MACKENZIE Investments

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Weekly Market Snapshot

For the week ending November 24, 2023

Equities

Local currency, price only, % change

	2023-11-24	Week	QTD	YTD	1 Yr
S&P/TSX Composite	20,103	-0.4%	2.9%	3.7%	-1.2%
S&P/TSX Small Cap	672	0.7%	0.8%	-2.2%	-4.1%
S&P 500	4,559	1.0%	6.3%	18.7%	13.2%
NASDAQ	14,251	0.9%	7.8%	36.2%	26.3%
Russell 2000	1,808	0.5%	1.3%	2.6%	-3.0%
UK FTSE 100	7,488	-0.2%	-1.6%	0.5%	0.3%
Euro Stoxx 50	4,372	0.7%	4.7%	15.2%	10.4%
Nikkei 225	33,626	0.1%	5.5%	28.9%	18.5%
MSCI China (USD)	58	1.3%	-0.6%	-9.8%	1.1%
MSCI EM (USD)	980	0.4%	2.9%	2.5%	3.7%

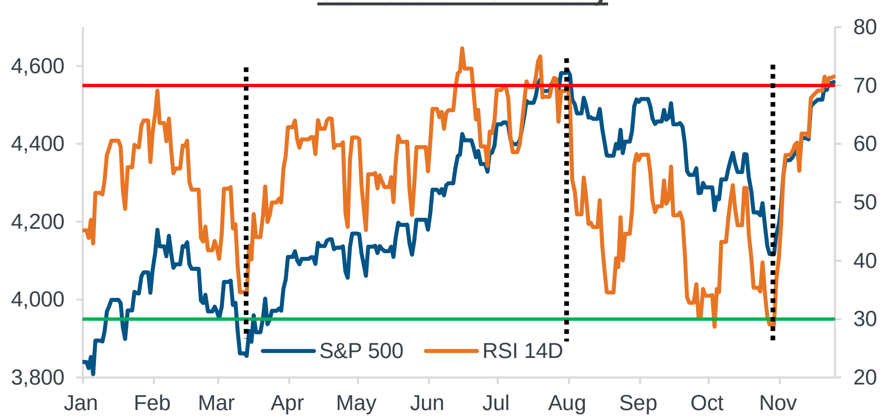
Fixed income

Total return, % change

	2023-11-24	Week	QTD	YTD	1 Yr
FTSE Canada Universe Bond Index	1,071	0.2%	3.4%	1.9%	0.0%
FTSE Canada All Corporate Bond Index	1,288	0.3%	3.0%	3.7%	2.9%
Bloomberg Canada High Yield Index	170	0.3%	2.5%	6.6%	7.6%

Chart of the week: Reaching overbought conditions again

S&P 500 & RSI 14-day



Interest rates - Canada

Change in bps

	2023-11-24	Week	QTD	YTD	1 Yr
3-month T-bill	4.99	0	-8	76	101
GOC bonds 2 yr	4.45	-2	-42	40	57
GOC bonds 10 yr	3.72	4	-31	42	78
GOC bonds 30 yr	3.49	0	-32	21	53

Currencies and Commodities

In USD, % change

	2023-11-24	Week	QTD	YTD	1 Yr
CDN $	0.733	0.6%	-0.4%	-0.6%	-2.2%
US Dollar Index	103.40	-0.5%	-2.6%	-0.1%	-2.5%
Oil (West Texas)	76.75	1.1%	-15.5%	-4.4%	-1.4%
Natural Gas	2.86	-3.5%	-13.8%	-41.5%	-51.7%
Gold	2,001	1.0%	8.2%	9.7%	14.0%
Copper	3.83	1.7%	1.8%	0.7%	6.1%

Canadian sector performance

Price return, % change

	Week	YTD
Energy	-0.7%	4.0%
Materials	0.7%	-6.5%
Industrials	-0.7%	4.1%
Cons. Disc.	-2.1%	5.6%
Info Tech	1.2%	60.5%
Health Care	-1.0%	1.7%
Financials	-0.6%	0.2%
Cons. Staples	0.2%	10.6%
Comm. Services	-0.7%	-8.7%
Utilities	-1.4%	-7.8%
Real Estate	-0.3%	-9.0%

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Despite the focus on economic and market fundamentals in today's headlines, this year's price action underscores the need for investors, especially those with more speculative, shorter-term strategies, to consider a broader range of factors. Consider the start of 2023, where Bloomberg’s consensus forecast anticipated an inevitable recession (100% chance of a recession), resulting in speculative positioning heavily skewing towards the bearish side. In hindsight, this left many investors susceptible to being caught offside if the economy fared better than anticipated. We know this ultimately turned out to be the case, catching many off guard and fueling a remarkable ~19% return YTD for the S&P 500. The Relative Strength Index (RSI), a widely recognized price momentum indicator used by market technicians, has been particularly insightful this year. An asset is considered oversold when the indicator is below 30 and overbought above 70. ***As depicted in this week’s chart, the RSI indicator has effectively predicted the major inflection points in the market this year.*** *After markets turned lower in the wake of the SVB collapse in March, the RSI indicator fell below 30 (oversold), and led to the S&P 500 surging ~19% to its July 31 cycle high. The rally pushed the RSI indicator above 70 (overbought), foreshadowing the ensuing >10% market correction.* ***Fast-forward to today, the S&P 500 is once again in oversold territory after the ~11% rally from the October 27 low, hinting at the possibility of an upcoming correction.*** *While it is imprudent to rely solely on one indicator, this analysis serves as a reminder that there is more than one way to bake a cake. Market prediction is inherently challenging, especially over shorter time frames.* ***As a result, our analysis and recommendations tend to focus on the fundamentals*** *such as earnings, cash flow and valuation, which typically drive long-term returns.* ***However, market positioning, price trends, seasonality, and sentiment can be equally important for those engaged in short-term, more speculative strategies.***

