Monthly Market Commentary

October 2024

Equity markets waffled ahead of U.S. elections.

- In U.S. dollar terms, global equity markets finished in negative territory in October as investors' concerns about mixed corporate results offset optimism regarding generally better-than-expected economic data. Canadian investors benefited from modest gains domestically, while a weaker loonie resulted in positive performance for foreign equities.
- Canadian bonds slumped along with U.S. Treasurys and other global bonds as yields moved higher, with investors becoming more optimistic about future growth prospects, but also increasingly worried that inflation could reignite. (Bond prices move inversely to yields.)
- We are not making changes to our portfolios based on the current situation or on the winner of the U.S. presidential election.

Economic Backdrop

In U.S. dollar terms, global equity markets finished in negative territory in October as investors' concerns about mixed corporate results offset optimism regarding generally better-than-expected economic data. Canadian investors benefited from modest gains domestically, while a weaker loonie resulted in positive performance for foreign equities. Developed markets outperformed their emerging-market counterparts. North America was the best performer among developed markets in October due to strength in the U.S. and Canada. The Nordic countries were the most notable market laggards, hampered mainly by weakness in Sweden and Finland. Additionally, Australia and Hong Kong led the downturn in the Pacific ex Japan region. The Gulf Cooperation Council (GCC) countries led the emerging markets for the month attributable mainly to Qatar and Kuwait, which posted relatively smaller losses. Eastern Europe was the primary laggard in the emerging markets due primarily to weakness in Turkey, Greece, and Poland. The poor performance of the Association of Southeast Asian Nations (ASEAN) resulted largely from a substantial market decline in Malaysia.[1]

Canadian bonds slumped along with U.S. Treasurys and other global bonds as yields moved higher as investors became more optimistic about future growth prospects, but also increasingly worried that inflation could reignite. High-yield bonds posted modest losses and were the strongest performers within the U.S. fixed-income market, followed by investment-grade corporate bonds, U.S. Treasurys, and mortgage-backed securities (MBS). Treasury yields moved sharply higher for all maturities of six months or greater. Yields on 2-, 3-, 5- and 10-year Treasury notes rose by corresponding margins of 0.50%, 0.57%, 0.54%, and 0.47%, ending the month at 4.16%, 4.12%, 4.15%, and 4.28%, respectively.[2] The spread between 10- and 2-year notes narrowed from +0.15% to +0.12% over the month, and the yield curve remained positively sloped (longer-term yields exceeded shorter-term yields). A positively sloped yield curve generally indicates that the economy is expected to grow in the future.

Global commodity prices, as measured by the Bloomberg Commodity Total Return Index, declined 1.9% in October. The West Texas Intermediate (WTI) and Brent crude oil prices rose 1.6% and 1.5%, respectively, and the gold spot price gained 3.4% due to concerns about the escalation of the military conflict in the Middle East. The New York Mercantile Exchange (NYMEX) natural gas price fell 7.4% in October amid an increase in production and a decrease in demand attributable to unseasonably warm weather in much of the U.S. Wheat prices were down 2.3%, hampered by falling prices for Russian exports.

On the geopolitical front, Iran launched a large-scale missile strike on Israel on October 1 in response to Israel's killing of Hezbollah leader Hassan Nasrallah in late September. Hezbollah is an Iran-backed Shia militia based in Lebanon and is designated by the U.S government as a Foreign Terrorist Organization. The Israeli government said that most of the roughly 200 missiles were either shot down or missed their targets, causing little damage. Late in the month, Israel retaliated by launching missile attacks on military targets in Iran.

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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 October 31, 2024.

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)) fell 0.4% in September as gasoline prices slumped. Year-over-year consumer prices were up 1.6%—the slowest annual pace in over three-and-a-half years—as gasoline prices were lower for the year as well. Producer prices were weak in September, as the Industrial Product Price Index (IPPI) slid 0.6% and the Raw Materials Price Index (RMPI) fell 0.9%. Year-over-year prices declined 0.9% and 8.8%, respectively, for the IPPI and RMPI. Similar to consumer prices, weakness was concentrated in petroleum products. The Canadian economy added a modest 15,000 jobs in October, while the unemployment rate held steady at 6.5%.

