MACKENZIE Investments

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Weekly Market Snapshot

For the week ending April 26, 2024

Equities

Local currency, price only, % change

	2024-04-26	Week	QTD	YTD	1 Yr
S&P/TSX Composite	21,969	0.7%	-0.9%	4.8%	7.9%
S&P/TSX Small Cap	764	1.4%	1.5%	8.8%	9.4%
S&P 500	5,100	2.7%	-2.9%	6.9%	25.7%
NASDAQ	15,928	4.2%	-2.8%	6.1%	34.4%
Russell 2000	2,002	2.8%	-5.8%	-1.2%	15.7%
UK FTSE 100	8,140	3.1%	2.4%	5.3%	3.7%
Euro Stoxx 50	5,007	1.8%	-1.5%	10.7%	15.2%
Nikkei 225	37,935	2.3%	-6.0%	13.4%	33.5%
MSCI China (USD)	58	8.3%	6.7%	4.3%	-8.2%
MSCI EM (USD)	1,042	3.7%	-0.2%	1.7%	7.6%

Fixed income

Total return, % change

	2024-04-26	Week	QTD	YTD	1 Yr
FTSE Canada Universe Bond Index	1,084	-0.4%	-2.1%	-3.3%	-0.8%
FTSE Canada All Corporate Bond Index	1,329	-0.2%	-1.4%	-1.3%	2.9%
Bloomberg Canada High Yield Index	181	0.1%	-0.1%	3.1%	11.0%

Interest rates - Canada

Change in bps

	2024-04-26	Week	QTD	YTD	1 Yr
3-month T-bill	4.92	3	-7	-12	54
GOC bonds 2 yr	4.32	7	14	43	70
GOC bonds 10 yr	3.82	8	35	71	96
GOC bonds 30 yr	3.69	5	34	66	72

Currencies and Commodities

In USD, % change

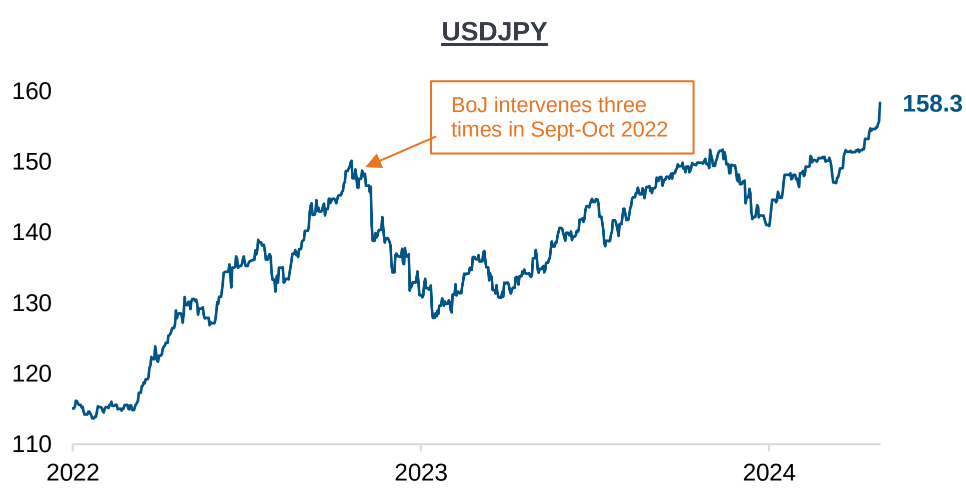
	2024-04-26	Week	QTD	YTD	1 Yr
CDN $	0.732	0.6%	-1.0%	-3.1%	-0.2%
US Dollar Index	105.94	-0.2%	1.4%	4.5%	4.4%
Oil (West Texas)	83.85	0.9%	0.8%	17.0%	12.9%
Natural Gas	1.92	-3.3%	-3.7%	-23.7%	-41.6%
Gold	2,338	-2.3%	4.8%	13.3%	17.5%
Copper	4.57	1.1%	13.2%	16.5%	18.0%

