Monthly Market Commentary
May 2024

Stocks move higher in May despite a late glitch.

- Global equity markets rallied for much of May 2024, as signs of slowing inflation and weaker-than-expected economic data bolstered investors' optimism that the Federal Reserve (Fed) and other major central banks will pivot to a rate-cutting cycle by the end of summer. However, stocks weathered a downturn during the last week of the month after Minneapolis Fed President Neel Kashkari raised the possibility of interest-rate hikes.
- Global fixed-income assets also garnered positive returns in May. U.S. Treasury yields moved lower for all maturities of six months or greater. (Bond prices move inversely to yields).
- Investors have dramatically scaled back their expectations regarding the number of rate cuts the major central banks will implement this year.

Economic Backdrop

Global equity markets rallied for much of May 2024, as signs of slowing inflation and weaker-than-expected economic data bolstered investors' optimism that the Federal Reserve (Fed) and other major central banks will pivot to a rate-cutting cycle by the end of summer. However, stocks weathered a downturn during the last week of the month after Minneapolis Fed President Neel Kashkari raised the possibility of interest-rate hikes. At the Barclays-CEPR International Monetary Policy Forum in London on May 28, Kashkari commented, "I think the odds of us raising rates are quite low, but I don't want to take anything off the table." Kashkari is not a voting member of the Federal Open Market Committee (FOMC), the Fed's monetary policymaking body responsible for setting the federal-funds rate.

The Nordic countries were the strongest performers among developed equity markets in May, led by Norway and Finland. North America also posted a notable gain attributable mainly to a strong rally in the U.S. The Far East recorded a positive return for the month, but was the primary developed-market laggard due to relative weakness in Japan and Hong Kong. Europe was the top performer within emerging markets for the month, attributable primarily to strength in the Czech Republic. Conversely, Latin America posted a negative return and was the most notable underperformer due to weakness in Brazil.

Global fixed-income assets, as measured by the Bloomberg Global Aggregate Bond Index, gained 1.3% in May. Mortgage-backed securities (MBS) were the strongest performers within the U.S. fixed-income market, followed by corporate bonds, U.S. Treasury securities, and high-yield bonds. Treasury yields moved lower for all maturities of six months or greater. Yields on 2-, 3-, 5- and 10-year Treasury notes decreased 0.15%, 0.18%, 0.20%, and 0.18%, respectively, in May. The spread between 10- and 2-year notes widened from –0.35% to –0.38% over the month, and the yield curve remained inverted.

Global commodity prices, as measured by the Bloomberg Commodity Total Return Index, advanced 1.8% in May. Prices for West Texas Intermediate (WTI) and Brent crude oil fell 4.9% and 6.0%, respectively, due to concerns that softening demand for gasoline could lead to lower oil prices. The New York Mercantile Exchange (NYMEX) natural gas price surged nearly 30% over the month due to strong demand and a decline in production in the U.S. The gold spot price rose 1.9% in May as the ongoing Israel-Hamas conflict prompted investors to seek "safe-haven" investments, along with weakness in the U.S. dollar. (The gold price generally moves inversely to the U.S. dollar.) Wheat prices climbed 12.5% for the month on speculation that below-average rainfall in Russia and the Southern Plains in the U.S. could lead to supply constraints.

According to minutes from the FOMC's April 30-May 1 meeting, released on May 22, the members reiterated their view that the inflation rate would fall to 2% over the medium term. However, they cautioned that recent data had not boosted their confidence to convince them that there had been progress toward the 2% level. Consequently, the FOMC participants noted that "the disinflation process would likely take longer than previously thought." The members also discussed the need to maintain restrictive monetary policy for a longer period if inflation does not "show signs of moving sustainably toward 2 percent or reducing policy restraint in the event of an unexpected weakening in labour market conditions. Various participants mentioned a willingness to tighten [monetary] policy further should risks to inflation materialize in a way that such an action became appropriate."

As of the end of May, The CME Group's FedWatch Tool implied a 15% chance that the central bank will implement an initial rate cut of 25 basis points (0.25%) following its meeting on July 30-31. The FedWatch Tool provides a gauge of the markets' expectations of potential changes to the federal-funds target rate while assessing potential Fed monetary policy actions at Federal Open Market Committee (FOMC) meetings. The FedWatch Tool reflected a 49% likelihood that the central bank will cut the federal-funds rate by 25 basis points to a range of 5.00-5.25% at its meeting on September 17-18. The FOMC's next meeting is scheduled for June 11-12.

