

WEEK IN REVIEW

July 19, 2024

In focus

Global equity markets finished with mixed results for the week. Weakness in the information technology sector had the primary impact on overall performance, with the S&P 500 Index and the NASDAQ recording losses. The Dow finished the week higher, due to its lower exposure to technology stocks. On Wednesday, microchip stocks declined sharply. Reports that the U.S. would impose severe trade restrictions on firms such as Tokyo Electron and ASML Holding for supplying advanced semiconductor technology to China dampened sentiment. The week also saw a global cyber outage on Friday that disrupted operations in multiple industries and heightened market anxiety.

As expected, the European Central Bank (ECB) kept its key interest rate unchanged, at 3.75%. The ECB emphasized that future rate decisions will depend on ongoing economic data and underlying inflation trends. Japan's consumer inflation stayed above the central bank's 2% target in June, raising investor expectations of a rate hike. The closely watched nation-wide core consumer price index rose 2.6% year on year in June, up from 2.5% in May, while the annual inflation rate held steady at 2.8%.

In the fixed income market, U.S. Treasury yields rose as investors considered the path ahead for interest rates after the latest comments from officials at the U.S. Federal Reserve (the Fed). Meanwhile, in commodities, oil prices declined as investors eyed a possible ceasefire in Gaza, and a strengthened dollar drove values down further.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	22,690.39	0.07%	3.72%	8.26%
S&P500	5,505.00	-1.97%	0.82%	15.41%
NASDAQ	17,726.94	-3.65%	-0.03%	18.09%
DJIA	40,287.53	0.72%	2.99%	6.89%
Russell 2000	2,184.35	1.68%	6.67%	7.76%
FTSE 100	8,155.72	-1.18%	-0.10%	5.46%
Euro Stoxx 50	4,827.24	-4.28%	-1.36%	6.76%
Nikkei 225	40,063.79	-2.74%	1.21%	19.72%
Hang Seng	17,417.68	-4.79%	-1.70%	2.17%
Shanghai Comp.	2,982.31	0.37%	0.50%	0.25%
MSCI ACWI	810.87	-2.13%	1.10%	11.54%
MSCI EM	1,089.61	-3.02%	0.31%	6.43%
MSCI ACWI ESG Leaders	2,150.62	-2.75%	0.60%	12.20%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,126.02	0.03%	0.78%	0.41%
BBG Global Agg.	363.75	-0.20%	2.04%	-2.06%
TSX Pref	1,953.39	0.10%	1.19%	15.55%

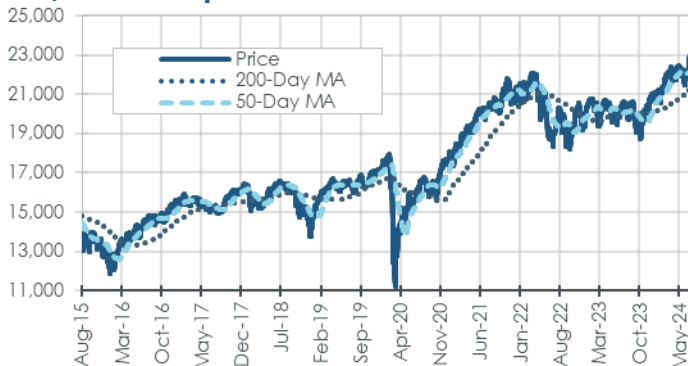
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	3.38%	-3.1	-1.2	27.4
10 yr U.S. Govt.	4.20%	2.1	-17.3	33.2
30 yr Canada Govt.	3.35%	-1.8	-4.8	32.4
30 yr U.S. Govt.	4.41%	2.3	-12.6	39.4

Commodities	Close	Weekly	MTD	YTD
Oil	80.13	-2.53%	-1.73%	11.84%
Natural gas	2.13	-8.63%	-18.19%	-15.35%
Gold	2,405.00	0.08%	2.78%	16.63%
Silver	29.29	-4.90%	0.50%	23.15%
Copper	4.22	-8.25%	-3.91%	8.72%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.73	-0.73%	-0.40%	-3.54%
US D/EUR	0.92	0.26%	-1.51%	1.45%
CA D/EUR	0.67	-0.48%	-1.91%	-2.13%
US D/JPY	157.45	-0.25%	-2.13%	11.68%
US D/CNY	7.27	0.02%	-0.42%	2.11%
US D/MXN	18.08	2.61%	-1.11%	6.58%
GBP/CAD	1.77	0.18%	2.60%	5.22%
GBP/USD	1.29	-0.56%	2.19%	1.49%

