

# WEEK IN REVIEW

September 27, 2024

## In focus

The combination of an interest rate cut by the U.S. Federal Reserve (the Fed) last week and China's aggressive stimulus measures aimed at revitalizing its economy, along with a mixed bag of largely positive global economic data, boosted investor confidence and supported gains in global equity markets. Positive data on inflation continued to support investor sentiment, with key indexes, such as the Fed's preferred Personal Consumption Expenditure Index and selected European inflation indicators, continuing their downward trajectory.

In mainland China, stocks surged in response to the People's Bank of China's commitment to lower borrowing costs and stimulus for economic activity. The Bank of Japan (BoJ) maintained interest rates at 0.25%, signalling a focus on stability. Many stocks linked to economic growth in China, including luxury and mining stocks in Europe, rose on optimism about the positive effects of an aggressive Chinese economic stimulus package.

In fixed income, U.S. Treasury yields remained relatively unchanged for the week, with strong demand for primary municipal bonds and investment-grade corporate bonds, supported by favourable macro conditions.

In commodities, oil prices retreated; concerns about excess supply due to an OPEC plan to increase production have driven prices down.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	23,956.82	0.37%	2.62%	14.31%
S&P500	5,738.17	0.62%	1.59%	20.30%
NASDAQ	18,119.59	0.95%	2.29%	20.71%
DJIA	42,313.00	0.59%	1.80%	12.27%
Russell 2000	2,224.70	-0.14%	0.32%	9.75%
FTSE 100	8,320.76	1.10%	-0.67%	7.60%
Euro Stoxx 50	5,067.45	4.02%	2.21%	12.07%
Nikkei 225	39,829.56	5.58%	3.06%	19.02%
Hang Seng	20,632.30	13.00%	14.69%	21.03%
Shanghai Comp.	3,087.53	12.81%	8.63%	3.78%
MSCI ACWI	852.84	1.85%	2.30%	17.31%
MSCI EM	1,174.52	6.15%	6.78%	14.73%
MSCI ACWI ESG Leaders	2,260.93	2.07%	2.64%	17.96%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,169.37	0.09%	1.90%	4.27%
BBG Global Agg.	389.21	0.59%	2.37%	4.79%
TSX Pref	2,023.02	-0.37%	-0.21%	19.67%

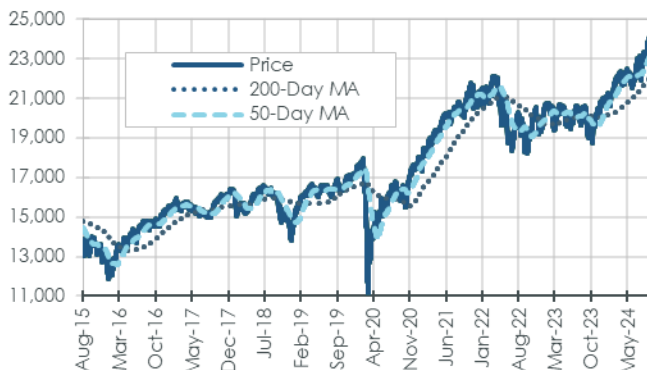
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	2.96%	0.3	-20.4	-15.1
10 yr U.S. Govt.	3.75%	1.5	-17.0	-11.7
30 yr Canada Govt.	3.14%	-0.5	-12.4	11.1
30 yr U.S. Govt.	4.10%	2.0	-11.1	8.1

Commodities	Close	Weekly	MTD	YTD
Oil	68.18	-5.20%	-7.30%	-4.84%
Natural gas	2.90	19.23%	36.44%	15.43%
Gold	2,669.00	2.30%	6.00%	29.44%
Silver	31.65	1.63%	9.66%	33.07%
Copper	4.54	6.06%	9.55%	17.02%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.74	0.40%	-0.16%	-1.98%
USD/EUR	0.90	-0.01%	-1.04%	-1.14%
CAD/EUR	0.66	0.39%	-1.19%	-3.09%
USD/JPY	142.18	-1.21%	-2.74%	0.85%
USD/CNY	6.98	-1.01%	-1.49%	-1.96%
USD/MXN	19.69	1.45%	-0.06%	16.05%
GBP/CAD	1.81	-0.01%	2.03%	7.18%
GBP/USD	1.34	0.39%	1.86%	5.05%

