August 2024 market update

Piece together the economic puzzle with insights found in the market update.

Sept. 5, 2024

Introduction

Global equity markets were volatile to begin the month of August after a weak U.S. labour market report raised concerns of a potential recession in the world's largest economy. But global equity markets recovered and ended the month higher with signs pointing to the U.S. Federal Reserve Board ("Fed") beginning to lower interest rates at its September meeting. Over the month, many countries and regions reported falling inflation rates, notably Canada, the U.S. and Europe. Services sector activity continued to be a key driver of business activity over the month, continuing to reflect an overall shift in spending patterns of consumers around the world.

The S&P/TSX Composite Index edged higher over the month, driven by gains in the Information Technology and Real Estate sectors. U.S. equities also advanced. Yields on 10-year Government of Canada bonds were largely unchanged over the month, while those for 10-year U.S. Treasuries declined. The price of gold moved higher, while the price of oil finished lower.

Give Feedback

Data points to more rate cuts from Canada's central bank

As more and more economic data gets released, signs point to additional rate cuts from the Bank of Canada ("BoC") in the coming quarters. Canada's economic conditions appear to be moderating, showing signs that some monetary policy loosening is needed. Canada's labour market appears to be at the forefront. Canada's economy lost jobs for a second consecutive month in July, reinforcing signals that it has begun to lose momentum. There were 2,800 jobs lost in July, which added to the 1,400 jobs lost in June. Most of the job losses came from the part-time sector in July. Canada's unemployment rate remained at 6.4% for a second straight month, its highest level since January 2022. Cooling labour market conditions and tight financial conditions may be taking a bite out of consumer strength. Retail sales fell by 0.3% in June, the second straight decline and fifth over six months this year. Consumer price growth continued to ease in July. Canada's inflation rate dropped to 2.5% in July from 2.7% in June, which was the lowest rate since March 2021. Finally, Canada's economy grew by 2.1%, annualized, in the second quarter of 2024. Higher government and business spending was partially offset by a slowdown in personal consumption. All signs point to another rate cut from the BoC this year. Consumers and the economy are likely to benefit from the stimulation that lower interest rates may provide.

Weak U.S. labour market raises recessionary concerns

Early in August, the U.S. Bureau of Labor Statistics ("BLS") released a weak U.S. labour market report, raising fears of a potential recession. With inflation slowing and economic growth moderating, investors were left to wonder whether the Fed had waited too long to begin lowering interest rates, raising the spectre of a hard landing for the U.S. economy. In response, U.S. equities, and other global equity markets around the world, fell sharply. However, U.S. equity markets then began to pare back the losses and posted a gain over the month, with expectations growing the Fed would cut interest rates at its September meeting.

The U.S. economy added 114,000 jobs in July, which was well below the 175,000 jobs additions expected by economists. This was the second consecutive month of falling job additions. The U.S. unemployment rate increased to 4.3% over the month, which was its highest level since October 2021. The report reinforced signals that the U.S. labour market was cooling off. Later in the month, the BLS downwardly revised its job additions over the previous year by 818,000, reinforcing the sentiment that the labour market is not as strong as it once had been. Labour market data and slowing inflation appear to have nudged the Fed to soon begin lowering interest rates. At the Jackson Hole Symposium, Fed Chair Jerome Powell commented that the U.S. central bank is getting close to lowering interest rates.

BoE begins loosening monetary policy

At its August meeting, the Bank of England ("BoE") lowered its policy interest rate by 25 basis points ("bps") to 5.00%. The BoE underwent an aggressive campaign to lift interest rates amid decades-high inflation that put households and businesses under pressure. With inflation coming down and modest economic conditions, the BoE believed the time had come to loosen policy and help provide a boost to the U.K. economy. This marked the BoE's first rate cut since 2020. Inflation has fallen to 2.2% as of July 2024, giving the BoE some confidence it is on a path to sustainably meet its 2% target. However, the BoE acknowledged that inflation remains a bit of a risk, as geopolitical tensions and a low base year in 2023 could push up energy prices in the months to come. More work still needs to be done by the U.K. central bank. In response, the BoE noted that more rate cuts are possible this year, but it will closely monitor the path of inflation and the overall health of the U.K. economy. On that front, the economy appears to be stabilizing after reaching a technical recession to end 2023. A preliminary estimate showed the U.K. economy expanded by 0.6% in the second quarter of 2024, benefiting from a strong services sector. Household consumption edged higher over the quarter, albeit at a slow pace. Given the consumer still needs some help amid tight financial conditions, the BoE looks poised for a few more rate cuts this year and into 2025.

BoJ raising rates hurts yen carry trades

At the end of July, the Bank of Japan ("BoJ") raised its key interest rate by 15 bps to 0.25%. This was the BoJ's second rate increase in 2024 after no rate hikes over the past 17 years. Japan's central bank believes the rate hike was warranted with inflation above 2% and challenged labour market conditions. Furthermore, the BoJ has looked to provide some support for the yen, which has fallen considerably against the U.S. greenback. The impact of the rate hike was immediately reflected in the performance of Japan's equity market, which plummeted over 12% on August 5. With interest rates at ultra-low levels in Japan, investors borrowed using the Japanese yen to invest in higher-yielding assets elsewhere. But with interest rates climbing, investors began to unwind their positions, pushing equity markets lower. Japanese equities recovered as the month progressed, but the initial decline gave the BoJ caution on whether to keep raising interest rates. The BoJ noted it could still raise interest rates depending on economic conditions, but it is being mindful of the potential volatility in financial markets both in Japan and abroad. The yen should strengthen, but Japanese equity markets could continue to see some volatility should the BoJ keep raising interest rates.

Market performance - as at Aug. 31, 2024

Equity Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
S&P/TSX Composite Index C$	23,346.18	1.02%	**1.02%**	11.39%	**11.39%**	14.83%	**14.83%**
MSCI USA Index US$	5,373.15	2.27%	**0.01%**	18.04%	**20.68%**	25.15%	**24.87%**
MSCI EAFE Index US$	2,453.44	3.02%	**0.74%**	9.72%	**12.17%**	15.87%	**15.61%**
MSCI Emerging Markets Index US$	1,099.92	1.40%	**-0.85%**	7.44%	**9.84%**	11.29%	**11.05%**
MSCI Europe Index US$	2,218.54	3.71%	**1.42%**	9.81%	**12.26%**	15.58%	**15.32%**
MSCI AC Asia Pacific Index US$	186.46	1.55%	**-0.70%**	10.08%	**12.54%**	15.16%	**14.91%**

Fixed Income Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
FTSE Canada Universe Bond Index C$	1,147.51	0.33%	**0.33%**	2.32%	**2.32%**	8.04%	**8.04%**
FTSE World Investment Grade Bond Index US$	219.50	2.16%	**-0.10%**	1.98%	**4.26%**	6.98%	**6.74%**

Currencies	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
CAD/USD	0.7412	2.40%	-	-1.79%	-	0.36%	-

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)	73.55	-5.60%	-	2.65%	-	-9.90%	-
Gold (US$/oz)	2,503.39	2.28%	-	21.35%	-	28.89%	-
Silver (US$/oz)	28.86	-0.49%		21.30%		17.26%	