MACKENZIE Investments

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Weekly Market Snapshot

For the week ending September 13, 2024

Equities

Local currency, price only, % change

	2024-09-13	Week	QTD	YTD	1 Yr
S&P/TSX Composite	23,569	3.5%	7.7%	12.5%	16.2%
S&P/TSX Small Cap	797	6.7%	5.6%	13.5%	14.8%
S&P 500	5,626	4.0%	3.0%	18.0%	25.9%
NASDAQ	17,684	6.0%	-0.3%	17.8%	28.0%
Russell 2000	2,182	4.4%	6.6%	7.7%	18.6%
UK FTSE 100	8,273	1.1%	1.3%	7.0%	9.9%
Euro Stoxx 50	4,844	2.2%	-1.0%	7.1%	14.7%
Nikkei 225	36,582	0.5%	-7.6%	9.3%	11.8%
MSCI China (USD)	55	-0.5%	-4.3%	-1.0%	-6.8%
MSCI EM (USD)	1,082	0.7%	-0.4%	5.7%	11.1%

Fixed income

Total return, % change

	2024-09-13	Week	QTD	YTD	1 Yr
FTSE Canada Universe Bond Index	1,169	0.5%	4.6%	4.2%	10.7%
FTSE Canada All Corporate Bond Index	1,418	0.5%	4.1%	5.4%	11.9%
Bloomberg Canada High Yield Index	186	0.1%	2.1%	5.6%	11.7%

Interest rates - Canada

Change in bps

	2024-09-13	Week	QTD	YTD	1 Yr
3-month T-bill	4.05	-2	-59	-99	-93
GOC bonds 2 yr	2.94	-10	-105	-94	-174
GOC bonds 10 yr	2.90	-6	-60	-21	-78
GOC bonds 30 yr	3.09	-2	-30	6	-43

Currencies and Commodities

In USD, % change

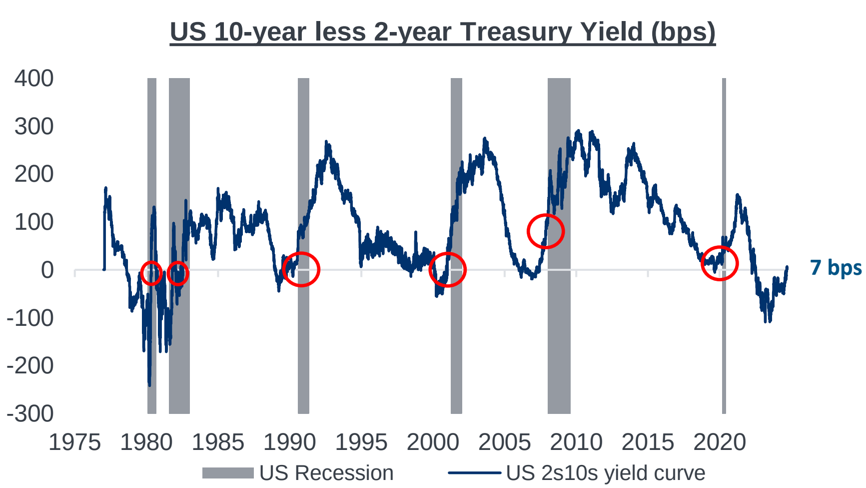
	2024-09-13	Week	QTD	YTD	1 Yr
CDN $	0.736	-0.1%	0.7%	-2.5%	-0.3%
US Dollar Index	101.11	-0.1%	-4.5%	-0.2%	-3.5%
Oil (West Texas)	68.65	1.4%	-15.8%	-4.2%	-22.4%
Natural Gas	2.31	1.3%	-14.4%	-15.9%	-32.1%
Gold	2,578	3.2%	10.8%	25.0%	35.1%
Copper	4.24	4.0%	-4.0%	7.2%	9.7%

