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Weekly Market Snapshot

For the week ending February 7, 2025

Equities

Local currency, price only, % change

	2025-02-07	Week	3M	YTD	1Y
S&P/TSX Composite	25,443	-0.4%	2.4%	2.9%	21.3%
S&P/TSX Small Cap	824	0.7%	-2.2%	1.2%	18.5%
S&P 500	6,026	-0.2%	0.9%	2.5%	20.6%
NASDAQ	19,523	-0.5%	1.3%	1.1%	23.9%
Russell 2000	2,280	-0.3%	-4.3%	2.2%	16.9%
UK FTSE 100	8,701	0.3%	6.9%	6.5%	14.0%
Euro Stoxx 50	5,325	0.7%	9.8%	8.8%	13.8%
Nikkei 225	38,787	-2.0%	-1.5%	-2.8%	7.4%
MSCI China (USD)	68	4.8%	-1.2%	5.4%	31.0%
MSCI EM (USD)	1,108	1.4%	-2.8%	3.1%	10.6%

Fixed income

Total return, % change

	2025-02-07	Week	3M	YTD	1Y
FTSE Canada Universe Bond	1,183	0.0%	1.8%	1.2%	7.7%
FTSE Canada All Corporate Bond	1,455	0.0%	2.2%	1.0%	9.2%
Bloomberg Canada High Yield	194	0.2%	2.1%	0.9%	8.5%

Interest rates - Canada

Change in bps

	2025-02-07	Week	3M	YTD	1Y
3-month T-bill	2.83	-2	-67	-33	-213
GoC bonds 2 yr	2.69	5	-37	-24	-144
GoC bonds 10 yr	3.08	2	-14	-15	-40
GoC bonds 30 yr	3.26	2	3	-7	-12

Currencies and Commodities

In USD, % change

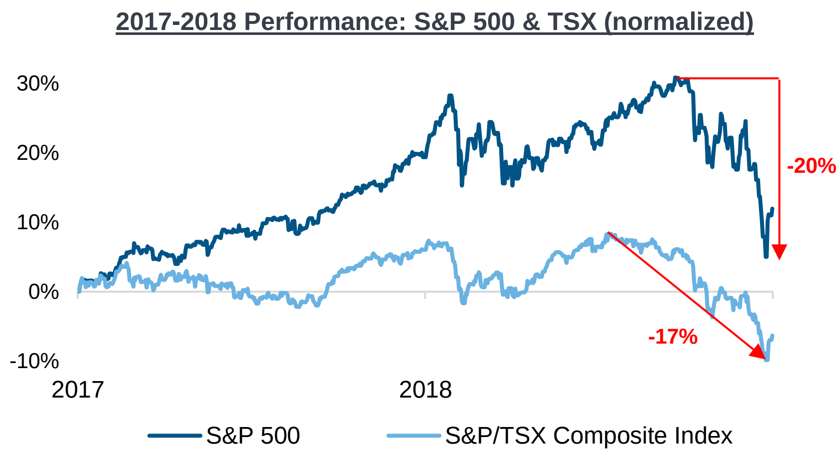
	2025-02-07	Week	3M	YTD	1Y
CADUSD	0.700	1.7%	-3.0%	0.6%	-5.8%
US Dollar Index	108.04	-0.3%	3.4%	-0.4%	3.8%
Oil (West Texas)	71.00	-2.1%	-1.9%	-1.0%	-3.9%
Natural Gas	3.31	8.7%	25.8%	6.8%	3.7%
Gold	2,861	2.2%	5.7%	9.0%	40.6%
Copper	4.59	7.2%	2.6%	14.0%	19.4%

Canadian sector performance

Price return, % change

	Week	YTD
Energy	0.5%	0.7%
Materials	2.7%	13.1%
Industrials	-1.3%	2.0%
Cons. Disc.	-0.4%	-0.3%
Info Tech	0.2%	10.3%
Health Care	-4.5%	-7.2%
Financials	-1.3%	0.8%
Cons. Staples	-1.8%	-4.4%
Comm. Services	-4.6%	-2.5%
Utilities	0.2%	-0.3%
Real Estate	1.2%	-0.2%

Chart of the week: Shades of 2018?



