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September 18, 2024

U.S. EQUITY FUTURES	LAST	CHANGE	%CHG	COMMODITIES/ FX		LAST	CHANGE
Dow Jones MINI futures	41,699.00	60.00	0.14%	CRUDE OIL WTI		\$70.53	-\$0.66
S&P500 MINI futures	5,647.25	8.25	0.15%	NATURAL GAS		\$2.37	\$0.05
NASDAQ MINI futures	19,482.75	43.50	0.22%	GOLD		\$2,575.59	\$6.07
CANADA EQUITY MARKET	LAST	CHANGE	%CHG	COPPER		\$4.24	\$0.03
S&P/TSX 60 futures	1,419.90	-1.50	-0.11%	CAD / USD		\$0.7356	\$0.0002
OVERSEAS MARKETS	LAST	CHANGE	%CHG	CAD / EUR		€ 0.6614	-€ 0.0003
DJ EURO STOXX 50	4,843.42	-17.36	-0.36%	USD / EUR		€ 0.8991	-€ 0.0007
FTSE 100 INDEX	8,260.86	-49.00	-0.59%	USD / JPY		¥141.88	-¥0.52
DAX GERMANY	18,723.58	-2.50	-0.01%	GOVERNMENT BONDS	2YR	5YR	10YR
CAC 40 Index	7,460.23	-27.19	-0.36%	CANADA (YLD%)	2.94%	2.74%	2.92%
NIKKEI 225 INDEX	36,380.17	176.95	0.49%	U.S. (YLD%)	3.63%	3.48%	3.68%
HANG SENG INDEX	17,660.02	237.90	1.37%	Source: LSEG			
SHANGHAI COMPOSITE INDEX	2,717.28	13.19	0.49%				

Morning News

Stock futures rose slightly on Wednesday as the Federal Reserve is widely expected to deliver its first interest rate cut in more than four years, with most investors betting on a 50-basis point reduction. Borrowing costs have stayed at their highest levels in over two decades since July 2023, when the central bank last hiked interest rates by 25 basis points to between 5.25% and 5.50%. The Fed is expected to deliver its latest policy decision at 2 p.m. ET. However, uncertainty over the size of the rate cut has kept investors on the sidelines. Following dovish commentary from present and former Fed officials recently, traders are now pricing in 65% chances of a bigger 50-basis-point reduction, according to the CME Group's FedWatch tool. Investors are nervous that an outsized move from the central bank could spook markets, which are already nervous about the overall health of the world's biggest economy. Oil fell on Wednesday after two sessions of gains after an industry report showed increasing U.S. crude and fuel inventories, offsetting rising tension in the Middle East. U.S. crude stocks rose by 1.96 million barrels in the week ended Sept. 13, market sources said on Tuesday citing American Petroleum Institute figures. Gasoline and distillates inventories also increased.

European shares edged lower on Wednesday, as investors stayed on the sidelines ahead of an all-important interest rate decision by the U.S. Federal Reserve that could mark the beginning of a monetary-easing cycle in the world's largest economy. British inflation held steady in August but sped up in the services sector, which is closely watched by the Bank of England, data showed on Wednesday, adding to bets that the central bank will keep interest rates on hold on Thursday. Consumer price inflation of 2.2% last month was unchanged from July, the Office for National Statistics said, matching the median forecast of economists although it was below the BoE's latest projection of 2.4%.

Japan's Nikkei share average rebounded on Wednesday, helped by a softer yen and a recovery in chip-related stocks. Japan's export growth slowed sharply in August as shipments to the U.S. dropped for the first time in three years, while machinery orders unexpectedly shrank in July in a worrying sign for an economy struggling to mount a solid recovery. The frail external demand undermines Japan's quest to drive sustainable economic growth, analysts say, especially given a growing risk of a slowdown in the U.S. and further weakness in China's economy, two major trading partners. China stocks were roughly flat on Wednesday, reopening after the Mid-Autumn Festival holiday, with gains in financial stocks offset by losses in consumer-related shares. The Hong Kong market is closed for a holiday.

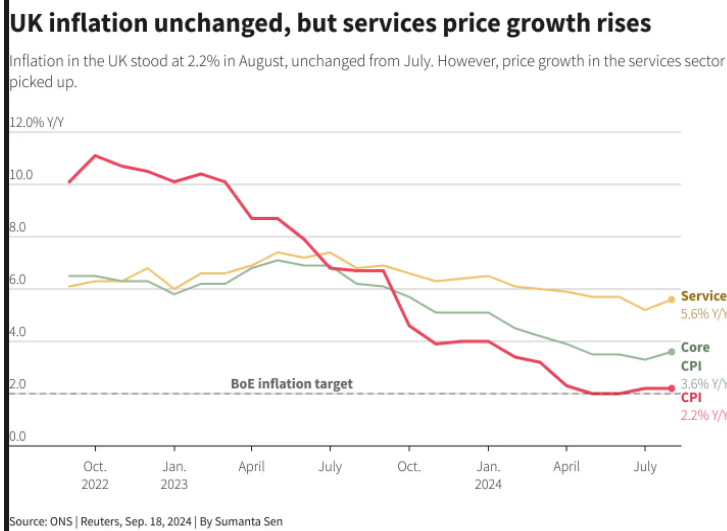
U.S Economic Calendar

Time	Indicator Name	Period	Reuters Poll	Actual	Surprise	Prior	Revised
07:00	MBA Mortgage Applications	13 Sep, w/e		14.2%		1.4%	
07:00	Mortgage Market Index	13 Sep, w/e		266.8		233.7	
10:30	Nat Gas-EIA Implied Flow	9 Sep, w/e					
14:00	Fed Funds Tgt Rate	18 Sep	5-5.25			5.25-5.5	
14:00	Fed Int On Excess Reserves	18 Sep				5.40%	