Canadian sector performance

Price return, % change

	Week	YTD
Energy	-0.3%	9.7%
Materials	9.1%	25.1%
Industrials	3.3%	9.6%
Cons. Disc.	2.8%	5.7%
Info Tech	5.5%	6.3%
Health Care	5.9%	3.9%
Financials	3.5%	15.4%
Cons. Staples	0.5%	13.4%
Comm. Services	-0.1%	-5.8%
Utilities	4.6%	10.2%
Real Estate	6.1%	11.5%

Chart of the week: It's the uninversion that counts



One of the unique characteristics of the post-COVID economic cycle has been its defiance of traditional economic signals that have historically guided the global economy and markets. Perhaps the most puzzling of them all has been the inverted US yield curve, a widely regarded predictor of recessions. Typically, when the yield curve inverts—meaning short-term interest rates exceed long-term yields—it inevitably signals an impending recession. Yet, despite nearly two years of a deeply inverted curve, a recession has yet to materialize. This has lead many to dismiss the signal that has accurately predicted each of the last eight US recessions since the 1960s.

While it is true that the inversion typically precedes an economic downturn, the more precise indicator is when the curve ***uninverts****. This reversal is typically triggered by rate cuts or the anticipation of them, causing short-term rates to fall faster than longer-term rates—also known as a bull steepener. Historically, the time from inversion to recession has been less than two years, but it is crucial to note that recessions have only occurred* ***after*** *the curve turns positive again, as per this week's chart. On average, a recession follows within about two months of the yield curve uninverting.*

Extrapolating historical signals to today's unique environment has proven risky thus far. *Whether the inverted yield curve will once again predict a recession remains to be seen. In our view, much will depend on whether the Fed can successfully thread the needle as finely as it has over the past few years. While markets are split on the likelihood of a 50 bps cut at this week's Fed meeting,* ***we believe officials will opt for a more measured 25 bp move****, especially in the wake of last week's upward surprise in core CPI. Nonetheless, whether the Fed ultimately goes 25 or 50 will take a back seat to the forward guidance from officials, including the release of their updated Summary of economic projections. The US economy is indeed slowing, but economic growth remains solid, with Q2 real GDP pacing at a 3% annualized rate. However, it is becoming clear the Fed is falling behind the curve and Wednesday's cut will be the first of many to normalize policy.* ***To reach the Fed's forecasted neutral rate of 2.8%, ten 25 bps cuts would be required.*** *Although markets have priced in a dovish scenario, we advise investors to position their portfolios slightly longer in duration than the benchmark to capitalize on what is likely an accelerating global central bank easing cycle.*

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25 or 50?

Global equities surged last week, nearly reversing the steep losses from the week prior. Gains were broadbased, led by a strong rebound in mega cap tech. The NASDAQ 100 jumped 6%, while a further drop in bond yields boosted interest rate sensitive areas the market, including small caps, real estate, and materials. The latter propelled the TSX (+3.5%) to new all-time highs. Meanwhile, the European Central Bank cut interest rates for the second time this year, lowering the deposit rate to 3.50% as inflation moderates toward 2% amid simmering growth concerns.

A surprise uptick in US core inflation likely dampens the odds of a 50 bps move from the Fed this week. Core prices rose 0.3% m/m in August, above the expected 0.2% increase and holding the annual pace at 3.2% y/y—**a subtle reminder that the last mile of taming inflation is not yet complete**. The surprise was mainly driven by sharp increases in shelter (+0.5%), airfares (+3.9%) and motor vehicle insurance (+0.6%). After declines in May and June, the key supercore measure (core CPI excluding housing) has increased for two consecutive months in July (+0.2%) and August (+0.3). **Still, headline CPI moderated sharply to just 2.5% y/y from 2.9%** in the month prior thanks to favourable base effects, falling energy prices (-0.8%) and core goods (-0.2%) declining for the 14^{th} time in the last 15 months. While there is a valid argument that the Fed is falling behind the curve and should deliver an outsized cut due to the softening labour market, the Global Investment Committee maintains that the Fed will adopt a more gradual approach, beginning its rate cutting cycle with a **standard 25 bps cut this Wednesday.**

