April 2024 market update

Economic pulse in Canada and around the world

May 3, 2024

Introduction

Global equity markets finished lower over April amid geopolitical tensions, choppy inflation and expectations central banks might keep interest rates higher for longer. Global business activity was relatively muted in April, particularly manufacturing sector activity, which continues to struggle under the weight of relatively weak demand.

The S&P/TSX Composite Index finished lower over April, dragged down by the Real Estate and Industrials sectors. The Materials sector delivered a strong return in April, benefiting from higher gold prices. U.S. equities also fell, marking their first monthly decline in 2024. Yields on 10-year government bonds in Canada and the U.S. increased. The price of oil posted a small decline in April. Still, it is up over 2024, adding to concerns about inflationary pressures.

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Canada’s capital gains inclusion rate increases

The Canadian federal government released its 2024 Federal Budget in April. The government expects to run a deficit of $39.8 billion in 2024–25, which would be down from the $40.0 billion deficit this fiscal year. The deficit is expected to fall to $20 billion by 2028–29. The federal government is seeking to spend an additional $52.9 billion, but this should be offset that by certain tax increases. The most notable, which had investors and business owners taking notice, was increasing the capital gains inclusion rate to 66% from 50%. This new threshold will be in place for high-net-worth individuals, trusts and corporations. The government has said the increase will help generate additional tax revenue, but it wasn’t widely accepted by investors. Many have questioned whether it will deter investment in Canada.

The federal government will continue its focus on increasing the supply of housing, which the government believes will make homes more affordable for all generations. The budget includes $8.5 billion in additional spending on more housing. The government will also commit money to the Financial Consumer Agency of Canada and the Finance Department to build out a framework for open banking in the country. New and ongoing spending will continue to be focused on health care, the environment, artificial intelligence and a school food program.

Expectations increase for a BoC summer rate cut

The Bank of Canada ("BoC") appears to be edging closer to a period of monetary easing. The BoC released its Summary of Deliberations from its last meeting, where it held its benchmark overnight interest rate steady at 5.00%. Diverging views among officials might suggest the BoC is preparing to lower interest rates. The minutes showed officials divided on when to begin lowering interest rates, but all believe monetary easing will start relatively soon and should be gradual to avoid reigniting inflationary pressures. Inflation remains a risk to the BoC's outlook. The BoC is seeking more confidence inflation will indeed move back to its 2% target. While inflation has come down over the past year, albeit at an uneven pace, other economic data are pointing to the need to cut interest rates. Consumer demand has been waning amid tight financial conditions. Retail sales fell in January and February, with Statistics Canada estimating no growth in March, which points to flat sales over the first quarter of 2024. Underlying data shows Canadian consumers focused on spending on necessities, largely avoiding discretionary spending. Meanwhile, gross domestic product ("GDP") slowed over February and March, adding to speculation the BoC will soon cut interest rates. While many market observers expected the BoC to move along with the U.S. Federal Reserve Board ("Fed"), that might not be the case. The BoC looks poised to begin lowering interest rates as early as this summer to help reignite demand and support economic conditions.

U.S. economic growth shows signs of slowing

U.S. economic growth appears to be waning under the pressure of tight financial conditions, which are hindering consumer and business activity. In an advanced estimate, the U.S. Bureau of Economic Analysis reported that U.S. GDP expanded by just 1.6%, annualized, in the first quarter of 2024. This was a marked slowdown from the 3.4% pace of growth in the fourth quarter of 2023, and it was the weakest expansion since contracting in the second quarter of 2022. A key detractor from growth over the quarter was a sharp slowdown in exports. Relatively weak global demand and lacklustre trade activity globally weighed on the world's largest economy over the quarter. Consumer spending also slowed over the quarter, which heightens concern about a steeper drop in economic conditions. The U.S. consumer has been a source of strength for the U.S. economy, driving better-than-expected growth over the past several quarters despite the aggressive rate hikes from the Fed. But not all was bad, which highlights the contradictions in economic conditions facing the Fed as it prepares to lower interest rates. Real estate investment moved sharply higher over the quarter. Demand was relatively strong despite elevated mortgage rates. The Fed is facing an uncertain economic landscape. On the one hand, growth, inflation and demand are moderating, but the labour market has continued to be an area of strength in 2024. Given those conditions, the Fed appears poised to stay at current levels for longer as it looks for more proof inflation will come down further. The U.S. economy is likely to be challenged in the months to come amid still tight financial conditions.

Drop in trade shows shakiness of China’s economy

The decline in global trade activity has weighed on the U.S. as well as the world’s second-largest economy, China. Data showed exports and imports both dropped in March on a year-over-year basis. China’s economy has struggled for traction over the past few years, weighed down by weak domestic and foreign demand, which has hurt key sectors of its economy. Exports fell by 7.5% year-over-year in March, their first decline in five months. Shipments from China have been relatively lacklustre, resulting in notable drops in its critical manufacturing sector. No doubt, the tight financial conditions prevailing in the rest of the world, along with lower trade activity, have hurt China’s economic growth. Domestic demand for foreign goods hasn’t fared much better. Imports fell by 1.9% year-over-year in March, their third decline over the past five months. China’s economy appears to still be on shaky ground. Despite expanding by 5.3% year-over-year in the first quarter, there were pockets of weakness, which kept a lid on growth. China’s government is making every attempt to reignite the economy by providing stimulus, which has helped drive growth. While there have been some signs of China’s economy stabilizing, those are often proving unsustainable. China’s economy is on track to meet the government’s 5% target this year, but exceeding that target could prove difficult if there isn’t a sustained improvement in domestic and foreign demand. China’s economy and financial markets could continue to see periods of volatility over 2024. The government and the People’s Bank of China may show a willingness to step in with more stimulus to support the economy.

Market performance - as at April 30, 2024

Equity Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
S&P/TSX Composite Index C$	21,714.54	-2.04%	**-2.04%**	3.61%	**3.61%**	5.22%	**5.22%**
MSCI USA Index US$	4,797.68	-4.20%	**-2.66%**	5.40%	**9.77%**	21.44%	**23.26%**
MSCI EAFE Index US$	2,280.53	-2.93%	**-1.41%**	1.98%	**6.22%**	6.38%	**7.97%**
MSCI Emerging Markets Index US$	1,045.95	0.26%	**1.84%**	2.17%	**6.41%**	7.05%	**8.66%**
MSCI Europe Index US$	2,061.89	-2.43%	**-0.90%**	2.05%	**6.29%**	4.57%	**6.14%**
MSCI AC Asia Pacific Index US$	174.25	-1.49%	**0.07%**	2.87%	**7.14%**	8.69%	**10.32%**

Fixed Income Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
FTSE Canada	1,085.60	-2.00%	**-2.00%**	-3.20%	**-3.20%**	-0.91%	**0.91%**

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Universe Bond Index C$							
FTSE World Investment Grade Bond Index US$	205.89	-2.53%	**-1.00%**	-4.35%	**-0.38%**	-2.15%	**-0.69%**

Currencies	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
CAD/USD	0.7258	-1.73%	-	-3.89%	-	-1.64%	-

Commodities	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
West Texas Intermediate (US$/bbl)	81.93	-1.95%	-	13.82%	-	7.78%	-
Gold (US$/oz)	2,286.25	2.53%	-	10.82%	-	14.89%	-
Silver (US$/oz)	26.29	5.33%		10.50%		4.95%	

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