WEEKLY COMMENTARY

Markets Are Off to a Rocky Start, but Not Directly Because of Trump

By Jimmy Jean, Vice-President, Chief Economist and Strategist

After two years of strong growth, the markets had a bumpy start to 2025. In fact, the first cracks started showing in December. After climbing to a post-election peak on December 6, the S&P 500 slid 4.5% as the market sought to catch its breath amid rising interest rates and growing uncertainty. Similarly, Canada's S&P/TSX index fell 4.4% from its most recent high, which is far from terrible considering the persistent risks to the outlook.

While it was expected that the markets would slow somewhat after such a prolonged rally, higher rates are taking a significant bite out of risk appetite. The 10-year US Treasury yield hit 4.78% following this morning's strong job numbers, breaching the prior peak reached last April. Driving the bond selloff, concerns initially focused on the fiscal trajectory under incoming president Donald Trump's expansionary economic policies. More recently, these concerns have grown in response to the Fed's more hawkish tone.

In an unusual move, several Fed officials chose to incorporate Trump's policy changes into their forecasts, even though these policies are very loosely defined at this point. And even though Fed Governor Christopher Waller tried to downplay the potential impact of tariffs on inflation during his speech on Wednesday, markets are not even convinced that there will be more than one rate cut this year.

But things could have been a lot worse. After all, the S&P 500 is still not far from the 6,000 mark despite the volatile start to the new year. In the space of 10 days, the United States has experienced two terrorist attacks, seen Los Angeles engulfed in a massively destructive wildfire and recorded its first human death from bird flu. And all the while, global political rhetoric has escalated to disturbing levels.

Even though the S&P 500 has now erased all of its post-election rally, the market remains more focused on rates and valuations than on political drama. Investors have learned to take Donald Trump's rhetoric with a grain of salt, since many of his grandiose proposals have failed to materialize. For instance, there was his plan to build 10 "freedom cities" and his promise to build a border wall and get Mexico to pay for it. Even the aggressive trade rhetoric from Trump's first term resulted in few major changes other than the hard line on China, which Joe Biden maintained.

So while some Fed members have incorporated Trump's policies into their forecasts, the markets are taking a "we'll believe it when we see it" approach on some of his most disruptive ambitions. Canadian decision-makers should perhaps do the same instead of taking the bait.

Speaking of Canada, in our view the big news since the start of the year wasn't so much Justin Trudeau's resignation—as it was largely anticipated—but rather Pierre Poilievre's sit-down interview outlining his vision. While it was his most transparent attempt to date to lay out his plans, it was short on details.

Mr. Poilievre emphasized his commitment to cutting bureaucracy, but this is something we've heard many times before, and past efforts in Canada and the United States have yielded mixed results. He also touched on his vision to transform Canada into an entrepreneurship and investment hub, though he didn't

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explain exactly how this would be achieved. Pitches like these are appealing, but they've been overused in the past decade by governments at all levels, including those in Conservative-led provinces. Given the lack of clear-cut results, more needs to be known on what he plans on doing differently, aside from cutting red tape. Some might argue that it's still early in the game to expect such details. But in reality, it isn't.

What to Watch For

UNITED STATES

WEDNESDAY January 15 - 8:30	
December	**m/m**
Consensus	0.3%
Desjardins	0.3%
November	**0.3%**

Consumer price index (December) – The consumer price index (CPI) is proving more stubborn in the US. The weakness we saw early in the summer has given way to slightly stronger price growth. November's 0.3% monthly gain in headline inflation was the biggest jump since April, and we're expecting a similar print for December. Energy prices likely rose, primarily due to seasonal adjustments in gasoline prices. Food prices are forecast to grow more modestly after November's surprise 0.4% spike. We anticipate that growth in core CPI, which excludes food and energy, will mirror November's 0.3% gain. Growth in prices of used cars and trucks should ease back from last month's 2.0% rise. We think the monthly gain in total CPI will also come in at 0.3%. The year-over-year change in headline inflation likely edged up to 2.8%, while core inflation probably held steady at 3.3% for the fourth month in a row.

