

# WEEK IN REVIEW

July 12, 2024

## In focus

Global equity markets advanced over the week, with all major indexes posting gains. U.S. stocks ended the week higher, buoyed by softer-than-expected U.S. inflation data that increased the likelihood of a rate cut by the U.S. Federal Reserve (the Fed) in September. In Asia, both Chinese and Japanese equities closed the week on a positive note. From a style perspective, small-cap stocks outperformed large caps, and value stocks outpaced growth shares.

The week was eventful, highlighted by the release of inflation data, testimony from Fed Chair Jerome Powell and the commencement of a new earnings season. Recent positive inflation news, a moderate rise in the unemployment rate and Powell's testimony to Congress – which indicated that economic risks are more balanced – have fuelled expectations of an earlier rate cut. In Europe, Fabio Panetta, a member of the Governing Council of the European Central Bank (ECB), said that the central bank could continue to lower interest rates gradually, provided macroeconomic trends align with the ECB's expectations and inflation targets.

In the fixed income market, the yield on the ten-year U.S. Treasury note declined sharply following Thursday's Consumer Price Index (CPI) report. In the commodities market, oil prices settled lower after U.S. wholesale price inflation rose in June more than expected, and as investors balanced weaker U.S. consumer sentiment with increasing hopes for a Fed rate cut in September. Meanwhile, gold prices rose, supported by softer U.S. economic data and lower Treasury yields.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	22,673.52	2.79%	3.65%	8.18%
S&P500	5,615.35	0.87%	2.84%	17.73%
NASDAQ	18,398.45	0.25%	3.75%	22.56%
DJIA	40,000.90	1.59%	2.25%	6.13%
Russell 2000	2,148.27	6.00%	4.91%	5.98%
FTSE 100	8,252.91	0.60%	1.09%	6.72%
Euro Stoxx 50	5,043.02	1.28%	3.04%	11.53%
Nikkei 225	41,190.68	0.68%	4.06%	23.09%
Hang Seng	18,293.38	2.77%	3.24%	7.31%
Shanghai Comp.	2,971.30	0.72%	0.13%	-0.12%
MSCI ACWI	828.56	1.34%	3.31%	13.97%
MSCI EM	1,123.56	1.69%	3.44%	9.75%
MSCI ACWI ESG Leaders	2,211.51	1.59%	3.45%	15.38%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,125.72	0.72%	0.76%	0.38%
BBG Global Agg.	364.49	1.36%	2.25%	-1.86%
TSX Pref	1,951.41	0.58%	1.09%	15.44%

Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	3.41%	-8.7	-9.5	30.5
10 yr U.S. Govt.	4.18%	-10.1	-19.4	31.1
30 yr Canada Govt.	3.37%	-6.0	-3.0	34.2
30 yr U.S. Govt.	4.39%	-8.4	-14.9	37.1

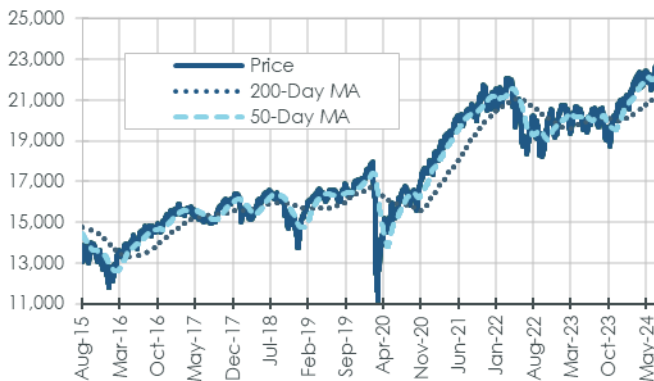
Commodities	Close	Weekly	MTD	YTD
Oil	82.21	-1.14%	0.82%	14.74%
Natural gas	2.33	0.43%	-10.46%	-7.36%
Gold	2,403.00	0.80%	2.69%	16.54%
Silver	30.80	-1.38%	5.68%	29.50%
Copper	4.60	-1.29%	4.74%	18.50%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.73	0.06%	0.34%	-2.83%
USD/EUR	0.92	-0.63%	-1.76%	1.19%
CAD/EUR	0.67	-0.58%	-1.44%	-1.67%
USD/JPY	157.85	-1.82%	-1.88%	11.96%
USD/CNY	7.27	-0.33%	-0.47%	2.05%
USD/MXN	17.62	-2.55%	-3.63%	3.86%
GBP/CAD	1.77	1.33%	2.41%	5.03%
GBP/USD	1.30	1.44%	2.77%	2.07%

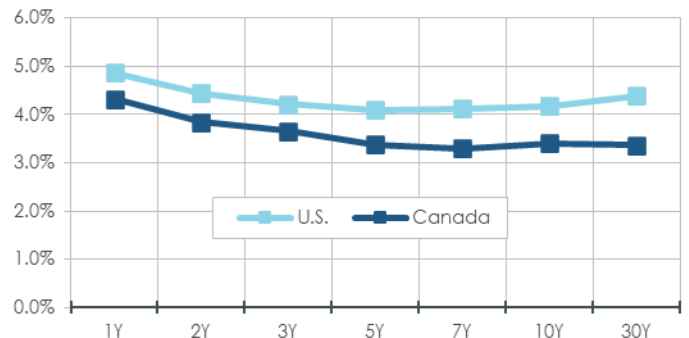
\*Please refer to the Appendix for the above table in Canadian dollar terms. Natural gas prices subject to change post-se

## S&P/TSX Composite Index



Source: Bloomberg and Refinitiv DataStream. Index returns are in local currency. All equity indexes are price returns and do not include dividends.