Central Banks

- Nearly eleven months after its last rate hike, the Bank of Canada (BoC) became the first notable developed market central bank to ease its policy rate with a 0.25% cut to 4.75% following its June 5 meeting. Additionally, the BoC will continue to normalize its balance sheet via quantitative tightening. In its press release, the BoC noted that global growth was solid—around 3%—even as growth moderated in North America. It also noted that inflation, while still elevated in many developed economies, continues to make progress towards the BoC's target. With this in mind, the BoC decided that monetary policy could be less restrictive going forward, this despite continued concerns that the risk of reacceleration in the inflation rate remains. The next BoC meeting is scheduled for July 24.

- During an appearance at the Peterson Institute for International Economics in Washington, D.C., on May 21, Fed Governor Christopher J. Waller acknowledged that inflation has been stickier than the central bank had anticipated. However, he noted that "more recent data on the economy indicate that restrictive monetary policy is helping to cool off aggregate demand and the inflation data for April suggest that progress toward 2 percent has likely resumed. Central bankers should never say never, but the data suggests that inflation isn't accelerating, and I believe that further increases in the policy rate are probably unnecessary." Peterson noted that data for April indicated that the economy may be cooling, citing flat retail sales growth, declines in manufacturing and business activity, as well as a slowdown in the labour market.

- The Bank of England (BOE) left the Bank Rate unchanged at a 15-year high of 5.25% following its meeting on May 8. In its announcement of the rate decision, the BOE commented, "Monetary policy will need to remain restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term in line with the [Monetary Policy Committee's] remit. The Committee has judged since last autumn that monetary policy needs to be restrictive for an extended period of time until the risk of inflation becoming embedded above the 2% target dissipates." The BOE cited several inflationary pressures, including the tight labour market, wage growth, and services price inflation.

- The European Central Bank (ECB) left its benchmark interest rate unchanged at 4.50% following its meeting on April 11, but left the door open for possible rate cuts in the not-too-distant future. In a statement announcing the rate decision, the ECB's Governing Council noted that its actions going forward "will ensure that its policy rates will stay sufficiently restrictive for as long as necessary. If the Governing Council's updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission were to further increase its confidence that inflation is converging to the target in a sustained manner, it would be appropriate to reduce the current level of monetary policy restriction." The ECB's statement boosted hopes that the central bank will pivot to rate cuts at its next meeting in early June.

- In its "Summary of Opinions at the Monetary Policy Meeting" of April 25-26, released on May 9, the Bank of Japan (BOJ) noted, "Japan's economy has recovered moderately, although some weakness has been seen in part. It is likely to keep growing at a pace above its potential growth rate, as a virtuous cycle from income to spending gradually intensifies." Regarding monetary policy, the central bank commented, "If the outlook for economic activity and prices will be realized and underlying inflation will increase, the Bank will adjust the degree of monetary accommodation, while it anticipates that accommodative financial conditions will be maintained for the time being." The BOJ maintained its benchmark interest rate in a range of 0.0% to 0.1% after its meeting in late April. The central bank's next meeting is scheduled for June 13-14.

Economic Data (unless otherwise noted, data sourced to Bloomberg)

- According to Statistics Canada, consumer prices (as measured by the change in the Consumer Price Index (CPI)) jumped 0.5% in April—a modest decline from last month's 0.6% reading—as gasoline prices were higher. The 2.7% year-over-year increase was down slightly from the 2.9% annual rise in March. Meanwhile, producer prices were sharply higher in April, as the Industrial Product Price Index (IPPI) rose 1.5% and the Raw Materials Price Index (RMPI) leapt 5.5%. Year-over-year prices increased 1.4% and 3.1%, respectively, for the IPPI and RMPI. Prices for metals and energy have driven the reacceleration in producer prices. The employment picture was little changed as the Canadian economy added 27,000 in May. The unemployment rate ticked up 0.1% to 6.2%, representing an increase of 0.9% year over year. Gains in employment for May were entirely for younger and older workers, as employment for the core working age (aged 25 to 54) actually declined.

