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June 2024 market update

The global economy may be uncertain, but we've got you covered with a snapshot of trends in Canada and around the world.

July 4, 2024

Introduction

Global equity markets moved higher over the month of June. Investors carried a relatively optimistic stance towards risk assets as some global central banks began lowering interest rates. Furthermore, the global economy remained relatively resilient, despite challenges. The Bank of Canada ("BoC") and European Central Bank ("ECB") lowered their policy interest rates by 25 basis points ("bps") at their June meetings. Meanwhile, the U.S. Federal Reserve Board ("Fed"), Bank of England ("BoE") and Bank of Japan held steady.

Despite coming down in most countries and regions, inflationary pressures persist, keeping financial conditions relatively tight. Global manufacturing activity remained weak in June, still struggling amid weak global demand. Conversely, services sector activity has picked up recently, reflecting a shift in spending patterns by global consumers.

Give Feedback

In Canada, the S&P/TSX Composite Index declined in June, dragged down by the Communication Services sector. U.S. equities advanced over the month. Yields on 10-year bonds in Canada and the U.S. declined. Gold prices ended largely unchanged, while the price of oil advanced.

BoC starts lowering interest rates

At its June meeting, the BoC began lowering interest rates. In response to moderating inflation and weakening global economic growth, the BoC reduced its benchmark overnight interest rate by 25 bps to 4.75%. This was the BoC's first rate cut since 2020, when it was responding to the pandemic that halted economic activity. The rate cut also came amid signs that consumer strength is beginning to wane, largely in response to high borrowing costs and elevated inflationary pressures. Statistics Canada estimated that retail sales fell by 0.6% in May, which would mark the fourth decline across five months in 2024. The BoC was clearly cognizant that Canadian households might need some support. This was likely not the last rate cut from the BoC this year. Canada's central bank expects to reduce interest rates further, but likely at a gradual pace, with inflation remaining a risk. In fact, Canada's inflation rate accelerated in May, reinforcing the BoC's belief that inflation could be on a bumpy path to its 2% target. Still, Canada's economy appears to be in need of some support, which will likely prompt at least one more rate cut from the BoC this year.

Fed waits a bit longer

As the year has progressed, expectations have grown that the Fed will push back rate cuts until later in the year. This came into full view when the Fed held the target range for its federal funds rate steady at 5.25%–5.50% at its June meeting. Before beginning to reduce interest rates, Fed officials are seeking more confidence inflation will sustainably reach the central bank's 2% target. Furthermore, economic conditions remain relatively resilient, which kept Fed officials believing a restrictive policy interest rate is still needed. The U.S. economy continues to grow, demonstrating its relative strength. There was fear that tight financial conditions would drag down the economy into a contraction, but the economy has thus far avoided a recession. Meanwhile, U.S. consumers have demonstrated their resiliency despite high inflation and interest rates. The labour market, despite cooling slightly, remains a source of strength for the U.S. economy. Given the resiliency of the U.S. economy, expectations have changed from three interest rate cuts to just one rate cut this year. This rate cut is unlikely in July, but a September cut is on the table. If the Fed continues to hold steady for longer while the BoC stays on its path of cutting rates, it could put downward pressure on the Canadian dollar.

European elections raise uncertainty about economy

First-quarter data showed the European economy beginning to stabilize. The European economy expanded by 0.3% in the first quarter of 2024, rebounding from a 0.1% contraction in the previous quarter. Europe's economy has been shaky amid tight financial conditions, but the relatively robust first-quarter growth points to some improvement in economic conditions. Services sector activity has been a key cog of strength in 2024. Improving demand, resulting in strong output, has helped push the sector higher. This strength has helped offset any weakness in the manufacturing sector.

In June, the ECB lowered its policy interest rate by 25 bps to 4.25%, which could help stimulate consumer and economic activity. While economic progress in the first half of 2024 has been positive, the outlook is a bit uncertain. The European Parliamentary elections took place in June where there were widespread changes to the composition and political leanings of members. In fact, the results prompted an election to be called in France, one of Europe's largest economies. Now, policy changes could disrupt the stabilization in Europe's economy and hinder further growth. This uncertainty weighed on consumer and business confidence heading into the second half of the year. Financial markets were also uneven given the uncertain outlook, and could see some volatility over the rest of 2024.

The U.K. economy is also facing its own sets of challenges as 2024 progresses, including elections that could change the course of policy. The BoE elected to hold its key interest rate steady in June, but an upcoming rate cut appears likely with inflation coming down and economic conditions waning.

OPEC+ plans to scale back production cuts

The Organization of the Petroleum Exporting Countries and allies (“OPEC+”) plans to scale back some of its production cuts. That was the key message from the oil organization’s monthly gathering in June. In efforts to help balance and support the oil market, OPEC+ has reduced production since 2022 using mandated and voluntary production cuts. This has helped put a floor on oil prices with the global economy remaining relatively resilient, keeping demand robust. The production cuts amount to approximately 5.86 million barrels of oil per day (“bpd”), composed of 3.66 million bpd in mandatory cuts and 2.20 million bpd in voluntary production cuts. The mandatory cuts will extend into 2025, while the voluntary production cuts will be scaled back beginning in October. However, OPEC+ indicated that it could still alter its plan depending on economic conditions and the impact of potential changes from global central banks. Increasing the supply of oil, particularly if demand does not pick up further, could put downward pressure on the price of oil. While oil-producing companies globally could be negatively impacted by lower prices, it could ease the pressure on households. Higher oil prices have been a major contributor to decades-high inflation, taking a bite out of households’ disposable income. Any drop in oil prices could ease inflationary pressures here in Canada, help lower interest rates and put money back into the pockets of Canadian households. Oil prices still moved higher over the month.

Market performance - as at June 30, 2024

Equity Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
S&P/TSX Composite Index C$	21,875.79	-1.77%	**-1.77%**	4.38%	**4.38%**	9.86%	**9.86%**
MSCI USA Index US$	5,192.94	3.46%	**3.70%**	14.08%	**18.12%**	24.30%	**28.83%**
MSCI EAFE Index US$	2,314.63	-1.74%	**-1.51%**	3.51%	**7.18%**	9.51%	**13.02%**
MSCI Emerging Markets Index US$	1,086.25	3.55%	**3.80%**	6.11%	**9.87%**	9.49%	**13.01%**
MSCI Europe Index US$	2,095.46	-2.38%	**-2.15%**	3.72%	**7.39%**	10.14%	**13.69%**
MSCI AC Asia Pacific Index US$	180.51	2.09%	**2.32%**	6.56%	**10.34%**	10.65%	**13.77%**

Fixed Income Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
FTSE Canada Universe Bond Index C$	1,117.26	1.13%	**1.13%**	-0.38%	**-0.38%**	4.51%	**4.51%**
FTSE World Investment Grade Bond Index US$	209.11	0.14%	**0.37%**	-2.85%	**0.60%**	1.39%	**4.03%**

Currencies	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
CAD/USD	0.7310	-0.38%	-	-3.19%	-	-3.12%	-

Give Feedback

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)	81.54	5.81%	-	13.80%	-	16.72%	-
Gold (US$/oz)	2,326.75	-0.02%	-	12.79%	-	21.93%	-
Silver (US$/oz)	29.14	-4.16%		22.47%		29.15%	

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