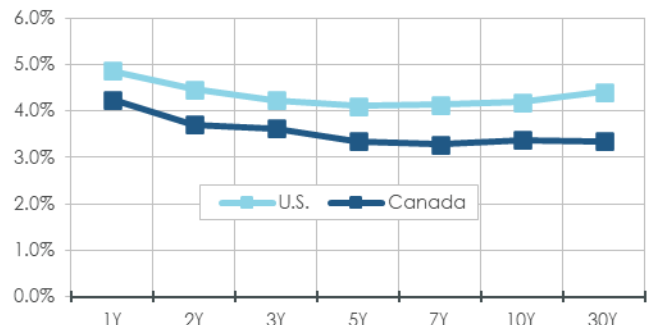
*Please refer to the Appendix for the above table in Canadian dollar terms. Natural gas prices subject to change post-

S&P/TSX Composite Index



Source: 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 CPI YoY	Jun	2.8%	2.7%	2.9%
Canada housing starts	Jun	255k	241.7k	264.5k
U.S. housing starts	Jun	1300k	1353k	1277k
U.S. initial jobless claims	13-Jul	230k	243k	222k
U.S. retail sales advance MoM	Jun	-0.2%	0.0%	0.1%
U.S. Philadelphia Fed business outlook	Jul	2.9	13.9	1.3

Canada

Canadian equities modestly rose over the week after domestic annual inflation eased in June more than expected, boosting hopes for another rate cut by the Bank of Canada. The country's annual inflation rate rose 2.7% in June, down from 2.9% in May, largely due to softer growth in gas prices. Meanwhile, core inflation measures were down marginally. Canadian retail sales fell 0.8% in May from April, a bigger decline than expected.

Among the sectors, communication services and real estate led the gains, while materials and utilities were among key laggards.

U.S.

U.S. stocks experienced significant volatility last week, beginning with a strong rally that pushed U.S. markets to fresh highs; however, momentum faded as the week progressed, mainly due to weakness in the information technology sector. The major indexes ended with mixed results for the week: the S&P 500 Index and the NASDAQ fell around 2% and 4%, respectively, marking their biggest weekly losses since April. On the other hand, the Dow stood as an outlier, with a nearly 1% gain. The week saw a continued rotation in market leadership to small-cap and value shares.

Among the S&P 500 sectors, the information technology sector led the losses, followed by communication services sector. Energy and real estate saw the most sizable gains. The major chip and technology stocks were pressured by the prospect of tighter U.S. trade curbs on companies giving China access to advanced semiconductor technology.

The week's economic data generally surprised on the upside. U.S. retail sales remained steady in June, following a revised 0.3% gain in May. Retail sales, excluding the volatile gas and auto segments, jumped 0.8% in June, well above consensus expectations. Industrial output in June rose at twice the expected rate, primarily driven by

manufacturing output. Another report showed surprising strength in housing starts and building permits, with multiple-unit projects offsetting a dip in single-family homebuilding. The number of initial claims for unemployment benefits rose more than market expected last week, adding to evidence that the labour market continues to soften.

Rest of the world

European equities declined for the week; all major indexes posted weekly losses, amid U.S. trade restrictions on chip exports to China and the potential impact on European companies.

Investors also assessed the ECB's monetary policy decision. The ECB kept its key interest rate unchanged in July, and stressed that future rate decisions will depend on economic data and underlying inflation trends. ECB President Christine Lagarde stated that the decision in September remains open. In regional economic developments, the annual inflation rate in the U.K. remained steady in June, at 2.0%, in line with the Bank of England's target rate. The annual core inflation rate also remained unchanged, at 3.5%. Average weekly earnings, excluding bonuses, in the U.K. grew by 5.7% in the three months ending in May. The ZEW Economic Sentiment Index for Germany declined in July more than expected, marking the first fall in a year and the lowest level in four months, and indicating a challenging road to recovery for the eurozone's largest economy.

In Asia, Chinese equities rose; investor sentiment was largely unaffected by weaker-than-expected economic growth in the second quarter. China's economy grew at a slower rate than expected in the second quarter, with year-on-year growth of 4.7%. Industrial production rose in June more than expected, by 5.3% year-on-year, while retail sales growth eased to a 17-month low of 2.0%. Japanese stocks declined during the week. Chip-related stocks mirrored the losses seen in global markets due to trade tensions between the U.S. and China. A stronger yen also weighed on export-oriented companies.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada Bloomberg Nanos confidence	Jul-19	--	53.2
U.S. initial jobless claims	Jul 20	238k	243k
U.S. GDP annualized QoQ	Q2'24	1.9%	1.4%
U.S. University of Michigan sentiment	Jul	66.4	66.0
U.S. durable goods orders	Jun	0.5%	0.1%
U.S. new home sales	Jun	640k	619k