Canadian Economic Calendar

Time	Indicator Name	Period	Reuters Poll	Actual	Surprise	Prior	Revised
08:30	Securities Cdns C\$	Jul		4.45B		16.35B	
08:30	Securities Foreign C\$	Jul		10.98B		5.17B	5.20B

Chart of the day



Top News

Canadian Stocks

Morning news

Barrick Gold Corp: The miner has suspended operations at its Porgera gold mine in Papua New Guinea until Thursday after tribal violence in the region killed at least 20. "The Porgera gold mine has suspended the majority of its operations until 19 September for the protection of its employees while the government restores law and order in the surrounding region," a spokesperson said in a statement late on Tuesday.

i-80 Gold Corp: I-80 Gold has appointed Richard Young to head up the company as part of the company's succession process, the company said Wednesday. Young brings extensive financial, development and operational experience to the Toronto-listed, Nevada-focused mining company, having held a number of senior position at various companies, including Barrick Gold and Goldstrike Mine. Most recently he served as chief executive of Argonaut Gold which was just acquired by Alamos Gold in July. He was also the founder and chief executive officer of Teranga Gold which was acquired by Endeavour Mining in 2021. Young succeeds Ewan Downie who is set to retire, but will remain as an advisor to the company.

Kinaxis Inc: Hedge fund Irenic Capital Management on Tuesday urged the Canadian software company to see who may want to buy it and warned its board against making "reactive decisions" and taking "half measures." The board "should initiate a full strategic review including soliciting interest for a sale for the whole company," Irenic said in a statement, echoing other investors' private and public calls for the company to put itself up for sale. Irenic said Kinaxis' new Executive Chairman Robert Courteau said there has been inbound interest from financial sponsors, but the board was currently unwilling to engage them.

NBF Research

DAILY BULLETIN HIGHLIGHTS

FORAN MINING CORPORATION - Only ~1.5 Years from Production in 2026

FOM (TSX): C\$3.98
Stock Rating: Outperform
(Was Restricted)
Target: C\$5.75
(Was Restricted)
Est. Total Return: 44.5%

Event: Off Restriction after C\$360 mln Equity Financing

Key Takeaways: We are off restriction upon closing of the second and final tranche of a C\$360 mln project equity financing package, initially announced on July 15 and upsized on July 17. We expect Foran to be fully funded to commercial production upon completion of a US\$100 mln expansion of the Sprott Credit Facility in Q3/24. Construction has already started with G Mining Services at the helm, targeting commercial production for 2026. Agnico Eagle joins as a 9.9% holder and brings credibility in guiding best practices from their underground VMS mining expertise at LaRonde. We continue to see exploration as a catalyst to prove up a generational-scale VMS mining district around McIlvenna Bay.

HAMMOND POWER SOLUTIONS INC. - Transforming in high-growth markets

HPS.A (TSX): C\$131.00
Stock Rating: Outperform
(Unchanged)
Target: C\$170.00
(Unchanged)
Est. Total Return: 30.6%

Event: We are giving an update following marketing with HPS.

Key Takeaways: Last week we had the opportunity to meet with HPS and we came away with the following key takeaways. HPS increased our confidence in its growth potential, with the plan to invest ~\$30 mln in production capacity in the next two years; taking its production capacity to over \$1 bln/yr (up from \$800 mln/yr). Margins are elevated, but could see support given continued demand, and a strong competitive position in the market. Structural changes, including operating leverage and changing product mix, remain supportive. M&A continues to be in focus, with a spotlight on the adjacent power quality products industry (with higher margins), where HPS can quickly leverage its distribution network. HPS remains well-positioned to execute organically and inorganically with \$48 mln in cash and an ability to lever up to 1.5x EBITDA. We maintain our \$170/sh target with an Outperform rating.

Top News

Canadian Stocks

TAMARACK VALLEY ENERGY LTD. - Expanding Partnership

TVE (TSX):	C\$3.87	Event: The company announced an expansion to its previously announced Clearwater Infrastructure Partnership contributing an incremental \$50.8 mln infrastructure assets in exchange for \$43.2 mln.
Stock Rating:	Outperform (Unchanged)	
Target:	C\$7.25 (Unchanged)	Key Takeaways: The company continues to positively leverage its assets to maximize the value profile for investors, with the noted expansion of its CIP partnership and ongoing outperformance of its organic program continuing to exhibit strong & improving sustainable free cash generation; TVE is poised for a 29% return profile (vs. peers 21%) on leverage of 0.2x (vs. peers 0.4x), while trading at 2.4x 2025e EV/DACF (vs. peers 2.0x).
Est. Total Return:	91.0%	

COMMENTS

Blackline Safety Corp. - [Entrenching its Market Leadership](#)
 Foran Mining Corporation - [Only ~1.5 Years from Production in 2026](#)
 Hammond Power Solutions Inc. - [Transforming in high-growth markets](#)
 Tamarack Valley Energy Ltd. - [Expanding Partnership](#)
 Oil, Gas & Consumable Fuels - [North American Drilling Productivity Report](#)

RESEARCH FLASHES

Airlines - [August CPI data shows airfares in Canada below 2019 levels](#)
 Canadian Apartment Properties REIT - [ERES portfolio sale further bolsters CAR's already enviable liquidity position, proves...](#)
 Kinaxis Inc. - [More Supervision](#)

MORNING HIGHLIGHTS

BOYD GROUP SERVICES INC. - Marketing Takeaways: Investing in long-term growth while managing short-term turbulence

