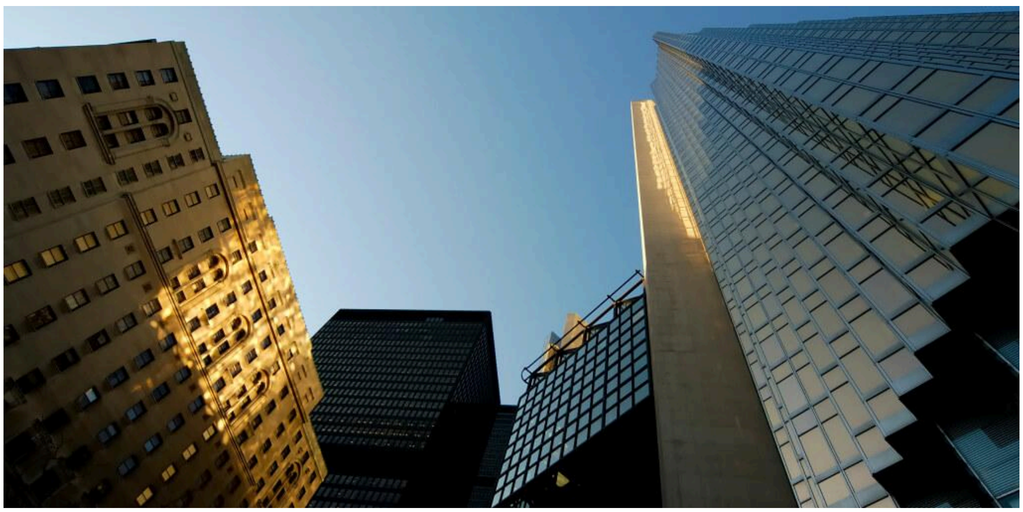
July 2024 market update

Stay on top of economic trends with our monthly market commentary.

Aug. 6, 2024



Introduction

Global equity markets edged higher over the month of July but did experience some bouts of volatility. Investors were weary of risk assets, with some central banks keeping rates higher for longer and global economic data proving to be relatively soft. Furthermore, concerns mounted that progress and potential returns on artificial intelligence were not as far along as previously expected, weighing on the stocks of technology heavyweights, which have been the main drivers of stock market performance this year. Developed market equities ticked higher. Conversely, emerging markets equities declined, due in part to uncertain economic conditions, which may weigh on trade activity.

In Canada, the S&P/TSX Composite Index advanced, getting a strong performance from the Real Estate and Materials sectors. South of the border, U.S. equities moved slightly higher. Among key commodities, oil prices declined over the month, while the price of gold increased. Yields on 10-year government bonds in Canada and the U.S. fell over July.

Give Feedback

BoC cuts rates by another 25 bps

The Bank of Canada ("BoC") wasted little time cutting interest rates again, lowering its benchmark overnight interest rate by 25 basis points ("bps") at a second straight meeting. The BoC's policy interest rate now stands at 4.50%. Canada's central bank believes the Canadian economy needs a bit more stimulation amid falling inflation and slowing economic activity. Furthermore, the labour market has shown signs of weakness in recent months. The BoC believes lower interest rates could help bring down mortgage and shelter costs, two categories that have helped drive elevated inflationary pressures in recent months. The BoC also pointed to weakening economic activity. Growth has been relatively soft amid tight financial conditions. The International Monetary Fund projects Canada's economy to grow by only 1.3% this year, largely in line with a lacklustre 2022. The BoC's message was relatively cautious. Canada's central bank noted that the Canadian economy faces many challenges, particularly in terms of consumer and business activity. But it does see inflation moderating further this year before falling to its 2% target in 2025. The BoC signalled its intentions to keep lowering interest rates but provided little information on timing. The central bank will make each decision independently, based on prevailing economic data at the time. Economic conditions are pointing to the potential for more rate cuts from the BoC this year and into early 2025.

U.S. economic growth shows its resiliency

A preliminary estimate showed the U.S. economy expanded at a stronger-than-expected pace in the second quarter of 2024. However, optimism was tempered by the overall trend in growth coming down compared to last year amid tight financial conditions. U.S. gross domestic product grew by 2.8%, annualized, in the second quarter of 2024. This exceeded the 2.0% increase economists had expected. The economy benefited from increased consumer and business spending, but this was partially offset by a drop in net trade and residential real estate investment, which contracted for the first time in a year. Real estate market activity has been modest in recent months, with high borrowing costs and elevated home prices weighing on demand.