The Chinese economy continues to slump. The ongoing property crisis remains the source of the weakness, creating a negative wealth effect that is weighing on domestic demand. While a pickup in exports has provided some relief against a slowing growth backdrop, **much of the acceleration may stem from companies front-running increased geopolitical tensions and further tariff hikes from countries like the US.** In contrast, **sagging imports highlight the weak state of domestic demand.** As a result, the risk is rising that China misses its 5% GDP target this year. Initial optimism that China's recovery could offset a slowing Western economy hinged on expectations of more **forceful economic stimulus** similar to prior cycles. However, Beijing's actions have not been nearly enough so far. Since peaking in 2021, about US$6.5 trillion has been wiped out from Chinese stocks, with the CSI 300 sliding to its lowest level since early 2019. Weakness in the world's second-largest economy is also spilling into commodity prices. In Q3, WTI oil prices (-16%) have dropped below $70, while other commodities such as iron ore have slumped 17%. **In light of the expected prolonged weakness in the Chinese economy and the lack of urgency from policymakers on fiscal policy, the Global Investment Committee has recently reduced its slight overweight in emerging market equities to neutral.**

The week in review

- US CPI inflation (Aug.) rose 0.2% m/m (in line with expectations), lowering the annual pace to 2.5% y/y from 2.9%. Core CPI rose 0.3% m/m (versus 0.2% expected), holding the annual pace at 3.2% yy. PPI inflation (Aug.) rose 0.2% (versus 0.1% expected), lowering the annual pace to 1.7% y/y from a downwardly revised 2.1%.
- The Canada National Balance Sheet (Q2) showed household finances remain strained. Household debt-to-disposable income edged lower to 175.5% from 176.7% in seasonally-adjusted terms. Net worth as a percentage of disposable income fell to 999.8% from 1,015.5%. Gross general government debt to GDP fell to 126.4% from 127.0%, while net debt-to-GDP fell to 22.8% from 23.9%.
- The European Central Bank (ECB) reduced its benchmark interest rates for the second time this year, bringing the deposit rate to 3.50% (prev. 3.75%), the main refinancing rate to 4.65% (prev. 4.25%), and the marginal lending rate to 3.90% (prev. 4.50%)
- Chinese CPI inflation (Aug.) accelerated to 0.6% y/y (versus 0.7% expected) from 0.5%. PPI inflation fell further to -1.8% y/y (versus -1.5% expected), down from -0.8%.
- Chinese trade surplus (Aug.) expanded to US$91.0 billion (versus $81.1 billion expected), up from $84.7 billion in the prior month. Exports accelerated 8.7% y/y from 7.0%, while imports slowed sharply to 0.5% y/y from 7.2%.
- Chinese industrial production (Aug.). decelerated to 4.5% y/y (versus 4.7% expected), down from 5.1% in the prior month. Fixed asset investment also decelerated to 3.4% YTD y/y from 3.6% in the prior month.
- Chinese residential property sales (Aug.) remained sluggish at -25.0% YTD y/y, as well as property investment at -10.2% YTD y/y.
- Chinese aggregate yuan financing (Aug.) rose to ¥21.90 trillion from ¥18.87 trillion in the prior month. Of that total, new loans came in at ¥14.43 billion, up from ¥13.52 billion.
- UK real GDP (Jul.) rose 0.5% 3M/3M (versus 0.6% expected), downshifting from 0.6% in the prior three months. Real GDP in July was flat.

The week ahead

- US FOMC announcement and Summary of Economic Projections
- Bank of Japan monetary policy announcement
- Canadian inflation retail sales, and housing data
- Bank of Canada Summary of Deliberations for the Sept. 4 meeting
- US retail sales, industrial production, and housing data
- Eurozone trade and consumer confidence data
- UK inflation, retail sales and consumer confidence data

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