BYD (TSX):	C\$212.19	Event: Marketing takeaways
Stock Rating:	Outperform (Unchanged)	
Target:	C\$270.00 (Unchanged)	Key Takeaways: On September 17, we hosted Boyd's Tim O'Day, CEO, Brian Kaner, President & COO, and Jeff Murray, Executive Vice President & CFO, for institutional investor meetings in Toronto. In our view, investor anxieties are centered on whether the current weaker growth environment represents the new norm, a proposition which management refuted while acknowledging actual headwinds. Balancing the slow but steady ~1% annual volume decline attributable to ADAS adoption against the general trend of more expensive average repairs (encompassing labour rate increases), Boyd's TAM is expected to grow 2-3% annually. By delivering higher customer satisfaction, lower average cost to repair, and better cycle times, Boyd earns a higher proportion of DRP referrals, even as DRPs are a growing proportion of carrier volumes: with market share gains, there is no reason Boyd should not continue to grow at a ~5% SSSG CAGR once past current transitory turbulence.
Est. Total Return:	27.5%	

MORNING COMMENTS

Boyd Group Services Inc. - [Marketing Takeaways: Investing in long-term growth while managing short-term turbulence](#)

MORNING FLASHES

i-80 Gold Corp. - [Richard Young ex Argonaut, Teranga Selected as CEO](#)

Top News

Canadian Stocks

Canadian stocks ratings and target changes across the street

AGF Management Ltd AGFb.TO: Scotiabank raises target price to C\$11.25 from C\$10.75

ARC Resources Ltd ARX.TO: UBS cuts target price to C\$29 from C\$32

CAPREIT CAR_u.TO: BMO raises target price to C\$61 from C\$57

CAPREIT CAR_u.TO: CIBC raises target price to C\$58 from C\$55

European Residential REIT ERE_u.TO: CIBC cuts target price to C\$3 from C\$3.50

Foran Mining Corp FOM.TO: BMO cuts target price to C\$5 from C\$5.25

Ovintiv Inc OVV.N: UBS cuts target price to US\$57 from US\$61

Tourmaline Oil Corp TOU.TO: UBS cuts target price to C\$70 from C\$77

S&P/TSX Composite Earnings Calendar

No major S&P/TSX Composite companies are scheduled to report for the day.

Source: LSEG

Morning news

Alphabet Inc & Qualcomm Inc: Google won a legal challenge against a 1.49 billion euro European Union antitrust fine, while Qualcomm failed to repeal a penalty. The European Commission in its 2019 decision said Google had abused its dominance to prevent websites from using brokers other than its AdSense platform that provided search adverts. The Luxembourg-based General Court mostly agreed with the European Union competition enforcer's assessments of the case, but annulled the fine, saying that the Commission had failed to take into account all the relevant circumstances. In Qualcomm's case, the chipmaker only managed to convince the General Court to trim its EU antitrust fine to 238.7 million euros from 242 million euros.

Arko Corp: The store operator is planning to divest its convenience store operations in a deal that could be valued at around \$2 billion, as it looks to abandon a yearslong expansion strategy after grappling with a slowdown in sales from the store business, people familiar with the matter told Reuters. Potential buyers include other convenience store operators, as well as private equity firms, who have submitted initial bids for the stores, the sources said, cautioning that a deal is not guaranteed. The company is betting that it will achieve a higher valuation as a standalone fuel distributor, the sources said.

BlackRock Inc & Microsoft Corp: The companies plan to launch a more than \$30 billion fund to invest in artificial intelligence infrastructure to build data centers and energy projects, the companies said on Tuesday. The partnership will mobilize up to \$100 billion in total investment potential when including debt financing, the companies said. The investments will be chiefly in the United States and the remainder in its partner countries, according to the companies.

General Motors Co: Unifor reached a tentative agreement with the automaker over wages and job security for workers at its Ingersoll, Ontario plant, the Canadian labor union said. Unifor said details of the agreement will first be released to union members at a ratification meeting on Sept. 22.

Intuitive Machines Inc: The space exploration company said on Tuesday it has bagged a navigation and communication services contract of up to \$4.82 billion from NASA for missions in the near space region. As part of the contract, which has a base period of five years with an additional five-year option period, Intuitive will deploy lunar relay satellites and provide communication and navigation services to aid NASA's Artemis campaign. The contract would see Intuitive debut its lunar satellite constellations that will enable enhanced data and transmission services as well as autonomous operations.

Novo Nordisk A/S: The Danish drugmaker expects its diabetes drug Ozempic will "very likely" be on the U.S. government's 2027 list of price negotiations, Bloomberg News reported on Tuesday citing a company executive. Novo executives have previously said it is too soon to know the impact of the negotiations on Ozempic. Wall Street analysts are also betting on a 2027 list that will include Ozempic.

Southwest Airlines Co: Activist investor Elliott Investment Management told one of Southwest Airlines' top unions it still wants to replace CEO Robert Jordan, according to a union memo seen by Reuters, even after the carrier pledged to shake up its board. The hedge fund now owns enough Southwest stock to call a special meeting and take the next steps to shake up the board and management. Other Southwest investors have met with Elliott and some of the hedge fund's director candidates in the last few days. At these meetings, the hedge fund underscored its desire to replace Jordan and get an earlier departure for executive chairman Gary Kelly, an investor familiar with the meetings said.

Tupperware Brands Corp: The company filed for Chapter 11 bankruptcy protection on Tuesday, succumbing to mounting losses amid poor demand for its once-iconic food storage containers. "Over the last several years, the company's financial position has been severely impacted by the challenging macroeconomic environment," Chief Executive Officer Laurie Goldman said in a statement. The company said it intends to obtain court approval to continue selling its products and charting out a sale process for the business.

United States Steel Corp: The U.S. national security panel reviewing Nippon Steel's \$14.9 billion bid for U.S. Steel let the companies refile their application for approval of the deal, a person familiar with the matter said, delaying a decision on the politically sensitive merger until after the Nov. 5 presidential election. CFIUS needs more time to understand the deal's impact on national security and engage with the parties, the person said on Tuesday. Refiling sets a new 90-day clock to review the proposed tie-up and make a decision.

