Monthly Market Commentary
July 2024

Investors rotate and stocks gyrate.

- Major global equity markets saw mixed performance in July amid several bouts of volatility. Developed equities garnered an overall positive return, outperforming their emerging-market counterparts. In the U.S., softening inflation data, and dovish comments from the Federal Reserve (Fed) following its monetary policy meeting, bolstered hopes that the central bank will begin to reduce interest rates as soon as September. Investors rotated out of the mega-cap technology stocks that have led the U.S. equity market rally thus far in 2024, into shares of small-cap companies.
- Global fixed-income assets recorded positive returns in July. U.S. Treasury yields moved higher for all maturities, with the exception of 1- and 2-month bills. (Bond prices move inversely to yields).
- We think that a 25-basis point (0.25%) interest-rate reduction from the Fed in September still seems likely, with an additional cut perhaps occurring in December.

Economic Backdrop

Major global equity markets saw mixed performance in July amid several bouts of volatility. Developed equity markets garnered an overall positive return, outperforming their emerging-market counterparts. In the U.S., softening inflation data, and dovish comments from the Fed following its monetary policy meeting, bolstered hopes that the central bank will begin to reduce interest rates as soon as September. Investors rotated out of the mega-cap technology stocks that have led the U.S. equity market rally thus far in 2024, into shares of small-cap companies, which typically outperform large caps in declining interest-rate environments. Late in the month, the tech-heavy Nasdaq Composite Index and the broad-market S&P 500 Index recorded their steepest one-day declines in nearly two years. Consequently, the Cboe Volatility Index (VIX)—dubbed the “fear gauge” as it measures the constant 30-day volatility of the U.S. equity market—surged to a three-month high.

The Far East was the strongest-performing region among developed equity markets for the month, led by Japan. In a reversal of a recent upward trend, the Nordic countries recorded negative returns and were the worst developed-market performers, hampered mainly by a significant downturn in Denmark. The Jordan + Egypt + Morocco region comprised the top-performing emerging market in July. The Gulf Cooperation Council (GCC) countries—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE)—also performed well due primarily to notable strength in the UAE and Qatar. In contrast, the Far East was the primary emerging-market laggard due to weakness in Taiwan and China. Eastern Europe’s underperformance was attributable mainly to a downturn in Poland.

Global fixed-income assets, as measured by the Bloomberg Global Aggregate Bond Index, gained 1.1% in July. Mortgage-backed securities (MBS) were the strongest performers within the U.S. fixed-income market, followed by high-yield bonds, U.S. Treasury securities, and investment-grade corporate bonds. Treasury yields moved lower for all maturities during the month, with the exception of 1- and 2-month bills. (Bond prices move inversely to yields.) Yields on 2-, 3-, 5- and 10-year Treasury notes fell 0.42%, 0.36%, 0.33%, and 0.17%, respectively, in July. The spread between 10- and 2-year notes narrowed from –0.35% to –0.20% over the month, and the yield curve remained inverted.

Global commodity prices, as measured by the Bloomberg Commodity Total Return Index, fell 4.0% during the month. The West Texas Intermediate (WTI) and Brent crude oil prices declined 4.5% and 4.9%, respectively, amid concerns that China’s slowing economy could hamper demand for oil in the second half of this year. The New York Mercantile Exchange (NYMEX) natural gas price tumbled 21.6% over the month due to relatively large inventories in the U.S., as well as worries that expected cooler weather in the Midwestern and Western U.S. in August could reduce demand for natural gas-generated electricity. The gold spot price rose 5.7% in July as rising geopolitical tensions in the Middle East led investors to seek “safe-haven” investments. Wheat prices were down 8.1% for the month due to relatively strong harvests (increasing supply) in the U.S., as well as a decline in exports from the country.

As widely expected, the Federal Open Market Committee (FOMC) left the federal-funds rate unchanged in a range of 5.25% to 5.50% following its meeting on July 30-31, but appeared to be open to a rate cut in September. In a statement announcing the rate decision, the FOMC commented, “Inflation has eased over the past year but remains somewhat elevated. In recent months, there has been some further progress toward the Committee’s 2 percent inflation objective.” The Fed’s characterization of inflation as “somewhat elevated” represented a more dovish tone. The FOMC reaffirmed its dual mandate of achieving both maximum employment and price stability, noting, “The economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate.” This language was a departure from previous statements that the FOMC members were “highly attentive” to the risk of inflation.