THURSDAY January 16 - 8:30	
December	**m/m**
Consensus	0.6%
Desjardins	0.7%
November	**0.7%**

Retail sales (December) – Retail sales posted solid growth of 0.7% in November, thanks in large part to stronger motor vehicle sales. We're expecting a similar print for December. Motor vehicle sales growth slowed slightly in the last month of the year, but other sectors likely fared better. Preliminary data from credit card providers and some major retailers is positive. Gas station receipts also probably increased. December's consumer price data will obviously help us fine-tune our forecasts. All in all, we expect a 0.7% increase in total sales and a 0.5% gain in sales excluding motor vehicles and gasoline.

FRIDAY January 17 - 8:30	
December	**ann. rate**
Consensus	1,325,000
Desjardins	1,330,000
November	**1,289,000**

Housing starts (December) – Housing starts disappointed in November, falling 1.8% even as the end of the hurricane season suggested a likely rebound. This was the third negative month in a row for new builds, which have fallen by a total of 6.5% since August. However, we think we'll see a better print in December. The number of building permits surged 5.2% in November, while sales of new single-family homes and builder confidence both improved, all of which point to slightly higher housing starts. That said, unsold inventory remains relatively high and is dampening hopes of a strong rebound. We expect housing starts to have increased to an annualized 1,330,000 units.

FRIDAY January 17 - 8:30	
December	**m/m**
Consensus	0.3%
Desjardins	-0.1%
November	**-0.1%**

Industrial production (December) – Industrial production declined for the third month in a row in November. However, unlike in September and October, manufacturing increased 0.2%, mainly on the back of automotive sector gains. Surprisingly, the aerospace sector contracted again despite the end of the Boeing strike. December's print is likely to more clearly reflect the end of the labour dispute. But hours worked were down in the automotive and mining sectors, suggesting new troubles. All in all, we anticipate a mere 0.1% improvement in manufacturing and another 0.1% decline in industrial production.

CANADA

WEDNESDAY January 15 - 8:30	
November	**m/m**
Consensus	0.5%
Desjardins	1.2%
October	**2.1%**

Manufacturing sales (November) – We expect manufacturing sales grew 1.2% m/m in November, in line with Statistics Canada's flash estimate. Relatively stronger commodity prices probably drove up sales of energy, lumber and petroleum products. In real terms, manufacturing sales were likely flat mainly due to a 1.1% rise in seasonally adjusted industrial product prices.

WEDNESDAY January 15 - 9:00	
December	**m/m**
Consensus	-2.2%
Desjardins	1.0%
November	**2.8%**

Existing home sales (December) – Overall, we expect seasonally adjusted home sales rose a modest 1.0% m/m to close out 2024. Early figures from local real estate boards showed steep year-over-year increases in non-seasonally adjusted sales of over 50% in Montreal and Quebec City and around 30% in Vancouver and Victoria. However, we continue to believe that the bulk of these increases occurred in October. The Toronto Regional Real Estate Board announced a monthly drop in seasonally adjusted sales of nearly 19%, noting that many would-be first-time homebuyers continued to sit on the sidelines. Those who bought homes were likely happy to see the Bank of Canada's December 11 jumbo policy rate cut and the new mortgage rules that took effect December 15.

THURSDAY January 16 - 8:15	
December	**ann. rate**
Consensus	256,200
Desjardins	239,000
November	**262,400**

Housing starts (December) – We're anticipating December housing starts pulled back to 239k, placing Q4 at a more typical 248k starts. This follows a November that surprised the consensus of economic forecasters to the upside by a wide margin, coming in at over 262k housing starts. Construction continues to face multiple headwinds, including skilled labour shortages, an aging workforce, elevated (albeit falling) interest rates and high prices for materials. While fundamentals would suggest housing starts will remain soft into 2025, federal policies targeting new home construction and buyers of newly built homes could help to prop up the industry.