Evercore ISI Research

FOCUS RESEARCH

Baxter International Inc. (BAX, Outperform, TP: US\$46.00)

Post Renal FY25 setup; Webinar at 10.30am ET

- We will be hosting a webinar today at 10.30am ET and go through some of the assumptions / variables for FY25. Hope you can join us - please click the note for slides!
- **Context:** Medtech has been a tale of 2 cities, with the multiple disparity between the 'Haves' and 'Have Nots' extending to 15 year highs. Post 2Q, we saw hints of the 'Have Nots' acting a bit better, and we think BAX fits this theme nicely.
- **Why now?** Post Kidney sale (expected to close by year end), investor interest in standalone BAX is picking up.
- **Investors questions:** Some of the questions we have gotten on BAX include visibility into 4-5% rev growth, are remainco BAX declining in FY24, drivers of OM expansion in FY25, did dis-synergy assumption change, capital deployment assumptions etc
- **One line takeaway:** Parsing out the moving pieces, we think BAX's underlying apples to apples margins are expanding in FY24 and should give comfort in FY25 trajectory (BAX noted it expects to achieve 16.5% OM including 100 bps HW from stranded cost/TSA).

Workday, Inc. (WDAY, Outperform, TP: US\$310.00)

Financial Analyst Day Takeaways: Rising FCF Powered By Durable Growth & Op. Margin Expansion

- Yesterday, we attended Workday's Financial Analyst Day in Las Vegas which was held in conjunction with the annual Rising customer conference. Overall, we come away from the event feeling upbeat in terms of the durability of the ~15% subscription revenue growth expected in FY26/FY27 and Workday's ability to drive consistent cash flow growth over the next two years (and beyond). While we expect that WDAY's revenue outlook will remain a debate in the near-term, it is clear that the company's investments into its partner channel and its international strategy are paying off and the company is materially further ahead on these fronts vs. just 12 months ago. Further, we believe that the momentum in the medium enterprise segment (ME) around full suite deals is sustainable after speaking with partners and this is going to remain an important part of the overall revenue growth algorithm. When coupled with a margin expansion/FCF growth story that infers FCF growth of mid 20%'s through FY27, **we continue to believe the risk/reward skews positive when looking out over the next 12 months.** In addition to the ~15% subscription growth outlook and ~30% operating margin outlook offered on the F2Q call, management also noted that FY27 OCF margin will now be ~34% and FCF margin ~30% FCF vs. 30% and 25% last year. The company is also setting a target for SBC to be ~15% as a % of revenue, with ~1% net dilution annually.
- **All in all - as compared to last year, the revenue growth outlook is more modest (~15% vs. ~18%), but our CY26 free cash flow estimates are materially higher and the company is taking appropriate steps to also address the push back on SBC and dilution. We believe that WDAY is well positioned to deliver strong FCF/share growth for the next couple of years and there is room for the multiple to push higher as investors gain confidence in the near-term revenue outlook. Reiterate Outperform and our PT of \$310 or ~31x our EV/CY25 FCF estimate. Please see inside for more details and see the full slide deck**

RATING & TARGET PRICE CHANGES

Retail Broadlines & Hardlines

The Week Ahead & Comps Sheet

- **Our Fab 5 are below. See figure 3 for more details.**
 - O'Reilly Automotive (ORLY) - Share gaining winner in a defensive "discretionary" sector.
 - Sherwin-Williams (SHW) - Pricing power, margin recovery in a less cyclical category in home.
 - Walmart (WMT) - Defensive growth with rising traffic, margin expansion potential.
 - AutoZone (AZO) - Comp improvement likely in coming quarters, defensive growth and pricing power
 - Wayfair (W) - Underappreciated Housing play with improving profitability for a turn in demand
- We have updated our short interest table and chart for our coverage.

OTHER COMMENTS

The AES Corporation (AES): Announces Sale of 30% Indirect Interest in AES Ohio
Airbnb, Inc. (ABNB): Time To Check In: AirDNA Data Update
Brown-Forman (BF/B): CEO fireside touches on current trends and portfolio strategy
Cousins Properties Incorporated (CUZ): Brand New Model With New Bells & Whistles
Hawaiian Electric Industries Inc. (HE): Few Things
Hewlett Packard Enterprise Co. (HPE): Thinking Through Updated Juniper Accretion Math. Page
salesforce.com Inc. (CRM): Introducing Agentforce: Key Takeaways From Dreamforce
TE Connectivity Ltd. (TEL): Thinking Through Recent Reorganization & Executive Departure
U.S. Bancorp (USB): Stay on Target! Stay on Target!
Warner Music Group Corp (WMG): Readthroughs from UMG's Capital Markets Day
Communications Infrastructure: Data Centers: Thinking Through Potential ~\$100B AI Infrastructure Investment Partnership
Global Automotive: EvrISI Autos Pitstop: Conti & Auto Spin / Autos & Rates / Doug Midweek Update / BWA London NDR / ...
Global Beverages: Energy dive: L4W sugar free sales remain robust, with Alani Nu and Bang acceleration offsetting CELH...
Global Beverages: RTD/Seltzer dive: Truly stabilizing near YTD trends, down - 22.1%; Twisted little changed at +8.0%...
Surface Transportation: Trucking Trends: Pause, but Not for Inflection
Surface Transportation: LTLs: Updated Proprietary Yield Forecast Model Confirms Easing Price Momentum
Airlines Survey: Airlines Survey Steady Following Improvement
Environmental, Social & Governance Survey: 4th Annual ESG Survey: Corporate & Investor Views
Homebuilders Survey: Homebuilders Survey Ticks Down Following Recent Improvement
Sector Allocation Survey: Evercore ISI Sector Allocation Survey Where Do Investors See Opportunity?
Shipping Cos. Survey: Shipping Cos. Survey Ticks Up Boosted By Better Tanker Activity
Tech Cos. Survey: Tech Cos. Survey Pulls Back Following A Rebound
Trucking Cos. Survey: Trucking Cos. Survey Holds Steady After Pulling Back In 9 Of 10 Weeks.
Wine & Spirit Wholesalers Survey: Wine & Spirit Wholesaler Continues To Pull Back