Canadian sector performance

Price return, % change

	Week	YTD
Energy	1.8%	15.0%
Materials	1.8%	14.3%
Industrials	-1.4%	6.0%
Cons. Disc.	2.0%	2.6%
Info Tech	0.8%	0.0%
Health Care	0.0%	2.5%
Financials	0.5%	1.3%
Cons. Staples	2.4%	4.0%
Comm. Services	-0.6%	-12.3%
Utilities	0.5%	-6.3%
Real Estate	0.6%	-7.6%

Chart of the week: BoJ's patience fuels further Yen weakness



The lack of urgency from the Bank of Japan (BoJ) to normalize its monetary policy put further pressure on the Japanese yen. As widely expected, the BoJ maintained its target policy rate range between 0% and 0.1%. Despite issuing higher inflation forecasts and officials reiterating its intention to gradually raise rates further, the yen weakened to a fresh 34-year low against the US dollar at USDJPY 158 – marking a >12% decline against the greenback YTD. Adding pressure on the yen was the BoJ sticking to its guidance in March to keep buying government bonds at its current pace, disappointing some analysts' expectations that it could soon taper purchases to support the yen. Indeed, the weaker yen has supported the >13% YTD rally in Japanese equities, as many of the biggest companies are manufacturers who export products overseas. However, while Governor Ueda stated that the weakness of the yen was so far having "no major impact" on Japanese inflationary pressures – national headline and core CPI have eased to a tepid 2.7% and 2.6%, respectively – it has pushed Japanese import bills higher, leading to sluggish domestic consumer spending. The weakness seen domestically has hurt companies such as retailers despite the country witnessing a surge in tourism. Although authorities continue to signal readiness to intervene in the currency market to support the yen, the widening gap between US and Japanese yields will likely undermine further efforts to stabilize the yen. ***This suggests that any intervention will likely only provide temporary relief amid broader structural pressures, including the Fed's reluctance to lower US rates.***

Macro vs. micro

Global equities snapped a three-week losing streak, powered by a sharp rally in US big tech. The NASDAQ (+4%) led the pack, but even the lagging Russell 2000 (+2.8%) had a solid week. Despite ongoing concerns about inflation, investor focus is shifting toward corporate earnings results (see more below). Signs of a potential second wave of inflation, evidenced by solid demand figures in the Q1 US GDP report and another elevated Core PCE Price Index print, pushed bond yields closer to last October's highs. The yield on the 2-year Treasury continues to hover around 5%, while the 10-year climbed to 4.66%. Encouragingly, oil prices have stabilized amid easing tensions in the Middle East, which has also allowed gold prices to take a breather. In Washington, President Biden signed the $95 billion foreign aid package for Israel and Ukraine.

The shift from a macro-dominated market environment to one that prioritizes micro-level factors has been a key theme we anticipated emerging in 2024. Despite inflationary concerns (macro) exerting upward pressure on yields and, thus, downward pressure on equity valuation multiples, solid corporate earnings results (micro) have been an offset for equities. **As we reach the midpoint of Q1 earnings season, Corporate America has largely lived up to Wall Street's expectations.** With nearly 80% of S&P 500 companies surpassing analyst earnings estimates, the index is on pace for 3.5% y/y EPS growth, just shy of the 4% forecast at the start of the earnings season. Notably, the magnitude of the beats has also been impressive at 9%. If this level holds, it will be the highest in over two years. Last week, the spotlight was on the 'Magnificent 7', the key pillar for S&P 500 profit growth and, arguably more importantly, the key gauge for AI demand. Among the group, Google stood out with its shares surging after the company posted quarterly revenue and earnings beats, alongside announcing its first cash dividend and repurchasing an additional $70 billion in stock. Microsoft also saw its shares rise ~5% after beating estimates bolstered by solid software and cloud services demand. Despite topping estimates, Meta was the lone stock among the group to finish the week lower, suffering its worst weekly decline since October 2022. Behind the weakness was the company asking for investors' patience once again as it plans to ramp up its spending on AI this year, a move that is expected to dampen revenue growth in the short term. **If sticky inflation is to keep rates higher for longer, the onus will increasingly be on corporate earnings and forward guidance for markets.** This holds especially true for the Magnificent 7, which collectively account for ~30% of the S&P 500's market cap. Investors will eagerly anticipate similar positive results from Apple and Amazon this week, with all eyes set on Nvidia's report on May 22.

