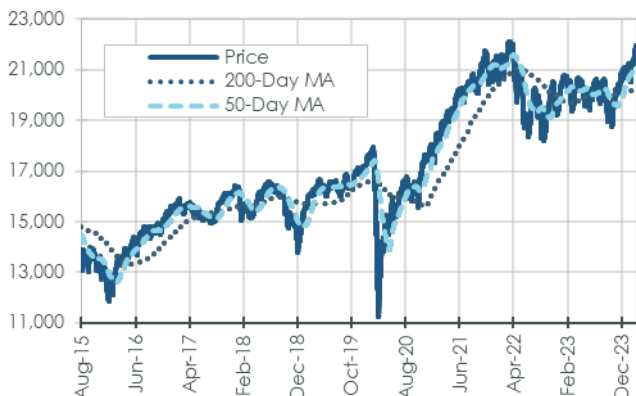
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	3.54%	21.4	5.4	43.4
10 yr U.S. Govt.	4.31%	23.1	5.6	42.7
30 yr Canada Govt.	3.41%	17.1	5.1	38.1
30 yr U.S. Govt.	4.43%	17.6	5.0	40.1

Commodities	Close	Weekly	MTD	YTD
Oil	81.04	3.88%	3.55%	12.54%
Natural gas	1.66	-8.31%	-11.02%	-28.17%
Gold	2,155.90	-1.06%	5.46%	4.50%
Silver	25.19	3.60%	11.07%	5.85%
Copper	412.45	5.99%	7.21%	5.53%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.74	-0.44%	0.26%	-2.21%
USD/EUR	0.92	0.46%	-0.77%	1.38%
CAD/EUR	0.68	0.03%	-0.50%	-0.82%
USD/JPY	149.04	1.35%	-0.63%	5.67%
USD/CNY	7.20	0.13%	0.12%	1.37%
USD/MXN	16.71	-0.58%	-1.99%	-1.52%
GBP/CAD	1.73	-0.42%	0.69%	2.31%
GBP/USD	1.27	-0.95%	0.88%	0.04%

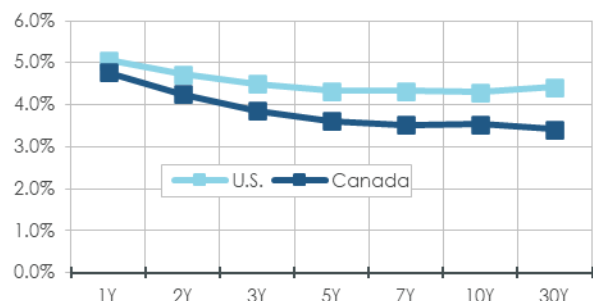
*Please refer to the Appendix for the above table in Canadian dollar terms. Natural gas prices subject to change post-settlement

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	Feb	227.5k	253.6k	223.2k
Canada manufacturing sales MoM	Jan	0.4%	0.2%	-1.1%
U.S. initial jobless claims	Mar-9	218k	209k	210k
U.S. CPI YoY	Feb	3.1%	3.2%	3.1%
U.S. University of Michigan sentiment	Mar	77.1	76.5	76.9
U.S. CPI (ex food and energy) YoY	Feb	3.7%	3.8%	3.9%

Canada

Canadian stocks advanced during the week, boosted by commodity-linked stocks. Materials, energy and industrials made were the top gains, while communication services, real estate and utilities were among the laggards. The materials sector led the gains after copper prices climbed near a one-year high on a potential output cut by China. Energy shares rallied as oil prices rose amid geopolitical tensions and with strong demand in the U.S.

U.S.

U.S. equities fell for the week as investors weighed upside surprises in inflation data and signs of moderating consumer spending. An index of semiconductor performance registered its biggest weekly percentage decline since early January, with investors taking profits after recent sharp gains.

The S&P sectors posted mixed performance. The energy, consumer staples and materials sectors experienced gains, while the real estate, consumer discretionary and health care sectors suffered the largest losses.

