



Equities

Local currency, price only, % change

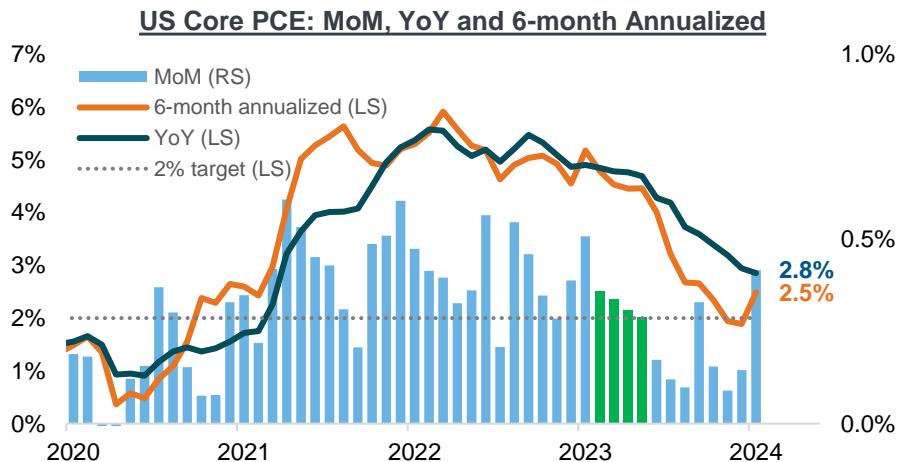
	2024-03-01	Week	3M	YTD	1 Yr
S&P/TSX Composite	21,552	0.7%	5.4%	2.8%	6.4%
S&P/TSX Small Cap	716	2.1%	3.4%	2.0%	-1.5%
S&P 500	5,137	0.9%	11.8%	7.7%	30.0%
NASDAQ	16,275	1.7%	13.8%	8.4%	43.0%
Russell 2000	2,076	3.0%	11.5%	2.4%	9.4%
UK FTSE 100	7,683	-0.3%	2.0%	-0.7%	-2.9%
Euro Stoxx 50	4,895	0.5%	10.8%	8.3%	16.1%
Nikkei 225	39,911	2.1%	19.4%	19.3%	45.0%
MSCI China (USD)	54	-0.7%	-3.8%	-2.6%	-19.4%
MSCI EM (USD)	1,025	-0.4%	4.3%	0.1%	4.1%

Fixed income

Total return, % change

	2024-03-01	Week	3M	YTD	1 Yr
FTSE Canada Universe Bond Index	1,106	0.3%	1.0%	-1.4%	4.6%
FTSE Canada All Corporate Bond Index	1,344	0.3%	2.3%	-0.2%	7.0%
Bloomberg Canada High Yield Index	179	0.3%	4.8%	2.1%	10.4%

Chart of the week: Disinflationary trend remains intact



Interest rates - Canada

Change in bps

	2024-03-01	Week	3M	YTD	1 Yr
3-month T-bill	4.90	0	-7	-14	42
GOC bonds 2 yr	4.09	-8	3	21	-18
GOC bonds 10 yr	3.43	-3	1	32	2
GOC bonds 30 yr	3.31	0	8	28	5

Currencies and Commodities

In USD, % change

	2024-03-01	Week	3M	YTD	1 Yr
CDN \$	0.737	-0.4%	-0.5%	-2.3%	0.2%
US Dollar Index	103.86	-0.1%	0.6%	2.5%	-0.6%
Oil (West Texas)	79.97	3.1%	8.0%	11.6%	2.9%
Natural Gas	1.84	8.0%	-29.4%	-20.4%	-46.4%
Gold	2,083	2.3%	0.5%	1.0%	13.4%
Copper	3.86	-1.0%	-2.3%	-1.2%	-6.8%

Canadian sector performance

Price return, % change

	Week	YTD
Energy	3.6%	6.8%
Materials	1.3%	-6.6%
Industrials	0.1%	8.6%
Cons. Disc.	-0.2%	2.6%
Info Tech	1.8%	6.3%
Health Care	3.8%	6.8%
Financials	-0.3%	1.5%
Cons. Staples	-1.4%	7.1%
Comm. Services	-1.4%	-1.8%
Utilities	-1.3%	-3.8%
Real Estate	-2.2%	-2.3%

US Core PCE inflation was firm in January at 0.42% m/m, in line with last month's CPI and PPI readings. Service prices continued to come in at a concerning clip, with core services ex-housing (+0.6%) recording its strongest monthly increase since 2021. Housing costs also increased at a robust pace (+0.5% m/m), which contrasted to the fourth consecutive month of declining goods prices. **Despite the hiccup to start the year, the broader disinflation trend remains intact.** The annual pace of price growth slowed to 2.8% y/y, while the six-month annualized rate sits at 2.5%. Favourable base effects over the next four months (green bars to roll off y/y calculation) should help guide the Fed's preferred measure of inflation further towards its 2% goal – albeit January was a reminder that the path will likely include some bumps. **All in all, the report is unlikely to alter the Fed's projection for ~3 rate cuts this year.** However, it will likely force Chair Powell and the rest of the Fed to hold onto a cautious approach for now, particularly given the recent strength in US economic data. We anticipate Powell will continue preaching patience at his congressional testimony this week, a stance that has shifted the market's expectations for the first rate cut from March to sometime this summer.