Mackenzie's Global Investment Committee (GIC) downgraded its overweight stance on equities back to neutral, in response to the highly uncertain economic backdrop following President Trump's announcement of 25% tariffs on Canada and Mexico, alongside a 10% tariff on China. Although tariffs on Canada and Mexico were delayed by 30 days, they will likely remain a major overhang on global trade and market sentiment.

While some view the delay as a sign that tariffs may ultimately be scaled back, we believe additional trade-related measures will emerge, particularly as the administration seeks ways to finance promised tax cuts and reduce the US' burgeoning trade deficit. The decision to proceed with tariffs on China, coupled with Trump's plan to introduce new reciprocal tariffs affecting "everyone" on Friday, ***suggests that tariffs are not just a short-term bargaining chip but part of a broader, medium-term strategy.*** *As a result, market volatility resurfaced at the end of the week, erasing the midweek recovery and reinforcing the view that the tariff threat is far from over.*

Historically, tariff-driven slowdowns have led to major market corrections, most notably during the 2018-19 US-China trade war, when the S&P 500 and S&P/TSX declined 20% and 17%, respectively, in late 2018. While that downturn was exacerbated by the Federal Reserve's steady rate hikes, this time, rate cuts appear off the table, limiting central banks' ability to cushion a potential growth shock.

For Canada, tariff risks are particularly acute given its economic reliance on US trade. If enacted, tariffs would significantly weigh on exports, business investment, and corporate earnings. ***Even the threat may be enough to dampen business confidence.*** *Prior to the announcement, we had already expected four 25 bps rate cuts from the Bank of Canada in 2025 due to a deteriorating economic backdrop.* ***Now, with recession risks rising, the BoC may be forced to ease policy even further if tariffs take effect.***

Jobs are cooling, not freezing over

Global equities rebounded from the sharp declines seen Monday morning after President Trump announced a **30-day delay** on tariffs for Canada and Mexico. The move followed an agreement on increased border enforcement to secure the borders and curb fentanyl flows. However, as we highlight in this week's chart comments, markets may be overestimating tariffs as merely a negotiation tool and future threats will likely be a recurring theme over the next four years. This view was underscored by Trump following through on the 10% tariff on China, announcing plans to impose reciprocal tariffs this week on Friday, and over the weekend, announcing a 25% tariff on all steel and aluminum imports into the US.

Back in macro land, markets briefly turned their attention away from Trump's tariffs and focused on the labour market. **In short, the US labour market continues to cool but remains in a healthy state to start 2025.** The US added 143k jobs, undershooting the 175k consensus estimate and slowing from December's 307k gain. However, the softer-than-expected headline figure masks some underlying strength. The prior two months were revised up by a hefty 100k, **bringing the three-month average to 237k.** Moreover, the release included an annual revision to the Establishment Survey, totalling -589k in the twelve months through March 2024—**a hefty number at first glance but not as severe as once thought.** Meanwhile, the unemployment rate continued to ease to 4.0% from 4.1% in the prior month, largely due to population adjustments by the BLS.

The JOLTS report further supports the notion of a cooling labour market. In December, job openings declined to 7.6 million, down from 8.1 million in November. Moreover, the quits rate and hiring rate have both fallen below pre-pandemic levels, **indicating that the extreme labour market tightness seen in the early days of the pandemic is long gone.** Coupled with average hourly earnings holding steady in January, it is likely that the job market is no longer a significant inflationary force.

