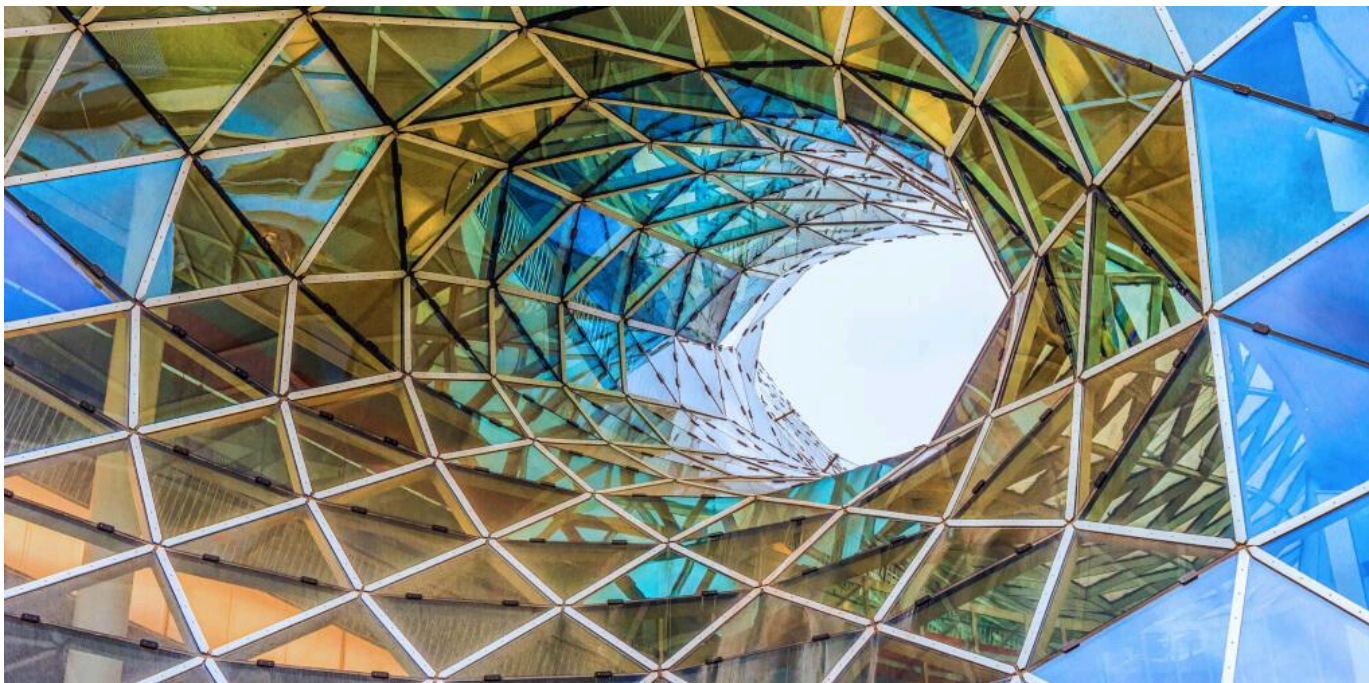


May 2024 market update

Global economy unpacked: from pinch points to promising trends

June 5, 2024



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Introduction

Global equity markets moved higher over May 2024 with excitement growing among investors that interest rate cuts from major central banks might be on the horizon. Economic data was relatively mixed over the month, heightening investor bets that interest rates may soon start going down. Manufacturing sector activity largely improved, but it is still hindered by relatively weak global demand.

Inflation continues to subside. Still, inflationary pressures remain at elevated levels, which is putting the squeeze on many households and businesses. The U.S. Federal Reserve Board (“Fed”) held a meeting in May, holding its federal funds rate steady at a target range of 5.25%–5.50%. The Bank of England also held a May meeting where it held steady at 5.25%.

The S&P/TSX Composite Index advanced over the month, reaching a new record high along the way. The Materials sector was the best performer in May, benefiting from higher gold prices. U.S. equities also finished higher. Yields on 10-year government bonds in Canada and the U.S. finished lower over the month.

Canadian households feel the pinch

Canadian consumers appeared to be feeling the pressure of tight financial conditions over the first quarter of 2024. Statistics Canada reported that retail sales in Canada fell by 0.2% in March, marking their third consecutive decline. Tight financial conditions have weighed on Canadian consumers for some time, but consumers have consistently proven their relative resilience, benefiting from a strong labour market and pent-up savings accumulated during the pandemic. In March, there was a drop in spending for electronics, appliances and clothing. Conversely, sales of automobiles increased in March, which helped minimize the drop in overall sales. Automotive sales have been a bright spot, due in part to the strong population growth Canada has seen in recent months. No doubt, the Bank of Canada (“BoC”) is taking note of the relatively weak sales environment over the first quarter. This could be the nudge the BoC needs to begin lowering interest rates. The labour market is slowing, inflation is moderating, and economic growth has been modest, which could result in a rate cut from the BoC in June. Markets are currently expecting the BoC to lower interest rates by 25 basis points. A rate cut could help reignite consumer and economic activity, which could also provide a tailwind for Canadian equities. The S&P/TSX Composite Index could be poised to reach new records over the remainder of 2024.