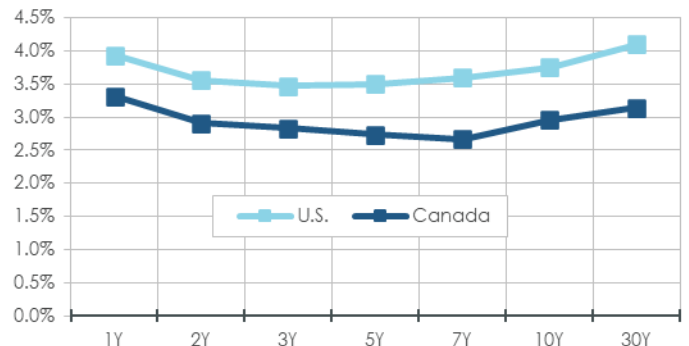
\*Please refer to the Appendix for the above table in Canadian dollar terms. Natural gas prices subject to change post-settlement.

## 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
U.S. initial jobless claims	21-Sep	225k	218k	222k
Eurozone HCOB manufacturing flash PMI	Sep	45.6	44.8	45.8
U.S. GDP final	Q2	3.0%	3.0%	3.0%
U.S. core PCE price index YoY	Aug	2.7%	2.7%	2.6%
Canada GDP MoM	July	0.1%	0.2%	0.0%
U.S. S&P Global manufacturing PMI flash	Sep	48.5	47.0	47.9

## Canada

Canadian equities rose modestly over the week, with the S&P/TSX Composite Index surpassing the 24,000 milestone on Tuesday for the first time ever, amid optimism about further central bank easing to boost growth. The utilities and consumer discretionary sectors led the market, while real estate and industrials detracted.

In economic news, Canada's GDP rose 0.2% in July. However, preliminary data for August showed GDP essentially unchanged, indicating the economy was still weak.

## U.S.

Major U.S. stock indexes rallied, posting solid gains for a third consecutive week, riding the wave of interest rate cuts and easing inflationary pressures. The S&P 500 and the Dow both added 0.6% to their record highs. The Fed's preferred inflation gauge, the Personal Consumption Expenditure (PCE) Index, fell by 2.2% in August, closer to the inflation target of 2.0%, reinforcing optimism about a potential soft landing.

The third estimate for second-quarter GDP growth showed a 3.0% expansion, exceeding expectations. Mixed signals emerged from the housing sector, with new home sales falling 4.7% in August. Meanwhile, the average rate on 30-year fixed mortgages dropped to the lowest level since September 2022, resulting a surge in refinancing applications.

Most sectors moved higher, led by the materials, consumer discretionary and industrials sector. Health care, energy and real estate declined. From a style perspective, value stocks outpaced growth shares by a

wide margin, primarily supported by the strong performance of mega-cap stocks such as Tesla, Nvidia and Meta Platforms. Micron Technology, a leading chipmaker, also saw a significant surge, offering a broader boost to the sector with an optimistic forecast of rising demand for artificial intelligence.

## Rest of the world

European equities rallied this week on optimism stemming from economic stimulus measures announced abroad, alongside favourable inflation data from France and Spain.

However, the eurozone faced an unexpected contraction in business activity; the HCOB Eurozone Composite PMI dropped to 48.9. (Levels below 50 indicate a contraction in economic activity.) Lower services activity suggests that despite the positive momentum, underlying economic challenges may lie ahead.

In Asia, mainland Chinese equities experienced a remarkable surge, propelled by the central bank's new stimulus measures aimed at revitalizing the economy. The People's Bank of China announced significant cuts to borrowing costs and eased mortgage repayment burdens. Additionally, an official commitment to stabilize the property market underscored the government's proactive stance on economic recovery.

