Market in Review

Following back-to-back impressive gains in the last two quarters, stocks delivered a more subdued performance in Q3 2024. For instance, the bellwether S&P 500 rose +11.7% in Q4 2023 and +10.6% in Q1 2024, but closed Q2 with a more modest gain of +3.9%.

The main headwind was rising concerns over stubborn U.S. inflation.

Generally, markets found support in relatively strong Q1 earnings. Additionally, a key trend that continued from the previous two quarters was the exceptionally strong performance of the "Magnificent 7," a group of mega-cap stocks benefiting from products tied to artificial intelligence.

Biden's debate performance shakes market confidence

Following U.S. President Joe Biden's woeful performance in his recent debate against former President Donald Trump, many Democrats immediately began calling for him to step down from the leadership race and allow the selection of a new party nominee.

This development has introduced increased political uncertainty into the presidential election process and could have significant implications for financial markets. When political uncertainty rises, markets invariably respond with heightened volatility, leading some investors to back away until matters settle down.

Historically, presidential elections have been a catalyst for volatility during the election year, but markets typically begin stabilizing once the party nominees have been selected, typically by the end of August. Whether Biden stays in the race and wins his party's support at the 2024 Democratic National Convention, scheduled for August 19 to 22, or a replacement candidate is chosen, possibly in a process that stretches into the fall, investors should be prepared for higher-than-average volatility in the coming months.

Global Outlook

The global disinflation trend continues, but progress is uneven across different geographies.

In line with last quarter, Europe remains on the recovery track after flirting with recession in 2023. The key drivers are the rise in global manufacturing and the stimulus effect of increased bank lending. The European Central Bank delivered its first 25-basis-point (bps) interest rate cut in early June, and the market anticipates a further 100 bps of easing over the next 12 months.

Economic growth indicators in the United Kingdom are showing modest improvement, but persistent inflation is preventing the Bank of England from getting started on rate cuts.

KEY TAKEAWAYS

- Rising concerns over U.S. inflation muted stock performance in Q2, with markets finding support in relatively strong Q1 earnings.
- U.S. President Joe Biden's woeful debate performance has increased political uncertainty ahead of the presidential election.
- Global disinflation continues, but progress is uneven across different geographies.
- On June 5, 2024, the Bank of Canada (BoC) became the first among the G7 central banks to cut interest rates following the upward trend driven by the pandemic.
- It's unclear how far the BoC can diverge Canada's rate from that of its leading trading partner, the U.S., which has yet to ease its policy rate.
- At mid-year, the U.S. economy is on more solid footing, with core personal consumption expenditures (CPE) inflation down to 2.6% from a cycle-high of 5.6%.
- The S&P/TSX Composite delivered a moderate loss of -1.3% in Q2.

After having experienced more than 20 years of near-zero inflation, Japan's central bank, the Bank of Japan, raised interest rates for the first time in 17 years this past March. The near-term outlook for the Japanese economy remains promising, with support from improving manufacturing and a weak yen that is invigorating inbound tourism.

China's economic prospects are improving as various policy initiatives are rolled out to stabilize the property market and stimulate growth. While the country continues to grapple with long-term structural challenges like high savings rates, low consumer spending, excess production capacity and heavy dependence on exports, these policy measures have positively impacted the short-term outlook. As a result, Chinese stocks have recovered from their previously oversold conditions earlier in the year.

United States snapshot

At mid-year, the U.S. economy is on more solid footing, with core personal consumption expenditures (CPE) inflation down to 2.6% from a cycle-high of 5.6%. Meanwhile, the labour market is strong but not at a level that would cause significant inflation.

Many economists expect the U.S. central bank, the Federal Reserve, will begin cutting interest rates as early as this September.

Still, there is no clear answer on whether the U.S. economy is headed for a slowdown—be it a soft or hard landing—or no landing at all. In the latter case, the inflation rate may not fall to the Fed's 2% target, but the economy would continue growing.

All three major U.S. indices, the S&P 500, Dow and Nasdaq, recorded advances in Q2. This rise was supported by enthusiasm for artificial intelligence stocks and speculation that rate cuts were imminent.

Spotlight on Canada

On June 5, 2024, the Bank of Canada (BoC) became the first among the G7 central banks to cut interest rates following the upward trend driven by the pandemic. BoC lowered its key interest rate by 25bps (or 0.25%) to 4.75%.

In announcing the rate cut, the BoC indicated Canada could see further reductions in the coming months as long as the economy and inflation continue performing as expected.

Nonetheless, it's unclear how far the BoC can diverge Canada's rate from that of its leading trading partner, the U.S., which has yet to ease its policy rate.

The S&P/TSX Composite delivered a moderate loss of -1.3% in Q2. As in Q1, the disparity in performance with the S&P 500's gain of +3.9% could partly be explained by the Canadian market having less exposure to large-cap technology stocks, the major growth drivers in the U.S. market.

Nine sectors of the S&P/TSX Composite posted losses, with health care, real estate and communications services leading the decliners.

Of the 228 stocks in the index at some point in 2023, 119 (52%) recorded a gain.

In Q2, the Canadian market underperformed the U.S. market in home-currency terms (the U.S. returned +3.9%) and in Canadian-dollar terms (the U.S. returned +5.0% in C$ terms).

What's next?

By performing poorly in his debate against former President Donald Trump, U.S. President Joe Biden has raised serious questions about his suitability for office. This unexpected development has created unprecedented political uncertainty in the United States.

Historically, political uncertainty has negatively impacted investor confidence, leading to elevated volatility. Therefore, investors should be prepared for increased market fluctuations in the coming months.

Many economists expect the U.S. Federal Reserve will announce its first interest rate cut in September. An earlier cut would surprise the market and support a rise in equity values.

As always, we recommend that investors stay focused on the fundamentals and valuations rather than allowing recent market activity to impact their judgment.

MARKET MONITOR (Returns in CAD)

MARKET INDICATORS	MARKET CLOSE*	2023 ANNUAL RETURN	2024 Q2 ACTUAL*	2024 YTD ACTUAL*
S&P/TSX Composite	21,875.79	8.12%	-1.31%	4.38%
S&P 500	5,460.48	21.44%	4.99%	18.21%
Dow Jones	39,118.86	10.99%	-0.72%	7.18%
MSCI World	3,511.78	18.86%	3.21%	14.42%

*As of June 30, 2024

TOP GIC RATES

ACCOUNT TYPE	1YR	2YR	3YR	4YR	5YR
Non-Registered	4.96	4.69	4.49	4.38	4.34
RRSP	4.96	4.69	4.49	4.38	4.35
RRIF	4.91	4.68	4.43	4.32	4.20

*As of June 30, 2024

Getting Advice

Are you looking for additional perspectives on the financial markets and how they might affect your portfolio? We encourage you to talk to us. Speak to your Financial Advisor or contact investor services at 1 800 608 7707.

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