Justin Truong, CFA
Investment Strategy
justin.truong@mackenzieinvestments.com

Weekly Market Snapshot

For the week ending February 23, 2024

Equities

Local currency, price only, % change

	2024-02-23	Week	3M	YTD	1 Yr
S&P/TSX Composite	21,413	0.7%	6.4%	2.2%	6.1%
S&P/TSX Small Cap	701	-0.8%	4.8%	-0.1%	-1.0%
S&P 500	5,089	1.7%	11.7%	6.7%	26.8%
NASDAQ	15,997	1.4%	12.1%	6.6%	38.0%
Russell 2000	2,017	-0.8%	12.3%	-0.5%	5.7%
UK FTSE 100	7,706	-0.1%	3.0%	-0.3%	-2.5%
Euro Stoxx 50	4,873	2.2%	11.7%	7.8%	14.4%
Nikkei 225	39,099	1.6%	16.9%	16.8%	44.3%
MSCI China (USD)	54	2.8%	-7.1%	-1.9%	-18.2%
MSCI EM (USD)	1,028	1.2%	4.1%	0.4%	4.1%

Fixed income

Total return, % change

	2024-02-23	Week	3M	YTD	1 Yr
FTSE Canada Universe Bond Index	1,103	0.9%	3.1%	-1.6%	4.1%
FTSE Canada All Corporate Bond Index	1,340	0.9%	4.0%	-0.5%	6.5%
Bloomberg Canada High Yield Index	179	0.3%	5.3%	1.8%	10.0%

Interest rates - Canada

Change in bps

	2024-02-23	Week	3M	YTD	1 Yr
3-month T-bill	4.87	-6	-12	-17	36
GOC bonds 2 yr	4.17	-12	-26	29	-3
GOC bonds 10 yr	3.46	-12	-25	35	13
GOC bonds 30 yr	3.32	-11	-20	28	6

Currencies and Commodities

In USD, % change

	2024-02-23	Week	3M	YTD	1 Yr
CDN $	0.741	-0.1%	1.4%	-1.9%	0.3%
US Dollar Index	103.94	-0.3%	0.0%	2.6%	-0.6%
Oil (West Texas)	77.54	-2.1%	1.0%	8.2%	2.8%
Natural Gas	1.60	-0.4%	-43.4%	-31.1%	-54.9%
Gold	2,035	1.1%	2.2%	-1.3%	11.7%
Copper	3.90	1.3%	1.8%	-0.2%	-3.7%

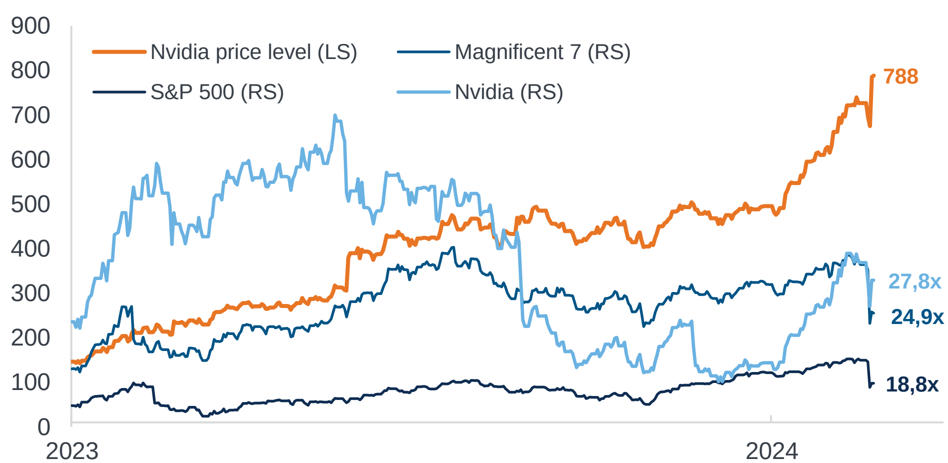
Canadian sector performance

Price return, % change

	Week	YTD
Energy	1.8%	3.0%
Materials	0.3%	-7.8%
Industrials	0.8%	8.5%
Cons. Disc.	0.3%	2.8%
Info Tech	-2.7%	4.5%
Health Care	2.1%	2.8%
Financials	1.2%	1.8%
Cons. Staples	3.9%	8.6%
Comm. Services	0.3%	-0.4%
Utilities	-0.3%	-2.5%
Real Estate	0.2%	-0.1%