OVERSEAS

WEDNESDAY January 15 - 2:00	
December	**y/y**
Consensus	2.6%
November	**2.6%**

United Kingdom: Consumer price index (December) – Inflation has started to edge back up from September's low of 1.7%. It was 2.6% in November, the highest rate since March 2024. We hope that this spike will be short-lived and that year-over-year price growth will return to the Bank of England's 2% target. November's core inflation print was also sticky at 3.5%.

WEDNESDAY January 15 - 4:00	
2024	**y/y**
Consensus	-0.2%
2023	**-0.3%**

Germany: Annual GDP (2024 – preliminary) – Germany's economic troubles were visible in 2023 and continued into 2024. In fact, Germany hasn't posted two consecutive quarters of real GDP growth since Q1 2022. At the heart of these difficulties is the country's lacklustre manufacturing sector. In November, manufacturing was 3.4% lower than it was 12 months earlier. Germany's manufacturing PMI is also mired in negative territory. If real GDP growth stayed flat in the fourth quarter, 2024's annual figure will likely show a contraction.

THURSDAY January 16 - 2:00	
November	**m/m**
Consensus	0.2%
October	**-0.1%**

United Kingdom: Monthly GDP (November) – The UK economy continues to slow, contracting in two consecutive months (September and October) for the first time since the height of the pandemic. While the monthly declines were quite modest at 0.1% in both cases, economic growth has nonetheless been disappointing. Real GDP carryover growth for the fourth quarter is currently slightly negative, and another monthly setback could lead to a quarterly contraction. Fortunately, retail sales rose slightly in November, but the decline in the PMIs is less promising.

THURSDAY January 16 - 21:00	
Q4 2024	**y/y**
Consensus	5.0%
Q3 2024	**4.6%**

China: Real GDP (Q4 2024) – Real GDP growth probably picked up again in the last quarter of 2024, with a quarter-over-quarter gain of about 2%. This would bring full-year growth to 4.8%, below the government's official 5.5% target set one year ago, which authorities have since revised to 5.0%. Looking under the hood, there are several improvements but also a number of issues. While retail sales, industrial production and exports picked up, average home prices and imports fell in December. Once again, this is a reminder that the external sector is improving, while the domestic economy continues to grapple with a persistent and pronounced property market slump. New stimulus measures were announced in December, but we'll need to wait until early 2025 to see any real impact on growth.

Economic Indicators

Week of January 13 to 17, 2025

Day	Time	Indicator	Period	Consensus	Desjardins	Previous reading
UNITED STATES						
MONDAY 13	14:00	Federal budget (US$B)	Dec.	n/a	n/a	-366.8
TUESDAY 14	8:30	Producer price index				
		Total (m/m)	Dec.	0.4%	0.4%	0.4%
		Excluding food and energy (m/m)	Dec.	0.2%	0.2%	0.2%
WEDNESDAY 15	8:30	Consumer price index				
		Total (m/m)	Dec.	0.3%	0.3%	0.3%
		Excluding food and energy (m/m)	Dec.	0.2%	0.3%	0.3%
		Total (y/y)	Dec.	2.9%	2.8%	2.7%
		Excluding food and energy (y/y)	Dec.	3.3%	3.3%	3.3%
	8:30	Empire State Manufacturing Index	Jan.	-0.5	2.5	0.2
	14:00	Release of the Beige Book				
THURSDAY 16	8:30	Initial unemployment claims	Jan. 6–10	212,000	210,000	201,000
	8:30	Philadelphia Fed index	Jan.	-4.0	2.5	-10.9
	8:30	Export prices (m/m)	Dec.	-0.2%	0.2%	0.0%
	8:30	Import prices (m/m)	Dec.	-0.1%	0.1%	0.1%
	8:30	Retail sales				
		Total (m/m)	Dec.	0.6%	0.7%	0.7%
		Excluding automobiles (m/m)	Dec.	0.5%	0.6%	0.2%
	10:00	NAHB Housing Market Index	Jan.	46	n/a	46
	10:00	Business inventories (m/m)	Nov.	0.1%	0.1%	0.1%
FRIDAY 17	8:30	Housing starts (ann. rate)	Dec.	1,325,000	1,330,000	1,289,000
	8:30	Building permits (ann. rate)	Dec.	1,462,000	1,475,000	1,493,000
	9:15	Industrial production (m/m)	Dec.	0.3%	-0.1%	-0.1%
	9:15	Production capacity utilization rate	Dec.	77.0%	76.6%	76.8%
	16:00	Net foreign securities purchases (US$B)	Nov.	n/a	n/a	152.3
CANADA						
MONDAY 13	---	---				
TUESDAY 14	---	---				
WEDNESDAY 15	8:30	Wholesale sales (m/m)	Nov.	-0.7%	-0.7%	1.0%
	8:30	Manufacturing sales (m/m)	Nov.	0.5%	1.2%	2.1%
	9:00	Existing home sales (m/m)	Dec.	-2.2%	1.0%	2.8%
THURSDAY 16	8:15	Housing starts (ann. rate)	Dec.	256,200	239,000	262,400
	12:30	Speech by Bank of Canada Deputy Governor T. Gravelle				
FRIDAY 17	8:30	International securities transactions ($B)	Nov.	n/a	n/a	21.55