In economic news, the annual inflation rate rose unexpectedly to 3.2%, while the annual core rate eased to a near three-year low of 3.8%, slightly higher than market forecasts. The recent producer price index report revealed an increase in factory-gate inflation, with a higher-than-expected 0.6% rise in February. This marked the largest increase in six months, primarily driven by a surge in energy costs. On a year-over-year basis, headline producer prices were up 1.6%, well above expectations. The stock market's reaction to the inflation data may have been mitigated by surprising weakness in Thursday's retail sales report. The U.S. Commerce Department reported that retail sales rose 0.6% in February, but the gain, largely due to an increase in

gasoline prices, missed expectations. The University of Michigan's survey of consumer sentiment, released Friday, indicated a modest decline in consumer expectations.

Rest of the world

European equities advanced for the eighth consecutive week, supported by an array of upbeat corporate updates and expectations of interest rate cuts from the European Central Bank. The U.K. economy's return to growth in January also contributed to positive sentiment.

In economic developments, industrial production in the eurozone declined unexpectedly in January by 3.2%. This decline follows an increase in December. On the other hand, the U.K. economy showed signs of growth, with a 0.2% expansion in January, driven by strong performance in retail and house-building activities. However, the U.K. economy contracted by 0.1% for the three-month period ending January, along with a big drop in construction output. Annual consumer price inflation in Germany was confirmed to be easing, falling to 2.5% in February. This was attributed to a sharp slowdown in food inflation.

In Asia, China's consumer price index rose an above-consensus 0.7% in February from the prior-year period, reversing January's 0.8% decline and marking the first positive reading since August 2023. However, the producer price index fell a more-than-expected 2.7% from a year ago. The People's Bank of China left the one-year medium-term lending facility rate unchanged, prioritizing currency stability.

In Japan, the Japan Trade Union Confederation announced it had won a 5.28% wage hike for members, the highest since 1991, and well above market expectations. This has significantly heightened the chance that the Bank of Japan will end its negative interest rate policy in the near term.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada CPI YoY	Feb	3.1%	2.9%
Canada retail sales MoM	Jan	-0.4%	0.9%
U.S. initial jobless claims	Mar-16	215k	209k
U.S. housing starts	Feb	1430k	1331k
U.S. existing home sales	Feb	3.94m	4.00m
U.S. Philadelphia Fed business outlook	Q4'23	-2.3	5.2

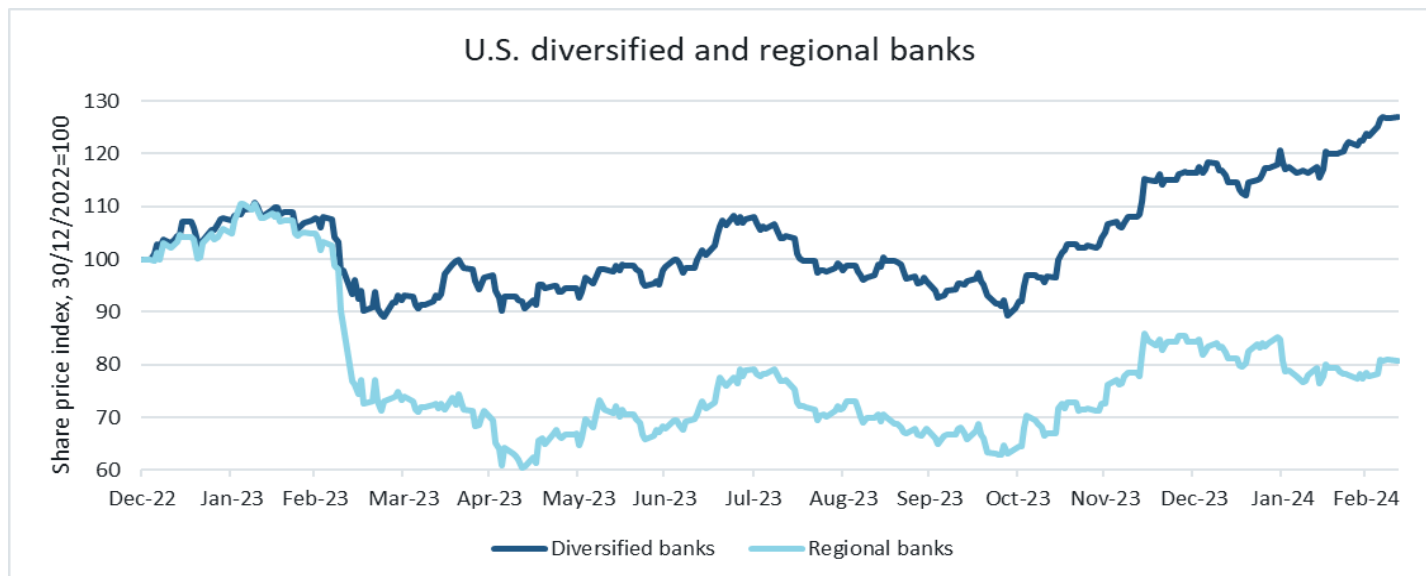
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of Japan	19-Mar-24	56.1%	-0.10%
Federal Open Market Committee	20-Mar-24	-0.8%	5.50%
Bank of England	21-Mar-24	-0.3%	5.25%
Bank of Canada	10-Apr-24	-15.6%	5.00%
European Central Bank	11-Apr-24	-8.3%	4.5%

