Monthly Market Commentary

January 2025

Stocks begin 2025 on a positive note.

- Global equity markets, as measured by the MSCI ACWI Index, garnered positive returns in January, as investors' confidence was buoyed by generally favourable economic data and upbeat corporate earnings news. However, stocks fell sharply on the last day of the month after the administration of U.S. President Donald Trump announced the assessment of tariffs on imported goods from Canada, Mexico, and China.
- Global fixed-income assets gained ground during the month. U.S. Treasury yields declined for all maturities under one year, and moved higher across the remainder of the yield curve. (Prices move inversely to yields.)
- The Trump administration's possible imposition of tariffs on America's three largest trading partners has the potential to increase prices and lower economic growth.

Economic Backdrop

Global equity markets, as measured by the MSCI ACWI Index, garnered positive returns in January, as investors' confidence was buoyed by generally favourable economic data and upbeat corporate earnings news. However, stocks fell sharply on the last day of the month after the administration of U.S. President Donald Trump announced the assessment of tariffs on imported goods from Canada, Mexico, and China. Developed markets outperformed their emerging-market counterparts for the month. Europe was the strongest-performing region within the developed markets in January, boosted by notable upturns in Sweden, Germany, and Switzerland. Conversely, the Far East posted a much smaller positive return and was the primary market laggard due to weakness in Hong Kong and New Zealand. Eastern Europe led the emerging markets, benefiting mainly from strength in Poland and the Czech Republic. The Association of Southeast Asian Nations (ASEAN) was the weakest emerging-market performer attributable to downturns in the Philippines and Malaysia.[1]

On January 31, President Trump initiated a multi-front trade war with the announced implementation of a 25% across-the-board tariff on Mexico, a 25% tariff on Canada (with an exception for energy, which faces a 10% duty), and a 10% tariff on imports from China. However, on February 3, a day before the tariffs were scheduled to take effect, the Trump administration reached agreements with Canada and Mexico to delay the levies for 30 days after Mexico agreed to send 10,000 troops to the border to combat the flow of fentanyl into the U.S., and Canada pledged to appoint a fentanyl czar, list cartels as terrorists, and launch a joint strike force with the U.S. to combat organized crime, fentanyl trafficking, and money laundering. Nonetheless, the ongoing tariff dispute is volatile and in flux.

Global fixed-income assets, as measured by the Bloomberg Global Aggregate Bond Index, gained 0.6% in January. High-yield bonds were the strongest performers within the U.S. fixed-income market, followed by investment-grade corporate bonds, mortgage-backed securities (MBS), and U.S. Treasurys. There was little movement in Treasury yields during the month. Yields on 2- and 5-year Treasury notes dipped by corresponding margins of 0.03% and 0.02% to 4.22% and 4.36%, while the 3- and 10-year yields were flat, ending the month at 4.27% and 4.58%, respectively.[2] The spread between 10- and 2-year notes widened by 0.03% to +0.36% over the month, as 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 represented by the Bloomberg Commodity Index, rose 4.0% in January. The West Texas Intermediate (WTI) and Brent crude oil prices posted corresponding increases of 1.1% and 1.4%, to $72.53 and $75.67, respectively, over the month due to concerns about the imposition of tariffs by the U.S. on oil imported from Canada and Mexico. Uncertainty regarding the tariffs led to a 7.3% surge in the gold spot price as investors sought safe-haven assets. The New York Mercantile Exchange (NYMEX) natural gas price fell 1.6% during the month due to forecasts for relatively warmer weather in the U.S. for the remainder of winter. Wheat prices were up 1.5% in January, bolstered by increased demand for exports from the U.S.

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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 January 31, 2025.

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On the geopolitical front, Israel and Hamas agreed to a pause in their 15-month war, effective on January 19. The plan is being implemented in three phases, beginning with a ceasefire and the exchange of some Israeli hostages held in Gaza by Hamas for Palestinian prisoners detained by the Israeli government. The two sides then will try to reach an agreement for a permanent end to the conflict. Israel released 90 Palestinians on January 19, followed by another 200 six days later. In response, Hamas freed three female civilians from Israel and four female Israeli soldiers.

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)) declined 0.4% in December as temporary GST/HST break reduced costs by excluding taxes on a number of categories, including food; alcoholic beverages, tobacco products and recreational cannabis; recreation, education, and reading; and clothing and footwear. Year-over-year consumer prices were up 1.8%, as restaurant meals and alcoholic beverages were the largest contributors to the deceleration in prices. Producer prices were notably stronger in December, as the Industrial Product Price Index (IPPI) increased 0.2% and the Raw Materials Price Index (RMPI) climbed 1.3%. Year-over-year prices were up 4.1% and 9.1%, respectively, for the IPPI and RMPI. Prices for metals have generally been rising rapidly. The Canadian labour market continued expand as the economy added 76,000 jobs in January and the unemployment rate declined by 0.1% to 6.6%.