U.S. labour market shows signs of slowing

After a hot start to 2024, the U.S. labour market is beginning to show some signs of cooling off. Markets were originally encouraged by the slowdown, believing it could put the Fed on a path to begin lowering interest rates in the near term. However, conditions remain ultra-tight, and inflation still has much room to go before reaching the Fed's 2% target. By all accounts, the Fed might not be looking to cut interest rates until the fall of 2024. After the market's initial positive reaction, sentiment cooled off as Fed comments and its meeting minutes appeared relatively hawkish and suggested the central bank might not be in an immediate rush to lower interest rates. At the beginning of May, the Fed held the target range of its federal funds rate steady at 5.25%–5.50%. In April, the economy added 175,000 jobs, which was well below the 240,000 job additions expected by economists and the previous month's 315,000 job additions. April's additions were also the least since October 2023. Meanwhile, ADP reported that private businesses in the U.S. added 192,000 jobs in April, coming in below the 208,000 job additions in March. While a slowing labour market could point to a potential rate cut from the Fed, as of the end of May, it appears unlikely at its June or July meetings.

Europe's economy displays signs of improvement

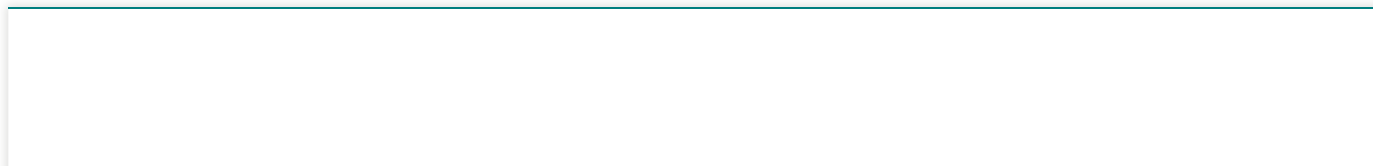
Europe's economy emerged from a technical recession in the first quarter of 2024, showing signs of stabilizing with interest rate cuts on the horizon. Still, the economy is not without challenges that could linger for the remainder of 2024. Europe's economy expanded by 0.3% in the first quarter of 2024. Europe's growth was driven by its largest economy, Germany. Gross domestic product in Germany rebounded in the first quarter, rising by 0.2%. The German economy benefited from strong business investment and net exports. And the European consumer pushed aside concerns about tight financial conditions and pushed spending higher in March. Retail sales in Europe increased by 0.8% in March, which was the largest increase since September 2022. The increase was driven by a rise in sales for automotive fuel and food.

While Europe's economy showed some improvement in the first quarter, it still faces several obstacles that could hinder growth. The Organisation for Economic Co-operation and Development expects Europe's economy to expand in 2024, but likely at a slower pace than most other developed markets in response to geopolitical tensions in the area and still elevated inflationary pressures. The European Central Bank ("ECB") seems poised to begin lowering interest rates this summer. However, the depth of its interest rate cuts in 2024 might not be as far as earlier expected. With the economy showing some improvement, the ECB could hold off lowering interest rates too quickly if inflation proves sticky.

China's government looks to reignite economic activity

In May, China's government announced its intentions to help stimulate the economy and ease the pain felt in the property market. The government started off by announcing a sizeable bond issuance to help fund its stimulus plans. China began to sell long-term government bonds totalling 1 trillion yuan (C\$188.2 billion). The issuance will be done in tranches over the next several months. While the government has yet to specifically outline how the money will be applied, it is expected to be used to reignite China's economy, particularly in areas that have been challenged, such as domestic demand, industrial production and the property market. The property market has been particularly troublesome for China's economy. In response, the government announced new measures to help spur purchasing activity. This includes lowering the down-payment requirements to purchase real estate and eliminating the floor for mortgage rates. Further help might come from the People's Bank of China ("PBOC"). The PBOC held its loan prime rates steady at its May fixing, but markets expect policy to soften further to help support China's economy and property market. If China's government can introduce measures that successfully support those areas of the economy that are weak, China's economy should meet or exceed the government's 5% target this year. This could also be a boon for Chinese equities, which have lagged the performance of most other equities this year.

Market performance - as at May 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\$	22,269.12	2.55%	2.55%	6.25%	6.25%	11.21%	11.21%
MSCI USA Index US\$	5,019.50	4.62%	3.77%	10.27%	13.91%	23.37%	25.22%
MSCI EAFE Index US\$	2,355.67	3.29%	2.45%	5.34%	8.82%	12.30%	13.98%
MSCI Emerging Markets Index US\$	1,048.96	0.29%	-0.53%	2.46%	5.85%	6.56%	8.16%
MSCI Europe Index US\$	2,146.61	4.11%	3.26%	6.25%	9.75%	13.25%	14.94%
MSCI AC Asia Pacific Index US\$	176.82	1.47%	0.65%	4.39%	7.83%	8.86%	10.49%

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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\$	1,104.81	1.77%	1.77%	-1.49%	-1.49%	2.72%	2.72%
FTSE World Investment Grade Bond Index US\$	208.83	1.43%	0.60%	-2.98%	0.23%	1.17%	2.68%

Currencies	Level	Month to date	Month to date (C\$)	Year to date	Year to date (C\$)	1 year	1 year (C\$)
CAD/USD	0.7338	1.10%	-	-2.82%	-	-1.48%	-

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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)	76.99	-5.80%	-	7.45%	-	7.32%	-
Gold (US\$/oz)	2,327.33	1.80%	-	12.81%	-	19.47%	-
Silver (US\$/oz)	30.41	15.65%		27.79%		28.82%	

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