Monthly Market Commentary

August 2024

Equity markets go to extremes but come out ahead.

- Global equity markets were essentially flat in August amid periods of volatility, particularly at the beginning and end of the month. In CAD terms, Canadian equities fared better than other regions. The markets slumped in early August on growing recession worries due to relatively weak U.S. economic data and the Federal Reserve's (Fed) decision not to cut the federal-funds rate following its meeting at the end of July. Stock prices subsequently rallied as investors were encouraged by several positive economic data reports, which boosted optimism that the Federal Reserve (Fed) remains on schedule to cut interest rates in September.
- Canadian fixed-income assets posted modest gains in August, while U.S. Treasury yields moved lower across the curve. (Bond prices move inversely to yields.)
- We continue to expect that the global economy will avoid recession in the near term, and we remain focused on longer-term trends as opposed to shorter-term variations in the economic data.

Economic Backdrop

Global equity markets were essentially flat in August amid periods of volatility, particularly at the beginning and end of the month. In CAD terms, Canadian equities fared better than other regions. The markets slumped in early August on growing recession worries due to relatively weak U.S. economic data and the Fed's decision not to cut the federal-funds rate following its meeting at the end of July. Additionally, the PHLX Semiconductor Sector Index™, which tracks the performance of the 30 largest U.S.-listed semiconductor companies, fell more than 7% on August 1—its worst one-day percentage decline since March 2020—after Arm Holdings, a U.K.-based chipmaker, issued disappointing earnings guidance for the remaining three quarters of its 2025 fiscal year. This led to concerns that significant spending on artificial intelligence (AI) computing will not benefit several U.S.-based mega-cap companies as much as previously expected. Stock prices subsequently rallied later in the month as investors were encouraged by relatively weaker labour market data and signs of slowing inflation, which boosted optimism that Fed remains on schedule to cut interest rates in September.

The Nordic countries were the strongest performers among developed markets in August, led by Finland and Sweden. Europe also performed well due mainly to strength in Spain, Italy, and Switzerland. The Far East registered a relatively smaller gain and was the primary market laggard, attributable largely to underperformance in Japan. The Association of Southeast Asian Nations (ASEAN) comprised the top-performing emerging market in August, bolstered mainly by strength in the Philippines, Indonesia, and Malaysia. Conversely, the Latin America ex Brazil and Europe regions were the weakest emerging-market performers for the month, hampered primarily by weakness in Mexico and Turkey, respectively.[1]

Canadian fixed-income assets posted modest gains in August. High-yield bonds were the strongest performers within the U.S. fixed-income market, followed by mortgage-backed securities (MBS), investment-grade corporate bonds, and U.S. Treasury securities. Treasury yields moved lower across the curve. Yields on 2-, 3-, 5- and 10-year Treasury notes fell by corresponding margins of 0.38%, 0.31%, 0.26%, and 0.18%, ending the month at 3.91%, 3.79%, 3.71%, and 3.91%, respectively.[2] The spread between 10- and 2-year notes narrowed 20 basis points (0.20%) in August, resulting in a flat yield curve (which occurs when there is little or no difference between 10- and 2-year yields) at month-end—marking the first time in more than two years that the yield curve was not inverted at the market's close. A flat yield curve generally is viewed as a sign of uncertainty about future economic growth.

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[1]All equity market performance statements are based on the MSCI ACWI Index.

[2]According to the U.S. Department of the Treasury. As of August 30, 2024.

Global commodity prices, as measured by the Bloomberg Commodity Total Return Index, saw an uptick of 0.1% during the month. The West Texas Intermediate (WTI) and Brent crude oil prices declined 3.6% and 4.8%, respectively, amid concerns that China's slowing economy could hamper demand for oil. The New York Mercantile Exchange (NYMEX) natural gas price rose 4.5% in August. Most of the upturn occurred in the first three weeks of the month due to an increase in demand for natural gas-generated electricity spurred by unusually hot weather in much of the U.S. Relatively cooler temperatures led to declining demand later in August. The gold spot price was up 2.2% during the month, benefiting from growing confidence that the Fed will begin to cut interest rates this month, as well as weakness in the U.S. dollar. (The gold price generally moves inversely to the U.S. dollar.) Wheat prices surged 4.6% over the month due to increased demand and concerns about hot and dry weather in the U.S. Northern Plains, which could lead to a decrease in supply.

During an appearance at the Kansas City Fed's annual Jackson Hole Economic Symposium in Wyoming on August 23, Fed Chair Jerome Powell signaled that interest-rate cuts are imminent. "The time has come for policy to adjust," he said. "The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks." Powell commented that the Fed's restrictive monetary policy "helped restore balance between aggregate supply and demand, easing inflationary pressures and ensuring that inflation expectations remained well anchored."

At the end of August, the CME Group's FedWatch Tool implied a 70% chance that the central bank will implement a 25-basis-point (0.25%) rate cut following its meeting on September 17-18, and indicated a 30% probability of a 50-basis-point (0.50%) reduction.[3] 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.

Central Banks

- The Bank of Canada (BoC) cut its policy rate by 0.25% to 4.25% following its September 4 meeting—this was the third consecutive rate cut. The BoC noted that economic growth was slightly stronger than expected in both the U.S. and Canada, while the global economy grew at a rate of 2.5%. Additionally, inflation pressures continued to ease. The next BoC meeting is scheduled for October 23.