At the end of July, the CME Group’s FedWatch Tool implied an 88% chance that the central bank will implement a 25-basis-point (0.25%) rate cut following its meeting on September 17-18, and indicated that the probability of further 25-basis-point cuts at the November and December meetings were 66% and 65%, respectively. 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.

On the geopolitical front, Israel took responsibility for the death of Fuad Shukr, a senior military commander for Iran-backed Lebanese militia Hezbollah, in retaliation for the bombing of a soccer field in the Israeli-controlled Golan Heights on July 27, which resulted in the deaths of 12 children and teenagers. Additionally, Iran and Hamas blamed Israel for the assassination of Hamas political leader Ismail Haniyeh in Iran on July 30. The events ignited concerns that the ongoing Israel-Hamas military conflict may lead to a wider war in the Mideast.

Central Banks

- The Bank of Canada (BoC) cut its policy rate by 0.25% to 4.50% following its July 24 meeting, citing “broad price pressures continuing to ease and inflation expected to move closer to 2%.” In its press release, the BoC noted that inflationary pressures were subsiding due to ongoing excess supply. However, they cautioned that price pressures continued to impact important economic segments, particularly shelter. The BoC also observed that the global economy continued to expand at a rate of roughly 3%. It also noted that inflation, while still elevated in many developed economies, continues to ease gradually toward the BoC’s target. The next BoC meeting is scheduled for September 4.

- At a news conference following the FOMC meeting, Fed Chair Jerome Powell said that a rate reduction in September “could be on the table. It’s just a question of seeing more good data.” Powell acknowledged that the FOMC members even discussed reducing the federal-funds rate during the current meeting before voting to keep the benchmark rate steady. He also said that the central bank has “made no decisions about future meetings.” Powell noted that the U.S. labour market is robust but not overheated. “I don't think the labour market in its current state is a likely source of significant inflationary pressures, so I would not like to see material further cooling in the labour market,” he stated.

- By a slim 5-4 margin, the Bank of England (BOE) voted to reduce the Bank Rate by 25 basis points (0.25%) to 5.00% at its meeting on July 31. Four BOE Monetary Policy Committee (MPC) members voted to maintain the Bank Rate at 5.25%. In its announcement of the rate decision, the MPC commented, “It is now appropriate to reduce slightly the degree of policy restrictiveness. The impact from past external shocks has abated and there has been some progress in moderating risks of persistence in inflation. Although GDP has been stronger than expected, the restrictive stance of monetary policy continues to weigh on activity in the real economy, leading to a looser labour market and bearing down on inflationary pressures.”

- The European Central Bank (ECB) left its benchmark interest rate unchanged at 4.25% following its meeting on July 24, but hinted that there could be a rate cut in September. The ECB reduced its benchmark interest rate by 25 basis points (0.25%) in early June—its first cut since 2019. During a news conference following the meeting, ECB President Christine Lagarde commented, “So the question of September and what we do in September is wide open.” In a statement announcing the rate decision, the ECB’s Governing Council noted, “While some measures of underlying inflation ticked up in May owing to one-off factors, most measures were either stable or edged down in June. In line with expectations, the inflationary impact of high wage growth has been buffered by [corporate] profits.”

- The Bank of Japan (BOJ) raised its benchmark interest rate a range of 0.0%-0.1% to 0.25%—the highest level since 2008—after its meeting on July 29-30. BOJ Governor Kazuo Ueda indicated that the central bank could implement another rate hike before the end of 2024. During a news conference following the announcement of the rate increase, Ueda said, “If data shows economic conditions are on track, and if such data accumulates, we would of course take the next step.” In response to the rate hike and Ueda’s hawkish comments, the U.S. dollar fell below 150 Japanese yen for the first time since March of this year.