S&P500 Earnings Calendar

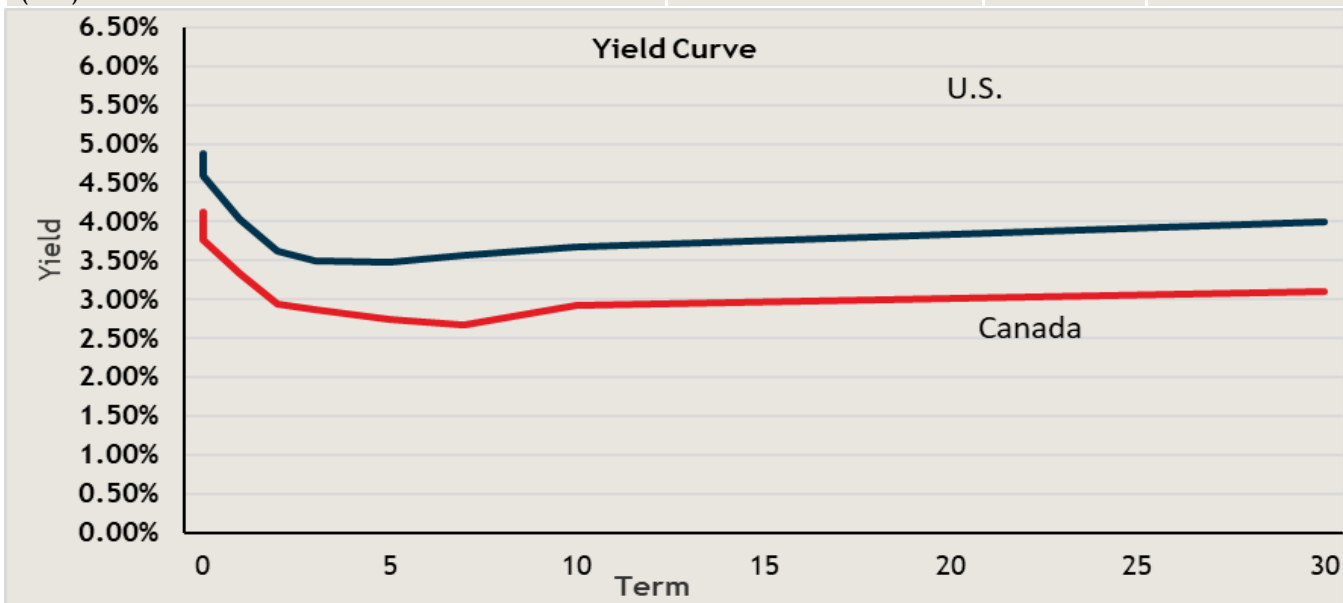
Company	Symbol	Time	Consensus EPS Estimate
General Mills Inc	GIS.N	BMO	1.06

Source: LSEG

Top News

Fixed Income

Canadian Key Rate	Last	Change bps		Last	Change bps
CDA o/n	4.25%	0.00	CDA 5 year	2.74%	2.6
CDA Prime	6.45%	0.00	CDA 10 year	2.92%	3.0
CDA 3 month T-Bill	4.05%	0.0	CDA 20 year	3.07%	2.8
CDA 6 month T-Bill	3.77%	0.0	CDA 30 year	3.11%	2.8
CDA 1 Year	3.34%	0.0	5YR Sovereign CDS		
CDA 2 year	2.94%	1.9	10YR Sovereign CDS		
US Key Rate	Last	Change bps		Last	Change bps
US FED Funds	5.25-5.50%	0.00	US 5 year	3.47%	3.7
US Prime	8.50%	0.00	US 10 year	3.68%	3.7
US 3 month T-Bill	4.75%	0.3	US 30 year	3.99%	3.9
US 6 month T-Bill	4.59%	1.8	5YR Sovereign CDS	35.99	
US 1 Year	4.03%	2.6	10YR Sovereign CDS	43.45	
US 2 year	3.63%	3.3			
Preferred Shares Indicators			Last	Daily %	YTD
S&P Preferred Share Index			619.98	-0.07%	13.89%
BMO Laddered Preferred Shares (ETF)			10.51	-0.19%	16.26%