Recent labour market data aligns with the US Federal Reserve's (Fed) inclination to hold rates steady for the foreseeable future. What could alter the Fed's trajectory are US tariffs. The balancing act has become more challenging, with stubborn core inflation, a cooling but solid labour market, and now, the uncertain effects of ongoing trade tensions on the inflation and growth outlook. As we highlighted last week, the extent of the inflationary impact will largely depend on whether businesses absorb costs, pass them on to consumers, or are offset by weaker demand. **Overall, we see the Fed remaining on the sidelines until the June meeting, before delivering a total of two cuts for the year.**

For the Bank of Canada, policy decisions have become even more complex. While the Canadian economy started the year with a pleasant surprise, adding 76k jobs (vs. 25k expected), the rising unemployment rate over the medium term suggests a weaker labour market picture than the US. Moreover, if enacted, US tariffs will meaningfully slow economic growth in Canada and further dampen hiring. **Our base case at the start of the year called for four cuts, but additional easing will likely needed if the US follows through with tariffs in March.**

The week in review

- Canadian employment (Jan.) rose 76.0k (versus 25.0k expected), after the prior month's 91.0k increase. Importantly, the gains were driven by manufacturing (+33k), a rarity since the pandemic, suggesting businesses were front-running the expected tariffs. The unemployment rate dipped to 6.6%, with the participation rate rising to 65.5% from an upwardly revised 65.4%.
- Canada's merchandise trade balance (Dec.) turned positive to $0.71 billion (versus $1.02 billion expected), from a a $0.99 billion deficit in the prior month. Exports rose 4.9% m/m, while imports rose a lesser 2.3% m/m.
- US non-farm payrolls (Jan.) disappointed, adding 143k jobs (versus 175k expected). However, the prior two month's saw a solid 100k upward revision. Notably, the average monthly job growth was revised lower to 166k for 2024, making January's figure somewhat on par with what we saw last year. The unemployment rate fell to 4.0% from 4.1%, due to a sharp 2.23 million increase in the household survey, but this reflects the BLS' adjustment to the population estimates. The labour force participation rate improved to 62.6% from 62.5%. Meanwhile, average hourly earnings rose 0.5% m/m, raising the annual pace to 4.1% y/y from 3.9%.
- US JOLTS job openings (Dec.) fell to 7.6 million (versus 8.0 million expected), down from an upwardly revised 8.2 million. The Quits rate held steady at 2.0%. Nonfarm productivity (Q4), decelerated to 1.2% q/q (in line with expectations), down from an upwardly revised 2.3% in the prior quarter.
- US ISM Manufacturing (Jan.) improved to 50.9 (versus 50.0 expected), from a downwardly revised 49.2. This was the first expansionary reading (above 50) since 2022. ISM Services fell to 52.8 (versus 54.0 expected), down from a downwardly revised 54.0.
- Eurozone CPI inflation (Jan.) fell -0.3% m/m (versus -0.4% expected), after the prior moth's 0.4% increase. In annual terms, consumer prices accelerated to 2.5% y/y from 2.4%. Core prices held steady at 2.7% y/y.
- Eurozone retail sales (Dec.) fell -0.2% m/m (versus -0.1% expected), after the prior month's flat reading. Sales rose 1.9% y/y in 2024.
- China Caixin Manufacturing PMI (Jan.) fell to 50.1 (versus 50.6 expected), down from 50.5 in the prior month. Caixin Services fell to 51.0 (versus 52.4 expected), down from 52.2
- The Bank of England cut the Bank Rate 25 bps to 4.5%, the lowest level in 19 months.
- OPEC+ reaffirmed its commitment to existing production cuts despite recent calls from President Trump for more oil. The cartel still plans to increase production gradually starting in April 2025, aiming to bring back a total of 2.1 million bpd by late 2026.

The week ahead

- US CPI report
- US Fed Chair Powell testifies to Congress
- BoC Summary of Deliberations from January meeting
- US retail sales and industrial production
- Chinese inflation and aggregate yuan financing data
- Eurozone GDP and industrial production data
- UK GDP, industrial production and trade data
- 77 S&P 500 and 45 S&P/TSX companies report earnings