Note: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Standard Time (GMT -5 hours). Desjardins Economic Studies forecast.

Economic Indicators

Week of January 13 to 17, 2025

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
DURING THE WEEK							
China	---	Trade balance (US$B)	Dec.	100.00		97.44	
MONDAY 13							
Japan	18:50	Current account (¥B)	Nov.	2,578.1		2,408.8	
TUESDAY 14							
Italy	4:00	Industrial production	Nov.	-0.2%	-2.4%	0.0%	-3.6%
WEDNESDAY 15							
United Kingdom	2:00	Consumer price index	Dec.	0.4%	2.6%	0.1%	2.6%
United Kingdom	2:00	Producer price index	Dec.	0.1%	0.0%	0.3%	-0.6%
France	2:45	Consumer price index – final	Dec.	0.2%	1.3%	0.2%	1.3%
Germany	4:00	Annual GDP – preliminary	2024		-0.2%		-0.3%
Eurozone	5:00	Industrial production	Nov.	0.3%	-1.8%	0.0%	-1.2%
Japan	18:50	Producer price index	Dec.	0.4%	3.8%	0.3%	3.7%
THURSDAY 16							
South Korea	---	Bank of Korea meeting	Jan.	2.75%		3.00%	
United Kingdom	2:00	Trade balance (£M)	Nov.	-3,700		-3,718	
United Kingdom	2:00	Construction	Nov.	0.5%	0.1%	-0.4%	-0.7%
United Kingdom	2:00	Index of services	Nov.	0.1%		0.0%	
United Kingdom	2:00	Monthly GDP	Nov.	0.2%		-0.1%	
United Kingdom	2:00	Industrial production	Nov.	0.1%	-1.0%	-0.6%	-0.7%
Germany	2:00	Consumer price index – final	Dec.	0.4%	2.6%	0.4%	2.6%
Eurozone	5:00	Trade balance (€B)	Nov.	n/a		6.1	
Italy	5:00	Trade balance (€M)	Nov.	n/a		5,153	
China	21:00	Real GDP	Q4	1.6%	5.0%	0.9%	4.6%
China	21:00	Industrial production	Dec.		5.4%		5.4%
China	21:00	Retail sales	Dec.		3.5%		3.0%
FRIDAY 17							
United Kingdom	2:00	Retail sales	Dec.	0.4%	4.5%	0.2%	0.5%
Eurozone	4:00	Current account (€B)	Nov.	n/a		25.8	
Italy	4:30	Current account (€M)	Nov.	n/a		5,628	
Eurozone	5:00	Consumer price index – final	Dec.	0.4%	2.4%	0.4%	2.3%

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Times shown are Eastern Standard Time (GMT -5 hours).