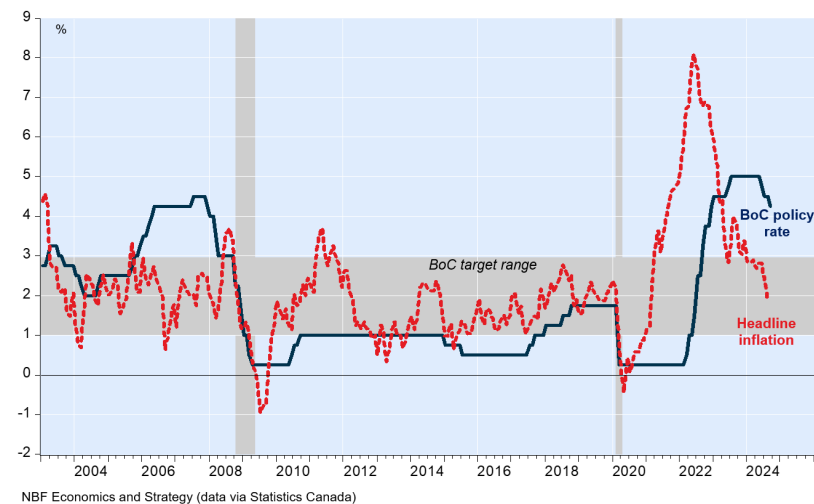
Source: LSEG

Canada: CPI inflation declines faster than BoC rate cuts

In August, annual inflation in Canada returned to the midpoint of the target range, thanks to lower prices in the month and a negative base effect (the very strong month of August 2023 has been deducted from the calculation). Low inflation in August was made possible by a decline in global energy prices, which benefited consumers through pump prices and heating costs. Food prices, for their part, remained in check, rising at a pace slightly below their historical norm. Excluding food and energy, price increases were soft in August, with clothing, communications and transportation costs contributing to the weakness. The Bank of Canada's core inflation measures (CPI-trim and CPI-median), which are designed to remove the impact of the most volatile components on a monthly basis, were a bit high in August (average 0.21, 2.6% annualized). Could this dampen the central bank's eagerness for major rate cuts? We do not think so. Inflation in Canada is still very strongly driven by the housing sector. Excluding shelter, inflation in Canada is only 0.5% year-over-year, the lowest level since October 2013 excluding the pandemic. More specifically, rental prices and mortgage interest costs are the two components driving up shelter. On an annual basis, inflation excluding mortgage interest costs fell from 1.8% to 1.2%. Since mortgage interest costs are directly related to central bank actions, we have long argued that annual inflation should be analyzed without this category. The same applies to the analysis of real policy rates, and recent developments are a cause for concern, as recent rate cuts have not been significant enough to make monetary policy less restrictive. On the contrary, real interest rates have never been more restrictive in the current episode. With widespread inflation a thing of the past in Canada, we believe the door is wide open for the Bank of Canada to move its policy rate back to neutral (between 2.5% and 3.0%) as quickly as possible by making larger rate cuts than it has in the past. In the meantime, the damage to the labor market could become greater than necessary.

Canada: Historical perspective on inflation

Policy rate and annual inflation



[Click here for full comments](#)

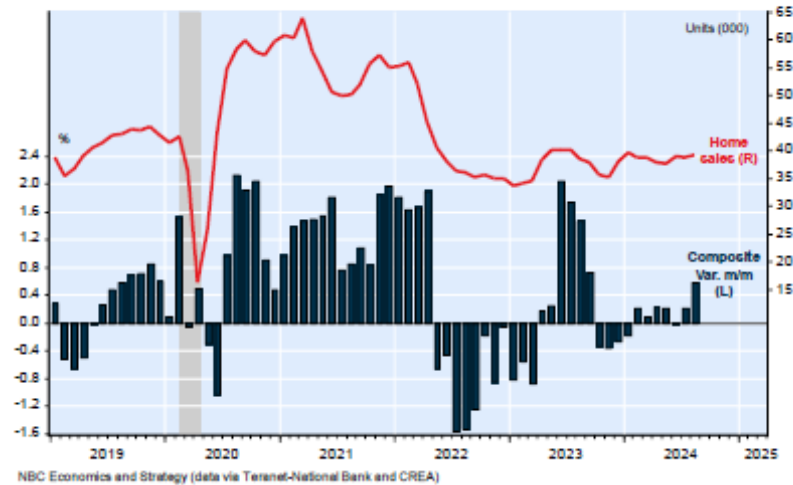
Teranet-National Bank House Price Index - Canada: House prices on the rise in August

After remaining relatively stable over the previous two months, house prices in Canada's major urban centres rose more significantly in August, increasing by 0.6%, supported by lower interest rates. However, we do not believe that this marks the start of a significant upward trend in Canadian home prices since, despite the continuing cycle of monetary policy easing, the resale market remains sluggish, showing no signs of significant recovery. Indeed, although interest rates have fallen, they remain deeply in restrictive territory. As a result, affordability conditions remain extremely difficult, while the labour market continues to deteriorate across the country, and even more acutely among young people. What's more, with the Bank of Canada indicating that it intends to make further rate cuts in the months ahead, and with the announcement of an increase in amortization from 25 to 30 years to come in December, it's likely that some buyers will decide to be patient in the months

ahead and sit on the sidelines waiting for even more favourable financing conditions. After a few months in the doldrums, the housing market could start to pick up again in 2025.

Canada: Home resale market remains sluggish

Number of transactions on the home resale market and monthly change (%) in Teranet-NBC HPI, seasonally adjusted



[Click here for full comments](#)

Snapshot - U.S. Retail Sales (August)

In the U.S., **retail sales** edged up 0.1% in August instead of contracting 0.2% as per consensus. The prior month's result, meanwhile, was revised slightly upwards, from +1.0% to +1.1%. Sales of motor vehicles and parts contributed negatively to the headline print, as they declined 0.1%. Without autos, outlays inched up 0.1%, as gains for miscellaneous items (+1.7%), non-store retailers (+1.4%) and health/personal care items (+0.7%) were only partially offset by declines for gasoline stations (-1.2%), electronics (-1.1%), food/beverages (-0.7%), clothing (-0.7%) and furniture (-0.7%). In all, sales were up in just 5 of the 13 categories surveyed. Core sales (i.e. sales excluding food services, auto dealers, building materials, and gasoline stations), which are used to calculate GDP, increased a consensus-matching 0.3%.