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Solidifying the BoC pause

Global equities climbed higher, led by the S&P 500's fourth consecutive week of gains. The index has surged 11% from its October 27 low and is now eyeing the cycle high set on July 31. The rally in equities comes alongside a reversal in bond yields, a trend that continued last week amid softer economic data (US durable goods orders, Nov. PMIs, existing home sales). Oil prices remained volatile due to tensions among OPEC+ members over African production quotas, pushing their meeting scheduled for last week back several days to November 30. Gold prices continue to hover around the psychologically important $2,000/oz level, supported by a softer US dollar and a pause in the rise of US real yields. In geopolitical developments, Israel and Hamas reached a four-day cease-fire contingent upon the release of hostages.

Canadian consumer prices rose at the slowest pace since June, decelerating from September's 3.8% y/y pace to 3.1% in October. The easing was primarily due to a drop in gasoline prices (-6.4% m/m). **However, inflationary pressures persist in shelter, services and mortgage interest rate costs.** Shelter prices jumped 0.9% m/m, and while the housing market appears to have ground to a halt in September and October, rents continue to surge higher, now up 8.1% y/y (the fastest pace since 1983). Services prices jumped 0.9% m/m, despite leading indicators pointing to a contraction in services activity – the S&P Global Canada Services PMI sits well below the 50-point expansion line at 46.6. Mortgage interest rate costs still account for ~40% of the gains seen in the CPI. Excluding this component, CPI is running at a much more modest 2.2% y/y pace. Overall, this confirms that there is likely no need for the Bank of Canada to tighten further, especially given the sluggish economic growth in Q2 and Q3. Similar to the Fed, markets are now shifting their attention to the timing of the first BoC rate cut. Futures markets are predicting a 50% chance of a hike in May 2024, while fully pricing in a hike by June. **We believe that the Bank will avoid pre-emptively turning dovish to prevent a reacceleration in the housing market and inflation seen last spring.** However, **on a relative basis, we believe the Bank of Canada will likely be one of the first major global central banks to cut,** given the Canadian economy's structural sensitivity to interest rates.

Another quarter, another set of solid quarterly earnings results from NVIDIA. The AI-fueled growth helped the world's most valuable chipmaker topple analyst earnings and revenue estimates again. At the same time, gross margins posted a decisive beat, with analysts expecting much of the same in 2024 due to robust H100 unit volumes. Despite the strong results, shares slipped to end the week on uncertainty over China and investors broadly anticipating even better news. **The market's reaction reflects the sky-high expectations placed on the company. NVIDIA has seen its market cap soar to ~$1.2 trillion, a notable ~$1 trillion more than chip rivals Intel Corp and AMD.** While the pessimistic reaction was relatively mild (-3%) compared to the outsized ~240% gain YTD, it underscores the importance of price in investment decisions. The same logic applies to the broader S&P 500, which has seen its valuation multiple soar to >20x forward earnings.

The week in review

- Canadian CPI inflation (Oct., y/y) fell to 3.1% (in line with expectation), from 3.8% in the prior month. The average of the Bank of Canada's core measures eased to 3.55% (versus 3.6% expected), from 3.8% in the prior month.
- Canadian retail sales (Sept., m/m) rebounded 0.6% (versus 0.0% expected), following the prior month's -0.1% decline. StatCan's preliminary estimate for September calls for 0.8% increase in October.
- Canada's Federal Fall Fiscal Statement revealed an increase in tax and spending measures of $20.8 billion over six years. The plan seeks to shore up housing supply to improve affordability with billions of new spending on housing programs and industrial subsidies.
- US weekly initial jobless claims (as at Nov. 18) fell to 209k (versus 227k expected), down from an upwardly revised 233k in the prior week. Weekly continuing claims (as at Nov. 11) fell to 1.84 million (versus 1.88 million expected), down from 1.86 million in the prior week.
- US durable goods orders (Oct., m/m) fell -5.4% (versus -3.2% expected), following the prior month's downwardly revised 4.0% gain. Orders excluding transportation were flat in the month.
- US existing home sales (Oct.) fell -4.1% m/m to 3.79 million units annualized (versus 3.9 million expected), after the prior month' 3.95 million.
- US Fed Minutes from their Oct. 31-Nov. 1 meeting confirmed their "proceed carefully" strategy on future monetary policy decisions.
- OPEC+ push meeting to November 30 due to production quota disputes

The week ahead

- Canadian GDP, employment, and trade data
- US Fed Beige Book
- US ISM Manufacturing PMI, personal income and spending data
- Eurozone inflation and employment data
- Japanese retail sales, employment, and industrial production data
- OPEC+ meeting
- Reserve Bank of New Zealand monetary policy announcement