Mind the details

Global equities extended their weekly winning streak to eight, as investors continued to pile into growth names. However, a pop in commodities, including spot WTI (+4.5%) reaching ~\$80/bbl, lifted energy stocks and the TSX. Despite further evidence of a sticky inflation backdrop (see chart comments for more), a pullback in bond yields bolstered small caps, with the Russell 2000 advancing nearly 3%. The decline in yields was also favourable for gold, with spot prices closing at a new all-time high. Meanwhile, congress kicked the can down the road yet again, approving another temporary spending bill to prevent a partial government shutdown and buying more time for policymakers to agree on a full-year spending framework.

Canadian bank earnings reported stronger-than-expected earnings during their fiscal Q1.

Excluding BMO, all banks surpassed analyst estimates, bolstered by a surge in trading revenues. However, bank executives remained cautious, highlighting concerns over a slowing domestic economy and the commercial real estate sector, especially in the US office space. Over \$4 billion in provisions for credit losses (PCLs) were set aside to prepare for a potential increase in bad loans. BMO missing its revenue and earnings estimates, coupled with a nearly threefold increase in its PCLs, resulted in a 4% decline in its shares. Conversely, the rest of the group showed more positive performance, with CIBC being the standout (+4.7%) thanks to strong loan growth. Despite the banks' short-term challenges, including the anticipated wave of mortgage renewals, much of the bad news is likely already baked into current prices. **At ~1.4x price to book for the S&P/TSX Bank Index, this could offer a compelling entry point for longer-term investors.**

The Canadian economy expanded at a 1.0% annualized rate in Q4, avoiding a technical recession (two consecutive quarters of negative GDP) following an upwardly revised -0.5% contraction in Q3. The advance leaves overall growth for 2023 at a modest but better-than-expected 1.1%. Despite the positive headline figure, **the details of the report reveal ongoing challenges.** Growth was mainly driven by a jump in net exports and a slight increase in consumer spending. However, every other component, including inventories, housing, business investment and government spending, saw declines. **Underscoring the challenges was a 0.7% contraction in final domestic demand, suggesting that the economy appears to be stagnating.** Lastly, it is notable that these results come despite another quarter of strong population growth – real GDP per capita has fallen for the fifth quarter in the last six and is >2% lower y/y. Canada faces challenges ahead, including navigating a more interest-rate-sensitive economy, weak productivity, and affordability issues. **This likely puts Canada at a relative disadvantage to its US counterparts.**

The week in review

- Canadian real GDP (Q4, q/q annualized) expanded 1.0% (versus 0.8% expected), after the prior quarter's upwardly revised -0.5% contraction. StatsCan's flash estimate for January is an outsized 0.4% gain.
- Canadian current account deficit (Q4) narrowed to \$1.62 billion (versus \$1.97 billion expected), down from \$4.74 billion in the prior month.
- US durable goods orders (Jan., m/m) fell -6.1% (versus -5.0% expected), after the prior month's downwardly revised -0.3% decline. Orders excluding transportation fell -0.3% m/m.
- The US trade deficit (Jan.) widened to \$90.2 billion (versus \$88.5 billion expected), from US\$87.9 billion in the prior month.
- US personal spending (Jan. m/m) rose 0.2% (in line with expectations), after the prior month's 0.7% gain. In real terms, personal spending fell -0.1%. Personal incomes rose 1.0% (versus 0.4% expected), after the prior month's 0.3% gain.
- US Core PCE inflation (Jan., y/y) decelerated to 2.8% (in line with expectations), down from 2.9% in the prior month.
- Japanese retail sales (Jan., m/m) rebounded 0.8% (versus 0.5% expected), after the prior month's -2.6% decline. In annual terms, retail sales are up 2.3% y/y. The jobless rate (Jan.) held steady at 2.4%. Industrial production (Jan., m/m) dropped sharply by -7.5% (versus -6.8% expected), after the prior month's 1.4% gain.
- Purchasing Managers Index (PMI) recap (Feb, change from prior reading in brackets): US ISM Manufacturing 47.8 (-1.3), S&P Manufacturing 52.2 (+0.7); Eurozone HCOB Manufacturing 46.5 (+0.4); UK S&P Manufacturing revised to 47.5 (+0.4); Japan Jibun Bank Manufacturing revised to 47.2 (+0.0); and China Caixin Manufacturing 50.9 (+0.1), Official Manufacturing 49.1 (-0.1), Official Non-manufacturing 51.4 (+0.7).
- Inflation recap (Feb, y/y): Eurozone CPI 2.6% (versus 2.5% expected, prev. 2.8%), core CPI 3.1% (versus 2.9% expected, prev. 3.3%); and Japan CPI 2.2% (versus 1.9% expected, prev. 2.6), core CPI 2.0% (versus 1.9% expected, prev. 2.3%).

The week ahead

- BoC & ECB monetary policy announcements
- Canadian employment and trade data
- US nonfarm payrolls and ISM Services PMI reports
- President Biden's State of the Union Address
- Fed Chair Powell delivers Monetary Policy Report to Congress
- Chinese trade data
- Eurozone retail sales data
- 8 S&P 500 and 24 S&P/TSX companies report earnings

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