## Treasury yield curves



Economic indicators	Period	Survey	Actual	Prior period
Canada building permits	May	-5.2%	-12.2%	23.4%
U.S. CPI MoM	Jun	0.1%	-0.1%	0.0%
U.S. CPI YoY	Jun	3.1%	3.0%	3.3%
U.S. initial jobless claims	6-Jul	235k	222k	239k
U.S. CPI (ex food and energy) YoY	Jun	3.4%	3.3%	3.4%
University of Michigan U.S. sentiment	Jul	68.5	66.0	68.2

## Canada

Canadian equities advanced over the week, marking their best performance since October 2023. Cooler-than-expected U.S. inflation data bolstered hopes that the Fed might begin cutting interest rates in September.

The materials sector led the gains, driven by a rise in gold prices, followed by the interest rate-sensitive real estate sector. In the fixed income market, the yield on the Canadian 10-year bond fell, reflecting similar movements in U.S. Treasury yields.

## U.S.

U.S. equity markets experienced gains over the week in the first notable broad advance since mid-April. Small-cap stocks led the rally, with the Russell 2000 Index rising 6.0%, its best performance since early November 2023. As the unofficial start of earnings season kicked off on Friday, results from three major U.S. banks were mixed, with two institutions reporting year-over-year declines in earnings. Most sectors posted gains, with health care and industrials emerging as top performers, while communication services lagged.

Investors closely monitored economic data and Fed Chair Jerome Powell's testimony for insights on the timing of potential interest rate cuts. In his testimony before Congress, Powell acknowledged progress on inflation and emphasized the Fed's commitment to achieving both price stability and employment goals. He indicated that the Fed was moving closer to a rate cut decision, but stressed the need for further data.

A better-than-expected inflation report on Thursday boosted hopes for rate cuts in the coming months. Headline inflation dropped to a one-year low of 3.0%, while the core rate, which excludes volatile items such as food and energy, fell more than expected, to a three-year low of 3.3%. However, a separate report on Friday showed a larger-than-expected rise in wholesale prices. Additionally, a U.S. Labor Department report indicated that initial claims for unemployment benefits fell more

than expected for the week ended July 6, suggesting a decline from the elevated levels seen in June.

In the fixed income market, government bond yields dropped after investors interpreted Thursday's inflation report as a sign that interest rate cuts might arrive sooner rather than later this year. An indicator tracking U.S. consumer sentiment fell to its lowest level in eight months. The University of Michigan's preliminary Consumer Sentiment Index reading on Friday came in below economists' expectations, with concerns about high prices and economic uncertainty, particularly given an upcoming election, driving the decline. However, the survey did show an improvement in consumers' inflation expectations for a second consecutive month.

## Rest of the world

European equities rose over the week, buoyed by strong corporate earnings and growing hopes for a rate cut by the Fed in September. All major indexes posted gains, driven by global investor optimism about potential monetary easing. Government bond yields fell across the curve, mirroring declines in U.S. Treasury yields, following slower-than-expected U.S. inflation data.

In regional economic developments, Germany's annual inflation rate softened to 2.2% in June, with the core rate moderating to 2.9%. These figures have heightened expectations of further rate cuts by the ECB later this year. Additionally, flash figures from the Office for National Statistics showed that the U.K. economy grew by 0.4% month-on-month in May, outpacing expectations. This growth was driven by increases in services and construction output, particularly in infrastructure and homebuilding.

In Asia, Chinese equities ended the week higher, supported by customs data showing that Chinese exports grew in June more than expected, although imports unexpectedly shrank. Japanese stocks also advanced, reaching record highs on Thursday. However, stocks retreated on Friday amid speculation that authorities had intervened in the foreign exchange markets to support the Japanese yen.

## Looking ahead

Economic indicators	Period	Survey	Prior period
Canada CPI YoY	Jun	2.8%	2.9%
Canada housing starts	Jun	254.1k	264.5k
U.S. housing starts	Jun	1300k	1277k
U.S. initial jobless claims	13-Jul	230k	222k
U.S. retail sales advance MoM	Jun	-0.2%	0.1%
U.S. Philadelphia Fed business outlook	Jul	2.9	1.3