- The pace of disinflation in the U.S. slowed in September (the most recent reporting period). The Department of Labor reported that the consumer-price index (CPI) rose 0.2% during the month, matching the upturns in the previous two months. The slightly higher-than-expected 2.4% year-over-year advance in the index was down marginally from the 2.5% annual rise in August. Housing prices were up 0.2% and 4.9% in September and year-over-year, respectively. Transportation costs increased 1.4% for the month and 8.5% versus the same period in 2023. Conversely, prices for fuel oil tumbled 6.0% in September and 22.4% year-over-year, while gasoline prices fell 4.1% and 15.3% for the respective periods. The 3.3% rolling 12-month rise in core inflation in September, as measured by the CPI for all items less food and energy, was up 0.1 percentage point from the 3.2% annual rise in August. According to the initial estimate from the Department of Commerce, U.S. gross domestic product (GDP) grew at an annualized rate of 2.8% in the third quarter of 2024—down modestly from the 3.0% increase in the second quarter of the year. The largest contributors to GDP growth for the third quarter included consumer spending, exports (which are added to the calculation of GDP), and federal government spending. Imports (which are subtracted from the calculation of GDP) increased over the quarter. The government attributed the modestly lower GDP growth rate to downturns in private inventory investment (a measure of the changes in values of inventories from one time period to the next) and residential fixed investment (purchases of private residential structures and residential equipment that property owners use for rentals), as well as the increase in imports. There were upturns in exports, consumer spending, and federal government spending.

- The Office for National Statistics (ONS) reported that inflation in the U.K., as measured by the CPI, was virtually flat in September, a decline from the 0.3% increase in August. The CPI rose at an annual rate of 1.7%, down from the 12-month upturn of 2.2% for the previous month. Communication and health care costs each rose 5.2% year-over-year, while prices for transportation and housing and household services fell 2.2% and 1.7%, respectively. Core inflation, which excludes volatile food prices, rose by an annual rate of 3.2% in September, down from the 3.6% year-over-year increase in August.[3] According to the second estimate of the ONS, U.K. GDP expanded 0.2% in August and over the previous three months (the most recent reporting periods). The increase in GDP for August was slightly higher than the flat growth rate in July. Output in the services sector ticked up 0.1% in August, while production and construction output rose 0.5% and 0.4%, respectively.[4]

- Eurostat pegged the inflation rate for the eurozone at 1.7% for the 12-month period ending in September, a decline from the 2.2% annual increase in August. Costs in the services sector rose 3.9% for the period, down slightly from the 4.1% annual gain in August. Prices for food, alcohol and tobacco increased 2.4% year-over-year in September, marginally higher than the 2.3% annual rate for the previous month. Non-energy industrial goods prices increased 0.4% over the previous 12 months, unchanged from the annual rise in August, while energy prices fell 6.1% following a 3.0% year-over-year downturn in August. Core inflation, which excludes volatile energy and food prices, increased at an annual rate of 2.7% in September, slightly lower than the 2.8% year-over-year upturn for the previous month.[5] Eurostat also reported that eurozone GDP edged up 0.4% in the third quarter of 2024, modestly higher than the 0.2% increase in the second quarter. The eurozone economy expanded by 0.9% year-over-year—an improvement from the 0.6% annual growth rate for the previous quarter. The economies of Ireland and Lithuania were the strongest performers for the third quarter, expanding 2.0% and 1.1%, respectively. In contrast, GDP in Hungary and Latvia declined by corresponding margins of 0.7% and 0.4% during the quarter.[6]

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[3] According to the ONS. October 16, 2024.
[4] According to the ONS. October 11, 2024.
[5] According to Eurostat. October 30, 2024.
[6] According to Eurostat. September 6, 2024.

Index Data (October 2024)

- The S&P/TSX Composite Index rose 0.85%.
- The FTSE Canada Universe Bond Index declined 1.01%.
- The S&P 500 Index, which measures the performance of U.S. equities, returned 2.25%.
- The MSCI ACWI (Net) Index, used to gauge global equity performance, gained 0.87%.
- The ICE BofA U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned -0.64% (currency hedged) and 2.62% (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"—rose from 16.73 at the end of September to 23.16 to end October due to escalating conflict in the Middle East and increased uncertainty in the run-up to the U.S. elections.
- The WTI Cushing crude oil price—a key indicator of movements in the oil market—rose modestly from US$68.17 to US$69.26 a barrel to end October.
- The Canadian dollar notably weakened to C$1.39 per U.S. dollar. The U.S. dollar was generally stronger against the world's other major currencies, ending October at US$1.09 versus the euro, US$1.29 against sterling, and at 152.33 yen.