Despite the miss for US GDP in Q1, the underlying details suggest that growth remains robust. The US economy grew at an annualized rate of 1.6% q/q in Q1, below expectations. However, the shortfall largely stemmed from the volatile net exports and inventories components, which subtracted 1.21% from the overall growth rate. Excluding them, the adjusted real GDP growth rate would register at 2.8%, which would have topped the consensus forecast of 2.5%. Final private demand – which excludes government spending, net exports, and inventories – expanded by 3% for the third consecutive quarter, while personal consumption rose by a 2.5% clip. **The totality of the report underscores solid US economic growth, backed by a consumer that continues to spend.**

A resilient US economy is coming at the cost of risking a reacceleration in inflation. The US Core PCE Price Index, came in at 0.32% m/m, holding the annual pace at 2.8% y/y. **Notably, the Fed's preferred inflation gauge has been running at a 4.4% annualized pace over the last three months.** This is prompting FOMC members to backtrack on their plans to begin cutting rates in the first half of this year. Recall in January, markets were anticipating nearly seven rate cuts for 2024, with the first expected in March. Today, this number has dwindled to just one, with the first not expected until November. If a similar story plays out in the April data, the narrative may shift from a potential cut to hike. Investors will be turning their attention to this week's Fed meeting. **While the FOMC is widely expected to leave rates steady this week, the emphasis will be on the magnitude of the shift in Chair Powell's tone towards a more hawkish stance.**

The week in review

- Canadian retail sales (Feb.) fell -0.1 % m/m (versus 0.1% expected), following the prior month's -0.3% decline. On an annual basis, retail sales are up 1.2% y/y. StatCan's preliminary estimate for March forecasts sales to be flat.
- Bank of Canada Summary of Deliberations from the April meeting revealed that while some members expressed concerns about potential upside inflation risks, attributed to stronger-than-expected economic growth both domestically and in the US, inflation has moderated significantly over the past three months. This moderation has bolstered the probability of a June cut, contingent on another easing in April.
- US real GDP (Q1) missed expectations, expanding 1.6% q/q annualized (versus 2.5% expected), following the prior quarter's 3.4% expansion. However, details of the report were strong, as the decline was mostly due to the volatile inventory and net exports components.
- The US Core PCE Price Index (Mar.) rose 0.3% (in line with expectations), holding the annual rate steady at 2.8% (versus 2.7% expected).
- US personal spending (Mar.) rose 0.8% m/m (versus 0.6% expected) or 0.5% in real terms (versus 0.3% expected. Personal income (Mar.) rose 0.5% m/m (in line with expectations). On an annual basis, real spending is up 3.1% y/y, while personal incomes have risen 4.7%.
- US durable goods orders (Mar.) rose 2.6% m/m (versus 2.5% expected), after the prior month's downwardly revised 0.7% advance. On an annual basis, orders are up 1.3% y/y. Orders excluding transportation rose 0.2% m/m.
- The Bank of Japan held the target policy rate range steady between 0% and 0.1%.
- Purchasing Managers Index (PMI) recap (Apr, change from prior reading in brackets): US S&P Manufacturing 49.9 (-2.0), S&P Services 50.9 (-0.8); Eurozone HCOB Manufacturing 45.6 (-0.5), HCOB Services 52.9 (+1.4); UK S&P Manufacturing 48.7 (-1.6), S&P Services 54.9 (+1.8); and Japan Jibun Bank Manufacturing 49.9 (+1.7), Jibun Services 54.6 (+0.5).

The week ahead

- Canadian GDP and trade data
- US Treasury Quarterly Funding Announcement
- US FOMC meeting
- US nonfarm payrolls report, US Employment Cost Index and ISM PMIs
- BoJ Minutes from March Meeting
- Japanese employment, retail sales and industrial production data
- Eurozone employment data
- Global PMIs
- 174 S&P 500 and 60 S&P/TSX companies report earnings