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)) slid 0.1% in June—a sharp decline from last month's 0.6% gain—as gasoline prices were lower. The 2.7% year-over-year increase was down slightly from the 2.9% annual rise in May. Producer prices were also muted in June, as the Industrial Product Price Index (IPPI) was flat and the Raw Materials Price Index (RMPI) declined 1.4%. Year-over-year prices increased 2.8% and 7.5%, respectively, for the IPPI and RMPI. Food prices have been mixed recently with meats and dairy products showing price increases, while crop prices have fallen. Over the past year, gains have been concentrated in metals and, to a lesser extent, in energy. The employment picture was little changed as the Canadian economy lost 2,800 jobs in July, while the unemployment rate was steady at 6.4%.

- The Department of Labor reported that the consumer-price index (CPI) dipped 0.1% in June, following a flat reading in May. The 3.0% year-over-year advance in the index, down from the 3.3% annual rise in May, was below expectations. Gasoline prices fell 3.8% in June and 2.5% year-over-year, respectively. Housing costs rose 0.2% for the month and posted an increase of 5.2% versus the same period in 2023. The 3.3% rolling 12-month rise in core inflation in June, as measured by the CPI for all items less food and energy, was down 0.1 percentage point from the annual rise for the previous month, and represented the smallest year-over-year increase since April 2021. According to the initial estimate from the Department of Commerce, U.S. GDP increased at a greater-than-expected annualized rate of 2.8% in the second quarter of 2024—doubling the 1.4% rise in the first quarter of the year. The largest contributors to GDP growth for the second quarter included consumer spending, private inventory investment (a measure of the changes in values of inventories from one time period to the next), and nonresidential fixed investment (purchases of both nonresidential structures and equipment and software). The government attributed the higher GDP in the second quarter relative to the previous three-month period to upturns in private inventory investment and consumer spending.

- The Office for National Statistics (ONS) reported that inflation in the U.K., as measured by the CPI, edged up 0.1% in June, down from the 0.3% increase in May. The CPI's 2.0% year-over-year advance matched the annual upturn for the previous month. The largest contributors to the 12-month rise in inflation included alcohol and tobacco, health care, and restaurants and hotels. 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 3.5% in July, matching the year-over-year increase in May. According to the second estimate of the ONS, U.K. GDP grew 0.4% in May (the most recent reporting period), following stagnant growth in April. The economy expanded 0.9% for the three-month period ending May 31. Output in the services sector increased 1.1% over the three-month period, while production output was flat and construction fell 0.7%.

- Eurostat pegged the inflation rate for the eurozone at 2.5% for the 12-month period ending in June, marginally from the 2.5% annual increase in May. Costs in the services sector rose 4.1% for the period, unchanged from the annual gain in May. Prices for food, alcohol and tobacco were up 2.4% year-over-year in June, down from the 2.6% annual rate for the previous month. Non-energy industrial goods increased 0.7% over the previous 12 months, matching the annual rise in May, while energy prices ticked up 0.2% following a 0.3% year-over-year decline in May. Core inflation, which excludes volatile energy and food prices, rose at an annual rate of 2.9% in June, matching the year-over-year upturn in May. Eurostat also reported that eurozone GDP edged up 0.3% in the second quarter of 2024, matching the growth rate in the first quarter, and grew 0.6% year-over-year. The economies of Ireland, Lithuania, and Spain were the strongest performers for the second quarter, expanding 1.2%, 0.9%, and 0.8%, respectively. Conversely, GDP in Latvia and Sweden declined by corresponding margins of 1.1% and 0.8% during the month.

Index Data (July 2024)

- The S&P/TSX Composite Index rose 5.87%.
- The FTSE Canada Universe Bond Index gained 2.37%.
- The S&P 500 Index, which measures the performance of U.S. equities, returned 2.19%.
- The MSCI ACWI (Net) Index, used to gauge global equity performance, climbed 2.59%.
- The ICE BofA U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned 1.91% (currency hedged) and 2.94% (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 notably higher, as it moved from 12.44 to 16.36 to end the month.
- The WTI Cushing crude oil price—a key indicator of movements in the oil market—fell from US$81.54 to US$77.91 a barrel to end July.
- The Canadian dollar weakened to C$1.38 per U.S. dollar. The U.S. dollar was generally weaker against the world's other major currencies, ending July at US$1.08 versus the euro, US$1.28 against sterling, and at 150.46 yen.

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