- According to minutes from the Federal Open Market Committee's (FOMC) July 30-31 meeting, released on August 21, members concurred that recent economic data might have warranted an immediate reduction in the federal-funds rate. The meeting participants noted that "inflation had eased over the past year but remained elevated and that, in recent months, there had been some further progress toward the Committee's 2 percent inflation objective." Consequently, several FOMC members "observed that the recent progress on inflation and increases in the unemployment rate had provided a plausible case for reducing the target range 25 basis points at this meeting or that they could have supported such a decision."

- 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 August 1. 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 next MPC meeting is scheduled for September 19.

- 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 July 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 next ECB meeting will be held on September 12 in Frankfurt, Germany.

[3] According to CME Group. August 31, 2024.

- The Bank of Japan (BOJ) raised its benchmark interest rate from a range of 0.0%-0.1% to 0.25%—the highest level since 2008— after its meeting on July 29-30, and 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." However, in early August, BOJ Deputy Gov. Shinichi Uchida said that the country's economic environment is not similar to that in the U.S. and Europe in 2022 and 2023, when rising inflation led central banks to implement numerous rate hikes. "Therefore, the bank will not raise its policy interest rate when financial and capital markets are unstable," Uchida commented.[4]

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 0.4% in July as gasoline prices were higher. Despite the spike in July, the 2.5% year-over-year increase was the smallest annual increase in prices since March 2021, as price pressures eased for travel tours, passenger vehicles, and electricity. Producer prices were somewhat mixed in July, as the Industrial Product Price Index (IPPI) was flat and the Raw Materials Price Index (RMPI) climbed 0.7%. Year-over-year prices increased 2.9% and 4.1%, respectively, for the IPPI and RMPI. Over the past year, gains have been concentrated in metals and, to a lesser extent, in petrochemicals. The Canadian economy added a modest 22,000 jobs in August, while the unemployment rate increased 0.2% to 6.6% as more Canadians sought employment.

- The U.S. Department of Labor reported that the consumer-price index (CPI) rose 0.2% in July, following a 0.1% dip in June. The 2.9% year-over-year advance in the index was marginally lower than the 3.0% annual rise in June, and represented the smallest annual increase since March 2021. Housing costs were up 0.4% in July—comprising nearly 90% of the upturn in the CPI for the month—and increased 5.1% versus the same period in 2023. Prices for used cars and trucks declined 2.2% and 10.9% in July and over the previous 12-month period, respectively. Gasoline prices were flat in July and fell 2.2% year-over-year. The 3.2% rolling 12-month rise in core inflation in July, as measured by the CPI for all items less food and energy, was down 0.1 percentage point from the 3.3% annual rise for the previous month, and was the smallest year-over-year increase since April 2021. According to the second estimate from the Department of Commerce, U.S. gross domestic product (GDP) increased at an annualized rate of 3.0% in the second quarter of 2024—up slightly from the government's initial estimate of 2.8% and more than 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). Imports, which are subtracted from GDP, increased over the quarter. The government attributed the higher GDP growth rate 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, dipped 0.2% in July, down from the 0.1% increase in June. The CPI rose by a lower-than-expected annual rate of 2.2%, up slightly from the 12-month upturn of 2.0% for the previous month. The largest contributor to the year-over-year rise in inflation included costs for housing and household services prices (mainly gas and electricity), which more than offset declines in prices for restaurants and hotels. Core inflation, which excludes volatile food prices, rose at an annual rate of 3.3% in July, down from the 3.5% year-over-year increase in June.[5] According to the second estimate of the ONS, U.K. GDP was flat in June (the most recent reporting period), following a 0.4% growth rate in May. The economy expanded 0.6% for the three-month period ending June 30. Output in the services sector rose 0.8% over the three-month period, while production and construction output each dipped 0.1%.[6]

[4]According to The Wall Street Journal. August 7, 2024.
[5]According to the ONS. August 14, 2024.
[6]According to the ONS. August 15, 2024.

- Eurostat pegged the inflation rate for the eurozone at 2.2% for the 12-month period ending in August, a decline from the 2.6% annual increase in July. Costs in the services sector rose 4.2% for the period, up from the 4.0% annual gain in July. Prices for food, alcohol and tobacco increased 2.4% year-over-year in August, marginally higher than the 2.3% annual rate for the previous month. Non-energy industrial goods increased 0.4% over the previous 12 months, down from the 0.7% annual rise in July, while energy prices fell 3.0% following a 1.2% year-over-year rise in July. Core inflation, which excludes volatile energy and food prices, increased at an annual rate of 2.8% in August, slightly lower than the 2.9% year-over-year upturn in July.[7] 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 Poland, Ireland, and the Netherlands were the strongest performers for the second quarter, expanding 1.5%, 1.2%, and 1.0%, respectively. Conversely, GDP in Latvia and Sweden declined by corresponding margins of 1.1% and 0.8% during the month.[8]

Index Data (August 2024)

- The S&P/TSX Composite Index rose 1.22%.
- The FTSE Canada Universe Bond Index gained 0.33%.
- The S&P 500 Index, which measures the performance of U.S. equities, returned -0.07%.
- The MSCI ACWI (Net) Index, used to gauge global equity performance, gained a meager 0.04%.
- The ICE BofA U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned 1.46% (currency hedged) and -0.89% (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"—spiked to 38.57 in early August, but ultimately declined from 16.36 at the end of July to 15.55 to end the month.
- The WTI Cushing crude oil price—a key indicator of movements in the oil market—fell from US$77.91 to US$73.55 a barrel to end August.
- The Canadian dollar notably strengthened to C$1.35 per U.S. dollar. The U.S. dollar was generally weaker against the world's other major currencies, ending August at US$1.11 versus the euro, US$1.31 against sterling, and at 145.61 yen.

[7]According to Eurostat. August 14, 2024.
[8]According to Eurostat. August 14, 2024.

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