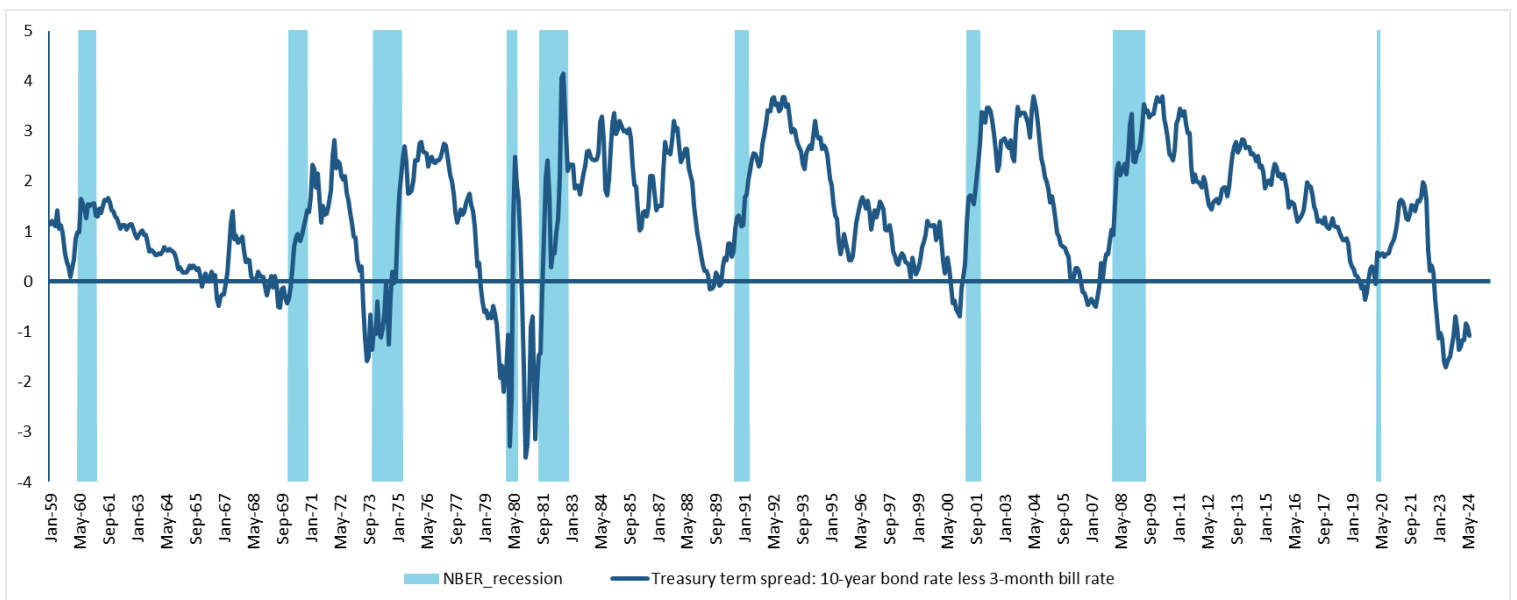
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of Canada	24-Jul-24	-93.4%	4.75%
Federal Open Market Committee	31-Jul-24	-4.5%	5.50%
Bank of Japan	31-Jul-24	37.6%	-0.10%
Bank of England	1-Aug-24	-42.7%	5.25%
European Central Bank	12-Sep-24	-78.2%	4.3%

Source: Bloomberg, Refinitiv DataStream. 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

The yield curve as a leading indicator

Since July 2022, the yield curve has remained inverted, marking the longest stretch ever recorded, and inflation continues to surpass the Fed's long-term goal of 2.0%. These factors point to a state of uncertainty. Nonetheless, moderating inflation might enable the Fed to shift toward reducing interest rates, possibly as early as September. Economists and analysts are optimistic that the Fed can achieve a "soft landing," enabling the U.S. economy to avoid a recession.



Sources: Board of Governors of the Federal Reserve; National Bureau of Economic Research; authors' calculations. Notes: Parameters estimated using data from January 1959 to December 2009; recession probabilities predicted using data through July 2019. The parameter estimates are $\alpha = -0.5333$, $\beta = -0.6330$. The shaded areas indicate periods designated as recessions by the National Bureau of Economic Research.

Appendix

Global markets (Returns in Canadian dollar terms)				
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MSCI EM	1,089.61	-2.29%	0.61%	10.78%
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Commodities	Close	Weekly	MTD	YTD
Oil	110.05	-1.81%	-1.34%	15.94%
Natural gas	2.92	-7.95%	-17.86%	-12.25%
Gold	3,300.79	0.83%	3.09%	21.40%
Silver	40.19	-4.19%	0.80%	28.18%
Copper	5.79	-7.57%	-3.52%	12.72%
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7281	-0.73%	-0.40%	-3.54%
USD/EUR	0.9192	0.26%	-1.51%	1.45%
CAD/EUR	0.6693	-0.48%	-1.91%	-2.13%
USD/JPY	157.4450	-0.25%	-2.13%	11.68%
USD/CNY	7.2706	0.02%	-0.42%	2.11%
USD/MXN	18.0825	2.61%	-1.11%	6.58%
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GBP/USD	1.2921	-0.56%	2.19%	1.49%

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