Despite stronger growth, economic activity in 2024 has slowed compared to previous years, suggesting high borrowing costs and still-elevated inflation are hindering consumer and business activity. Combined with a downward trend in inflation, this will likely push the U.S. Federal Reserve Board ("Fed") to start lowering interest rates. However, investors will have to wait a bit longer after the Fed held steady at 5.25%–5.50% at its July meeting.

Stepping up support for China's economy

In July, the People's Bank of China ("PBOC") stepped up with further stimulus to help support China's struggling economy. China's economy expanded by 4.7% year-over-year in the second quarter of 2024, which was a notable slowdown from the 5.3% growth in the first quarter. Domestic demand and a weak property market continued to challenge overall economic activity. On the other hand, there was some improvement in the industrial sector, benefiting in part from the government's efforts to help revive the sector. But calls for stimulating demand and real estate activity persisted, and the PBOC acted. At its July fixing, the PBOC lowered its one- and five-year loan prime rates ("LPR") by 10 bps each to 3.35% and 3.85%, respectively. Both now sit at record lows. The one-year LPR serves as the benchmark for household and corporate loans, which could help boost demand. The five-year LPR is a reference rate for mortgages. The PBOC hopes the lower rate will help spur activity in China's weak property market. And the PBOC did not stop there. Later in the month, it reduced its one-year medium-term lending facility by 20 bps to 2.30%. While the support from the PBOC was a welcome development, investors are hoping the government takes more action to help increase demand. This could be critical, especially if China's trade partners enact more tariffs on its exports.

Change at the top of the U.K.'s government

The Labour Party won the U.K. general election in July. For the first time in 14 years, the Conservative Party will not be at the top of the U.K. government. The Labour Party ran on a pledge of fiscal sustainability. It has promised sustainable public spending and no increases to income taxes. Now, Prime Minister Keir Starmer will seek to implement policy to help support and kickstart economic activity in an environment of high borrowing costs and elevated inflationary pressures, which have helped push economic growth down. The U.K. economy grew by 0.7% in the first quarter of 2024 after falling into a technical recession at the end of 2023. Domestic demand has been particularly challenged as a result of tight financial conditions. The Bank of England ("BoE") lowered its policy interest rate by 25 bps to 5.00% at its meeting on August 1. The election win by the Labour Party is unlikely to have much impact on the path of the BoE, particularly in the short term. The BoE must continue to carefully monitor inflation and the labour market as it sets its course for monetary policy. Still, changes are sure to come to U.K. government policy, which the Labour Party hopes will have a positive impact on economic conditions going forward.

Market performance - as at July 31, 2024

Equity Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
S&P/TSX Composite Index C$	23,110.81	5.65%	**5.65%**	10.27%	**10.27%**	12.04%	**12.04%**
MSCI USA Index US$	5,253.78	1.17%	**2.16%**	15.42%	**20.67%**	20.22%	**26.09%**
MSCI EAFE Index US$	2,381.44	2.89%	**3.89%**	6.50%	**11.34%**	8.28%	**13.57%**
MSCI Emerging Markets Index US$	1,084.77	-0.14%	**0.83%**	5.96%	**10.78%**	3.62%	**8.68%**
MSCI Europe Index US$	2,139.10	2.08%	**3.08%**	5.88%	**10.69%**	7.72%	**12.98%**
MSCI AC Asia Pacific Index US$	183.61	1.72%	**2.71%**	8.39%	**13.33%**	7.53%	**12.78%**

Fixed Income Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
FTSE Canada Universe Bond Index C$	1,143.77	2.37%	**2.37%**	1.99%	**1.99%**	7.34%	**7.34%**
FTSE World Investment Grade Bond Index US$	214.86	2.75%	**3.75%**	-0.18%	**4.37%**	3.43%	**8.48%**

Currencies	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
CAD/USD	0.7242	-0.93%	-	-4.09%	-	-4.47%	-

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)	77.91	-3.56%	-	9.76%	-	-3.36%	-
Gold (US$/oz)	2,447.60	5.19%	-	18.64%	-	24.55%	-
Silver (US$/oz)	29.01	-0.47%		21.90%		17.21%	

Give Feedback