- The Department of Labor announced that the consumer-price index (CPI) advanced 0.4% in December, slightly higher than the 0.3% increase in November. The uptick in inflation was not broad-based, however, as energy costs comprised more than 40% of the increase, rising 2.6% during the month, as gasoline and fuel oil prices each surged 4.4%. The 2.9% year-over-year advance in the index was up from the 2.7% annual rise in November and was in line with expectations. Costs for transportation services and housing climbed 7.3% and 4.6%, respectively, over the previous 12-month period, while energy and commodity prices each fell 0.5%. Core inflation, as measured by the CPI for all items less food and energy, rose at a lower-than-expected rate of 3.2% year-over-year in December, down marginally from the 3.3% annual increase in November. According to the initial estimate from the Department of Commerce, U.S. gross domestic product (GDP) grew at an annualized rate of 2.3% in the fourth quarter of 2024—down from the 3.1% increase in the third quarter. The U.S. economy expanded by 2.5% for the 2024 calendar year, lagging the 3.2% annual gain in 2023. The largest contributors to GDP growth for the fourth quarter included consumer spending and federal government spending. This was partially offset by a decline in nonresidential fixed investment (purchases of both nonresidential structures and equipment and software). The government attributed the quarter-over-quarter decline in the GDP growth rate to downturns in nonresidential fixed investment and exports.

- The Office for National Statistics (ONS) reported that inflation in the U.K., as measured by the CPI, increased 0.3% in December, slightly higher than the 0.1% rise in November. The CPI advanced at an annual rate of 2.5% in December, down marginally from the 2.6% rise for the previous month. Costs for communication, health care, and alcohol and tobacco posted corresponding increases of 6.1%, 5.6%, and 5.3%, year-over-year, while prices for transportation and furniture and household goods declined 0.6% and 0.3%, respectively, over the previous 12-month period. Core inflation, which excludes volatile food, energy, and alcohol and tobacco prices, rose by an annual rate of 3.2% in December, down from the 3.5% year-over-year increase in November.[3] The ONS also announced that U.K. GDP growth edged up 0.1% in November, and was flat over previous three months (the most recent reporting periods). The marginal rise in GDP for November was an improvement from the 0.1% dip in October. Output in the construction sector rose 0.2% for the three-month period ending November 30, while growth in the services sector was flat and production output fell 0.7%.[4]

[3] According to the ONS. January 16, 2025.
[4] According to the ONS. January 15, 2025.

- Eurostat pegged the inflation rate for the eurozone at 2.5% for the 12-month period ending in January, marginally higher than the 2.4% annual upturn in December. Costs in the services sector rose at an annual rate of 3.9%, unchanged from the increase in December. Prices for food, alcohol and tobacco increased 2.3% year-over-year in January, down from the 2.6% annual rate for the previous month. Core inflation, which excludes volatile energy and food prices, increased at an annual rate of 2.7% for the fifth consecutive month in January.[5] Eurostat also reported that eurozone GDP growth rate was flat in the fourth quarter of 2024, weakening from the 0.4% increase in the third quarter. The eurozone economy expanded by 0.7% year-over-year—down modestly from the 0.9% annual growth rate for the previous quarter. The economies of Portugal, Lithuania, and Spain were the strongest performers for the fourth quarter, growing 1.5%, 0.9%, and 0.8%, respectively. In contrast, GDP in Ireland declined 1.3% during the quarter.[6]

Index Data (January 2025)

- The S&P/TSX Composite Index climbed 3.48%.
- The FTSE Canada Universe Bond Index rose 1.20%.
- The S&P 500 Index, which measures the performance of U.S. equities, returned 3.50%.
- The MSCI ACWI (Net) Index, used to gauge global equity performance, gained 4.08%.
- The ICE BofA U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned 1.28% (currency hedged) and 2.09% (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"—declined from 17.35 at the end of December to 16.43 to end January.
- The WTI Cushing crude oil price—a key indicator of movements in the oil market—increased modestly from US$71.72 to US$72.53 a barrel to end January.
- The Canadian dollar slightly weakened to C$1.45 per U.S. dollar. The U.S. dollar was little changed against the world's other major currencies, ending January at US$1.04 versus the euro, US$1.24 against sterling, and at 154.85 yen.

[5] According to Eurostat. February 3, 2025.
[6] According to Eurostat. January 30, 2025.

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