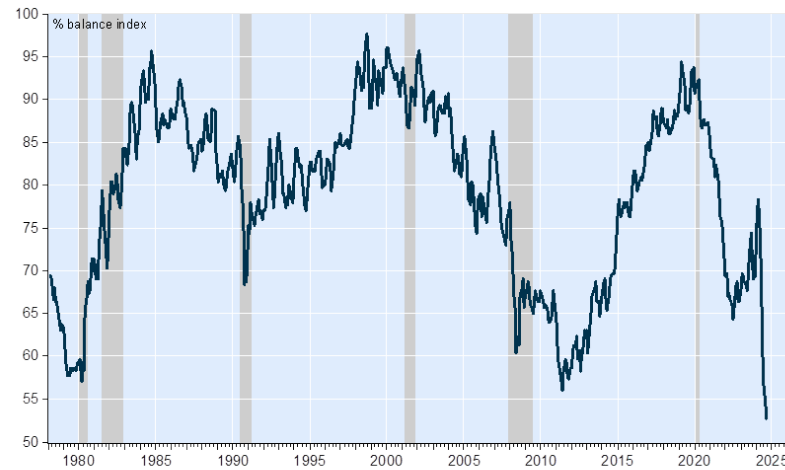
Bottom line:

Not only was the retail sales report better than consensus expectations in August, but data for the previous month was also revised slightly upwards. The positive surprise was almost entirely due to the motor vehicle segment, which recorded only a slight decline, whereas other auto sales indicators published earlier had flagged a much sharper drop. This divergence points to a larger decline in this category in September. Sales of miscellaneous products and at non-store retailers also performed strongly in August. Incidentally, these two categories have seen the strongest growth over the past twelve months, at 10.7% and 7.8% respectively. Not everything in the report was positive, however. The increase in sales was limited to only 5 of the 11 categories covered, marking the lowest diffusion in 7 months. We also noted a stagnation in outlays at restaurants and bars which suggest spending on services (which accounts for a bigger portion of GDP than spending on goods) could have slowed down in the month.

Notwithstanding these negative points, there is no doubt that goods consumption will contribute positively to GDP growth in Q3, with core sales set to rise by no less than 5.1% annualized in the quarter. We doubt, however, that this kind of performance will continue in the quarters ahead. Instead, we anticipate a marked slowdown in the growth of consumer spending. The job market is slowing down, and this is translating into negative wage expectations on the part of consumers. According to a recent survey by the University of Michigan, a record proportion of them now expect to see their real income decline over the next 12 to 24 months. We doubt that such pessimism will be conducive to increased spending. Especially as consumers already seem to be stretched. At least that's what the sharp drop in the savings rate in recent months suggests. While this may have made sense at a time when consumers could rely on a big pile of excess savings, it seems less sustainable now that these reserves have been depleted.

U.S.: An unprecedented share of households expects real income to shrink

Real household income over the next 12 to 24 months*, 3 month moving average,
University of Michigan Consumer Sentiment Index



* Percentage of respondents who think it will rise - percentage who think it will decrease + 100
NEF Economics and Strategy (data via Bloomberg)

Evercore ISI - Equity & Derivatives Strategy: Factor EDGE: The Fed Cut Cycle Begins Now - Buybacks and Momentum Likely to Outperform

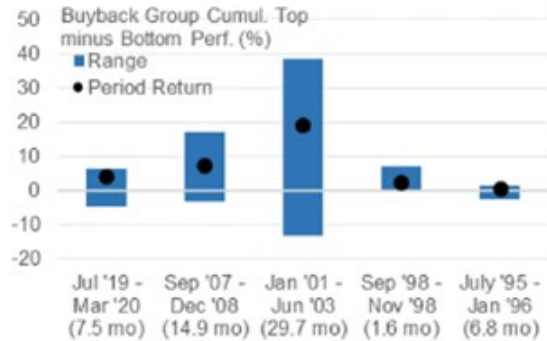
When the Fed Cuts, Buy the Buybacks: The Fed is set to cut rates on 9/18, starting the easing cycle. The (High) Buyback factor is key to longer term Strategy alpha, having outperformed during all cut cycles since 1990 (Figure 1) regardless of whether the Fed is cutting rates Because It Can (Lower Inflation, Soft Landing) or Because It Has To (Hard Landing).

Momentum Manages Seasonal Volatility: Momentum was the best performing factor in the first half of September. This is consistent with the Momentum Factor's record of historical outperformance during challenging seasonal volatility. Top minus Bottom return is +2.2% on average during September (Figure 2), up 76% of years since 1990. Momentum is likely to extend outperformance during Fall 2024, the season further complicated by the start of Fed Cuts (the price action leadup to cuts is typically volatile) and a tight US Election race heating up.

Refreshing Momentum, Buyback Factors Potential Under & Out Performers: We screen for "Stocks in Motion", potential outperformers (p. 7) - Russell 3000 stocks in top quintiles of Momentum, Sentiment, and Buyback factor groups. Highlighting Software names ACIW, APP, BOX, and YOU (all Not Rated) - the Software subsector outperforms after Fed cuts. Conversely, we screen for "Stocks at Rest", potential underperformers (p. 7) - Russell 3000 stocks in lower quintiles (4 and 5) of Momentum and Sentiment factor groups, and bottom quintile Buyback factor group.

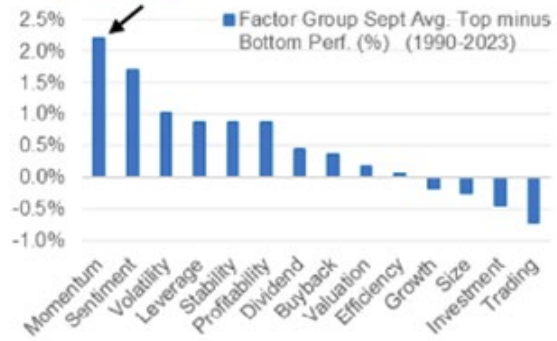
Can Momentum Seasonal Tactics Become Soft Landing Strategy?: Two and a half years removed from the start of the Fed's tightening cycle, the economy has surprised with its resilience to historically tight monetary policy (though not without some bumps), and a rare Soft Landing is within reach. Since 1990, there has been only one other Soft Landing, in 1995. The Momentum Factor was notably the top performer on a Top minus Bottom basis during the cut cycle of this period - should history rhyme, what began as Tactical positioning for seasonal volatility in 2024 could evolve into Soft Landing Strategy.