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. diversified and regional banks one year on from the short-lived bank crisis

After the demise of Signature Bank and Silicon Valley Bank (SVB) a year ago, the performance of U.S. banks has diverged, with large financial institutions tending to outperform smaller, regional banks that had worse investment risk management. The Bank Term Funding Program (BTFP) stabilized these regional banks, maintaining liquidity for small businesses, and financial stress, after spiking in response to bank failures, has been reduced significantly since then. The U.S. Federal Reserve has announced that it will allow the emergency BTFP, the measure set in place after the SVB collapse, to expire as planned on March 11, 2024. However, the removal of the \$164 billion program could re-expose cracks in the U.S. banking sector under the higher interest-rate regime.



Source: LSEG Data Stream and Fathom Consulting.

Appendix

Global markets (Returns in Canadian dollar terms)				
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Nikkei 225	38,707.64	-3.33%	-0.78%	12.11%
Hang Seng	16,720.89	2.72%	1.12%	0.45%
Shanghai Comp.	3,054.64	0.61%	0.96%	3.92%
MSCI ACWI	767.62	-0.01%	0.59%	8.30%
MSCI EM	1,034.74	0.25%	1.11%	3.67%
MSCI ACWI ESG Leaders	2,823.23	0.06%	0.90%	9.35%
Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,098.82	-1.28%	-0.32%	-2.02%
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30 yr Canada Govt.	3.41	17.1	5.1	38.1
30 yr U.S. Govt.	4.43	17.6	5.0	40.1
Commodities	Close	Weekly	MTD	YTD
Oil	109.75	4.35%	3.29%	15.09%
Natural gas	2.24	-7.90%	-11.25%	-26.54%
Gold	2,919.69	-0.64%	5.18%	6.82%
Silver	34.11	4.06%	10.78%	8.20%
Copper	558.57	6.46%	6.94%	7.91%
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7384	-0.44%	0.26%	-2.21%
USD/EUR	0.9184	0.46%	-0.77%	1.38%
CAD/EUR	0.6782	0.03%	-0.50%	-0.82%
USD/JPY	149.0400	1.35%	-0.63%	5.67%
USD/CNY	7.1970	0.13%	0.12%	1.37%
USD/MXN	16.7144	-0.58%	-1.99%	-1.52%
GBP/CAD	1.7261	-0.42%	0.69%	2.31%
GBP/USD	1.2736	-0.95%	0.88%	0.04%

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

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