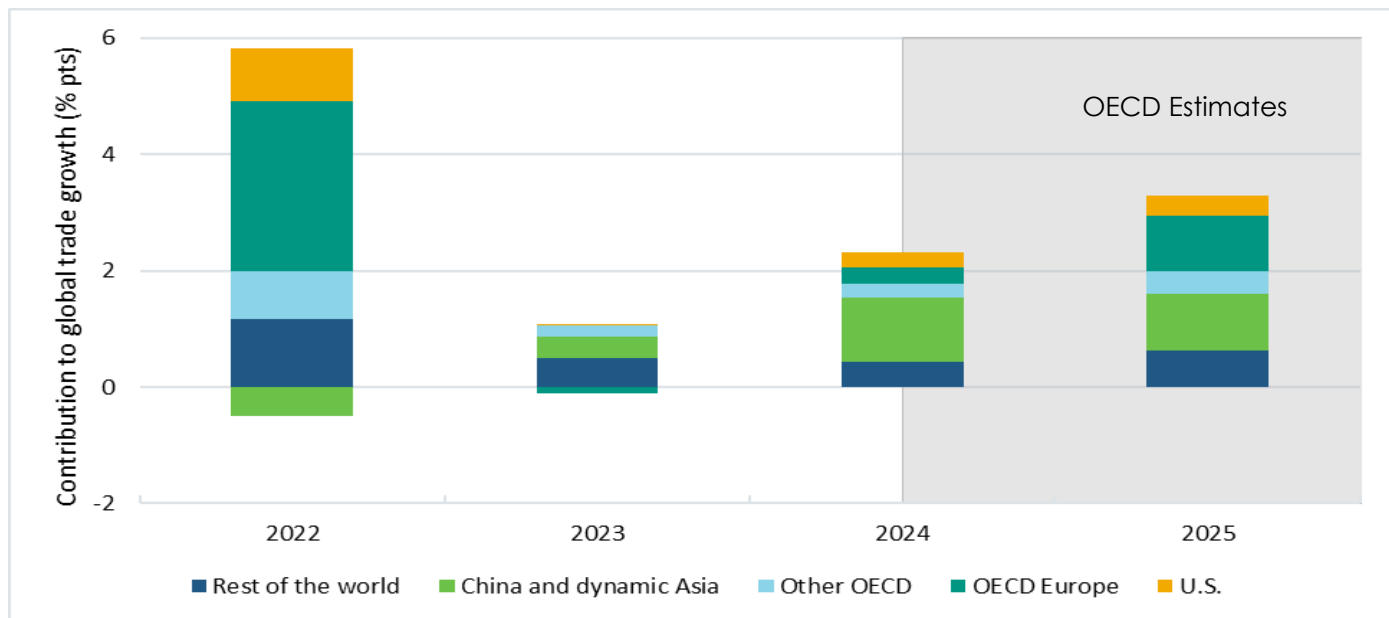
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Federal Open Market Committee	31-Jul-24	-4.5%	5.50%
Bank of England	1-Aug-24	-42.3%	5.25%
Bank of Canada	24-Jul-24	-71.7%	4.75%
European Central Bank	18-Jul-24	-3.5%	4.25%
Bank of Japan	30-Jul-24	49.9%	-0.1%

Source: Bloomberg. Probability of change implies the possibility of a central bank hiking interest rates during their upcoming meeting. A negative number in this case means chances of a rate cut rather than a hike.

## Spotlight

### Global trade growth is projected to strengthen gradually.

According to estimates by the Organization for Economic Cooperation and Development (OECD), global trade growth is expected to recover alongside GDP over the next two years, with trade volumes (goods plus services) projected to increase by 2.3% in 2024 and 3.3% in 2025. This recovery should be driven by steady growth in the U.S., stimulus measures in China and a trade rebound in dynamic Asian economies, particularly in 2024.



Source: OECD Economic Outlook, May 2024.

Note: Trade volumes based on an average of import and export volumes. Dynamic Asia includes Hong Kong (China), Malaysia, Chinese Taipei, the Philippines, Singapore, Thailand and Vietnam.

## Appendix

Global markets (Returns in Canadian dollar terms)				
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S&P/TSX	22,673.52	2.79%	3.65%	8.18%
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Russell 2000	2,148.27	5.91%	4.44%	9.49%
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TSX Pref	1,951.41	0.35%	0.81%	11.79%
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
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30 yr Canada Govt.	3.37	-6.0	-3.0	34.2
30 yr U.S. Govt.	4.39	-8.4	-14.9	37.1
Commodities	Close	Weekly	MTD	YTD
Oil	112.08	-1.20%	0.48%	18.08%
Natural gas	3.18	0.37%	-10.76%	-4.66%
Gold	3,273.50	0.72%	2.23%	20.40%
Silver	41.95	-1.46%	5.21%	33.79%
Copper	6.27	-1.35%	4.38%	21.95%
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7335	0.06%	0.34%	-2.83%
USD/EUR	0.9168	-0.63%	-1.76%	1.19%
CAD/EUR	0.6725	-0.58%	-1.44%	-1.67%
USD/JPY	157.8475	-1.82%	-1.88%	11.96%
USD/CNY	7.2664	-0.33%	-0.47%	2.05%
USD/MXN	17.6223	-2.55%	-3.63%	3.86%
GBP/CAD	1.7714	1.33%	2.41%	5.03%
GBP/USD	1.2994	1.44%	2.77%	2.07%

Source: Bloomberg, Refinitiv DataStream. All equity indexes returns are price returns and do not include dividends.

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