Figure 1: By Blowout or Close Call, Buybacks Have a Perfect Record During Fed Cut Cycles



Source: Factset, Bloomberg, Evercore ISI Research

Figure 2: Momentum Manages September Seasonality as "Less Bad" Is "More Good" for Alpha Capture



Source: Factset, Evercore ISI Research

Evercore ISI - Fixed Income Strategy: Quick Take - Though Slowing, August's Retail Sales Were Somewhat Better Than Expected.

KEY POINTS:

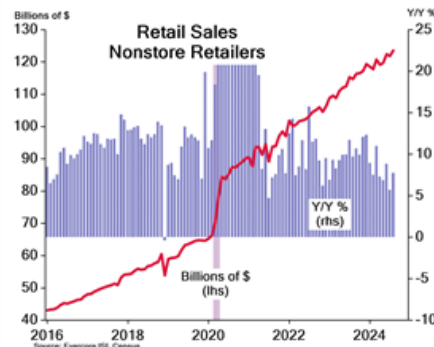
Though August's headline retail sales slowed, they were still better than expected. August's nominal retail sales advanced +0.1% m/m (+0.2% with revisions). In real terms, this is up +0.2%. The revisions were modestly to the upside too. These releases should boost Treasury yields, and the dollar slightly.

- August's retail sales advanced +0.1% m/m and is up +2.1% y/y. Ex auto and gas and control group sales were about as expected. (see table). In real terms (volume), retail sales climbed moderately, as we estimate they are up +0.2% m/m. Real consumer spending is on track to be up +3.9% in 3Q.
- E-commerce sales rebounded smartly. The other categories were mixed. Vehicle sales slipped less than expected.

Discretionary Retail Sales Were Mixed in August.



E-Commerce Sales Rebounded.



Evercore ISI - Fixed Income Strategy: Five Recommended Fixed Income Tilts

Below are five fixed income investment tilts based upon our macro and rate outlooks. The previous tilt concerning the 2-year Treasury note being the most undervalued is no longer the case as the 2-year price has climbed higher.

1. Quality Is Starting to Outperform.



Since fixed income lows on April 18, quality fixed income returns have outpaced lower quality returns. The risk of a recession has fallen, and Fed easing has become a near certainty. Structured-yield products are particularly sensitive.

2. As the Odds of a Near-term Recession Wane, The Total Return in Distressed Industries Should Outperform Other Credit Metrics.



Though real growth is slowing, the odds of a recession has declined. A recession would bring about a deceleration in pricing (inflation) and higher interest rates that are not favorable for financially stretched or distressed companies. Distressed debt return does poorly prior to a recession. There is no sign of that yet. In fact, distressed debt returns has far outpaced overall high-yield returns since July 5. Distressed debt returns should continue to outpace other credit returns but should not keep pace with quality.

Evercore ISI - Global Policy | Political Analysis: Flash Note: U.S. Government Shutdown Watch - Expect Another Last-Minute Deal

Once again, Congress is running up against a deadline to fund the federal government's operations. Congress must act by Sept. 30 to prevent a government shutdown. We expect they will get a deal although likely not till the last minute. There's little appetite on either side to have a shutdown five weeks before an election, and lawmakers with close races want to spend October on the campaign trail with few distractions from Washington.

While we think a relatively 'clean' continuing resolution (CR) ultimately gets passed, Speaker Johnson's politics remain complicated. Johnson does not want to remind voters of the House Republican infighting and dysfunction that was seen under his predecessor Speaker McCarthy, just as Republicans are defending their majority. But if Johnson is seen by the right flank of his caucus as being too conciliatory towards Democrats, that will weaken his support and he could face political consequences, including having a hard time hanging onto the Speakership next year in the event Republicans do retain control.

Former President Trump hasn't made Johnson's job any easier, saying that Republicans should not vote for a CR unless it includes new voter ID requirements that are a non-starter for Democrats. Johnson plans to call a vote on a six-month CR with the voter ID requirements attached on Wednesday.

Past government shutdowns have had a relatively small and temporary macroeconomic effect. That said, shutdowns are obviously disruptive to many households and businesses and raise doubts about U.S. fiscal management. If there is a shutdown, perhaps the biggest market impact would be uncertainty arising from a lack of official economic data - most immediately, the next jobs report on October 4 could be postponed.

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Economy & Strategy

Once negotiations enter the endgame (probably sometime next week), the big question is whether the CR will be for 3 or 6 months. Speaker Johnson proposed 6 months, as many Republicans hope to have more leverage next year if Trump wins. But Democrats and even some Republican defense hawks oppose a 6-month CR, since it would bring the next funding fight perilously close to an April 30 deadline that could trigger a 1% across-the-board cut in discretionary spending relative to FY23 levels.

Under the 2023 debt limit deal, cuts take effect automatically after April 30 if the government is still operating under a CR and Congress has not passed a budget. This was intended as a forcing function to get Congress to pass appropriations bills, which Congress ultimately did for FY24 (albeit not until March), but the jury is still out for FY25.

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First Edition Call

This Week on TEAMS:

MONDAY: Research Services - [8:30 am English call](#) / [9h00 appel français](#)

TUESDAY: Dennis Mark, NBCFM Technical Analyst - [8:30 am English call](#) / [9h00 appel français](#)

WEDNESDAY: Jocelyn Paquet, NBC Economist - [8:30 am English call](#) / [9h00 appel français](#)

THURSDAY: TBA - [8:30 am English call](#) / [9h00 appel français](#)

FRIDAY: TBA - [8:30 am English call](#) / [9h00 appel français](#)

A replay is available in the Event Calendar of [Research Services SharePoint](#)

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