- The U.S. Department of Labor reported that the consumer-price index (CPI) rose 0.3% in April, marginally lower than the 0.4% increase in March. The 3.4% year-over-year advance for the index was in line with market expectations, and was down slightly from the 3.5% annual rise in March. Housing and gasoline prices comprised roughly 70% of the month-over-month increase in the CPI. Housing costs rose 0.4% and 5.5% in April and year-over-year, respectively, while gasoline prices posted corresponding increases of 2.8% and 1.2% in April and the previous 12-month period. Food prices were flat in April following a 0.1% uptick in March, and rose 2.2% year-over-year, matching the annual upturn for the preceding month. The 3.6% rolling 12-month rise in core inflation, as measured by the CPI for all items less food and energy, was down 0.2 percentage point from the year-over-year upturn in March, and represented the smallest annual increase since April 2021. According to the second estimate from the Department of Commerce, U.S. gross domestic product (GDP) grew at an annualized rate of 1.3% in the first quarter of 2024—down sharply from the 3.4% rise in the fourth quarter of 2023. The latest figure represents a decrease from the initial estimate of 1.6% for first-quarter GDP growth. The change was attributed to downward revisions in consumer spending, private inventory investment (a measure of the changes in values of inventories from one time period to the next), and federal government spending. This was partly offset by upward revisions to state and local government spending, non-residential fixed investment (purchases of both nonresidential structures and equipment and software), residential fixed investment (purchases of private residential structures and residential equipment that property owners use for rentals), and exports.

- The Office for National Statistics (ONS) reported that inflation in the U.K., as measured by the CPI, rose 0.3% in April, down from the 0.6% increase in March. The CPI's 2.3% year-over-year advance was significantly lower than the 3.2% annual upturn for the previous month. The largest contributors to the 12-month rise in inflation included alcohol and tobacco, as well as health care. These more than offset declines in costs for housing and household services, and furniture and household goods. Core inflation, which excludes volatile food prices, rose at an annual rate of 3.9% in April, down from the 4.2% year-over-year increase in March. According to the initial estimate of the ONS, U.K. GDP grew 0.4% in March 2024 (the most recent reporting period), following a 0.2% increase in February. GDP grew 0.6% over the three-month period ending March 31. Output in the production and services sectors rose 0.5% and 0.2%, respectively, in March, while construction output fell 0.4%.

- Eurostat pegged the inflation rate for the eurozone at 2.4% for the 12-month period ending in April, matching the annual increase in March. Costs in the services sector rose 1.6% for the period. While prices for food, alcohol and tobacco were up 0.6% year-over-year in April, the pace of acceleration slowed considerably from the 2.6% annual rate for the previous month. Energy prices fell 0.6% over the previous 12 months following a 1.8% annual decline in March. Core inflation, which excludes volatile energy and food prices, rose at an annual rate of 2.7% in April, down 0.2 percentage point from the 2.9% year-over-year increase in March. Eurostat also reported that eurozone GDP edged up 0.3% in the first quarter of 2024, following a flat reading for the fourth quarter of 2023, and was up 0.4% year-over-year. The economies of Ireland, Hungary, and Lithuania were the strongest performers for the first quarter, expanding 1.1%, 0.8%, and 0.8%, respectively. Conversely, Sweden's GDP ticked down 0.1% during the quarter.

Index Data (May 2024)

- The S&P/TSX Composite Index rose 2.77%.
- The FTSE Canada Universe Bond Index gained 1.77%.
- The S&P 500 Index, which measures the performance of U.S. equities, returned 4.14%.
- The MSCI ACWI (Net) Index, used to gauge global equity performance, climbed 3.25%.
- The ICE BofA U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned 1.08% (currency hedged) and 0.35% (unhedged).
- The Chicago Board Options Exchange Volatility Index—a measure of implied volatility in the S&P 500 Index that is also known as the "fear index"—was lower, as it moved from 15.65 to 12.92 to end the month.
- The WTI Cushing crude oil price—a key indicator of movements in the oil market—fell from US$81.93 to US$76.99 a barrel to end May.
- The Canadian dollar modestly strengthened to C$1.36 per U.S. dollar. The U.S. dollar was generally weaker against the world's other major currencies, ending May at US$1.09 versus the euro, US$1.27 against sterling, and at 157.15 yen.

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