Chart of the week: The Magnificent 1

Nvidia, Mag 7 and S&P 500: Price and Forward P/E



*The main event last week was Nvidia's earnings report and the company once again exceeded analyst expectations with its shares surging 16% and its market cap now on the brink of $2 trillion. **These earnings results further fed the appetite for a handful of US mega-cap stocks that have played a significant role in lifting US indices to new all-time highs (ATH).** The ripple effects of Nvidia's results have also reached markets outside the US. In Japan, the Nikkei 225 Index finally broke through its previous ATH set in the 1980s while in Europe the STOXX 600 Index surpassed its January 2022 peak. In some quarters, the valuation multiples for Nvidia (28x) and the rest of the Magnificent 7 (25x) are seen as reasonable versus the broader S&P 500 (~19x) given the differential growth rates of underlying earnings. **While there are legitimate concerns about the future demand for AI chips and the potential for competition in the space to heat up over time, at the moment, investors seem more than willing to pay a premium for a small number of growth stocks.** None other than Warren Buffett called out the 'casino-like behavior' that has come to define today's stock market when he released his annual letter to Berkshire Hathaway shareholders on Saturday. Mr. Buffett, who opens his letter by mourning the loss of his long-time business partner Charlie Munger, places a focus this year on owning a portfolio of quality franchises over the long-term and setting reasonable expectations for above average, but not astonishing, growth in the years to come. US and eurozone inflation data, along with PMI data out of the United States and China, headline a busy upcoming week for economic data. In Canada, expect heightened attention on the Big 6 Banks given each will release Q1/24 earnings this week.*

Maintaining a hawkish bias

After a shaky start to the week, global equities powered higher after another blowout quarterly earnings report from Nvidia (see chart comments for more). While Fedspeak continues to maintain a hawkish bias (see more below), the outlook for eventual rate cuts and a resilient US consumer – buoyed by a tight labour market – is supporting equity prices higher. The gains continue to be concentrated in growth stocks, once again outpacing its value counterparts. On a YTD basis, the S&P 500 Growth Index (+9.9%) has more than tripled the advance of the S&P 500 Value Index (+3.1%), thanks to the outsized performance from mega-cap tech. The weakness in small caps also underpin the lack of market breadth, with the Russell 2000 down nearly ~1% on the week, keeping the index in the red this year.

The hawkish sentiment in recent Fedspeak and the Minutes from the January FOMC meeting reinforce the shift in expectations for the first rate cut. Several officials maintained their preference for a patient approach to policy changes in not cutting rates preemptively. Governor Waller said he was in “no rush” to cut rates, while other members including Harker (Philadelphia) and Fed Vice Chair Jefferson warned against cutting rates into a strong US economic backdrop. Waller notably pointed out the potential quirks in the January data that may have been influenced by the typical price hikes for many companies to start the year, **suggesting that the downward trend in inflation remains intact**. Markets have quickly priced out the potential for a rate cut next month, with the first now expected to come in July.

Despite slowing inflationary pressures, the resilience of the Canadian economy is poised to keep the BoC on the sidelines for the next few months. Canadian headline (2.9% y/y, prev. 3.4%) and core inflation (trim 3.4%, prev. 3.7%) came in well below expectations, slowing meaningfully in January. While this is undoubtedly welcome news for the Bank of Canada, the growth picture in Canada will likely keep the BoC in a wait-and-see posture. Retail sales jumped 0.9% m/m in December amid a strong burst of holiday spending, bringing the monthly average pace for the quarter to a solid 0.5% m/m. This suggests that the Canadian economy is likely to avoid a technical recession in 2023. In fact, this week’s Q4 GDP report is expecting a respectable 0.8% q/q annualized rebound after the -1.1% decline in Q3. While StatCan’s estimate for January has retail sales taking a step back to start the year, **the BoC will likely remain cautious due to elevated wage gains, sticky core inflation and a consumer that is still showing signs of resilience.** The BoC will likely remain on the sidelines for now, maintaining its target at 5.0% until more significant signs of weakness appear.

The week in review

- Canadian CPI inflation (Jan.) was flat m/m (versus 0.4% expected), slowing the annual pace to 2.9% y/y (versus 3.3% expected, prev. 3.4%). Core CPI inflation also fell, with the average of the two BoC measures falling to 3.34% y/y (versus 3.6% expected, prev. 3.6%).
- The Minutes from the January 30-31 FOMC meeting reaffirmed members hawkish bias, suggesting that the first rate cut will be delivered in later than markets expected.
- US existing home sales (Jan.) rose 3.1% m/m to 4.00 million units annualized (versus 3.97 million expected).
- Japanese exports (Jan., y/y) accelerated to 11.9% (versus 9.5% expected), while imports are down -9.6% (versus -8.7% expected).
- Eurozone consumer confidence (Feb.) improved slightly to -15.5 (in line with expectations), from a -16.1 reading in the prior month.
- UK consumer confidence (Feb.) deteriorated to -21 (versus -18 expected), from a -19 reading in the prior month.
- UK Manufacturing PMI (Feb.) rose to 47.1 (versus 47.5 expected, prev. 47.0).
- UK Services PMI (Feb.) held steady at 54.3 (versus 54.1 expected).
- Nikkei 225 Index and STOXX 600 record new all-time highs.

The week ahead

- Canadian GDP and trade data
- US durable goods orders, personal spending and income, and ISM Manufacturing PMIs
- Japanese inflation, retail sales, employment and industrial production data
- Eurozone inflation and employment data
- New Zealand monetary policy announcement
- G20 Finance Ministers and Central Bank Governors Meeting
- Global PMIs
- 40 S&P 500 and 47 S&P/TSX companies report earnings, including the Canadian Big Banks