Optimism about the outlook for China's economy also supported Japanese equities, given the close trade linkages between the two economies. The BoJ's dovish stance also supported growth, despite a slight dip in consumer inflation, while PMI data indicated continued, albeit slowing, expansion in the services sector.

## Looking ahead

Economic indicators	Period	Survey	Prior period
U.S. initial jobless claims	28-Sep	220K	218K
U.S. ISM non-manufacturing PMI	Sep	47.5	47.2
U.S. unemployment rate	Sep	4.2%	4.2%
Eurozone HICP flash YoY	Sep	1.9%	2.2%
Canada S&P Global manufacturing PMI	Sep	-	49.5
Eurozone unemployment rate	Aug	6.4%	6.4%

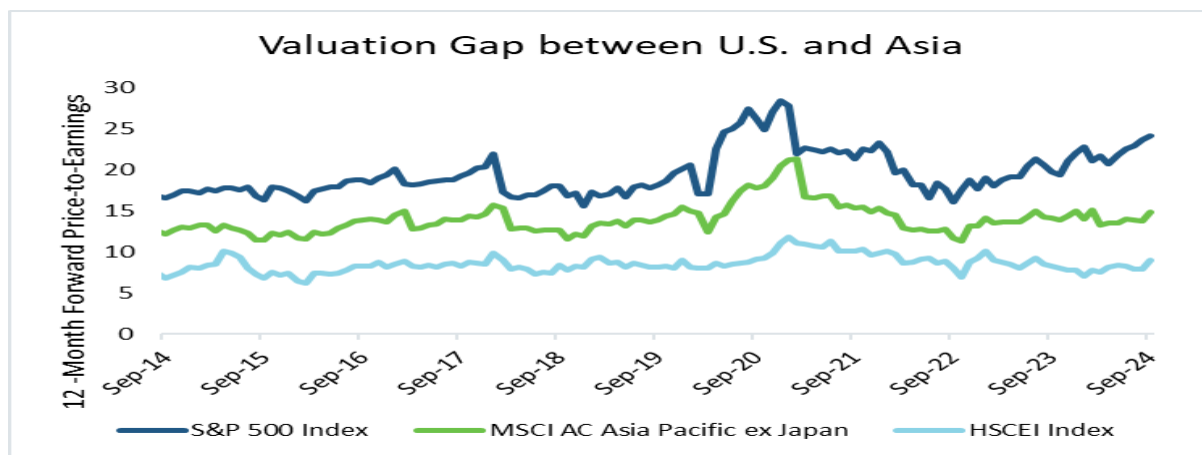
Central bank meetings						
Central banks	Date	Current rate	Expected change by	Probability (%)	Expected change by	Probability (%)
European Central Bank	17-Oct	3.50%	-0.25	96.6	-	3.4
Federal Reserve	07-Nov	4.88%	-0.50	53.3	-0.25	46.7
Bank of England	07-Nov	5.00%	-0.25	89.0	-	11.0
Bank of Japan	31-Oct	0.25%	-	84.1	0.1	15.9
Bank of Canada	23-Oct	4.25%	-0.5	51.5	-0.25	48.5

Source: Refinitiv DataStream. LSEG provides centrally calculated probabilities and expected changes for several central bank target interest rates, implied by the market prices of interest rate derivatives. This app displays the probabilities for the two assumed possible rate decisions by each central bank at its next meeting. Possible rate changes are modeled in either 25-basis-point (bp), 10 bp or 20 bp increments based on observation of recent actions. The probabilities are estimated using market prices of Fed fund futures for the Federal Reserve or overnight indexed swaps (OIS) for other central banks. As at September 27, 2024.

## Spotlight

### Rising valuations support U.S. market outperformance.

U.S. equities continue to show strong performance in the global market, supported by central bank policy shifts, robust tech-driven innovation and resilient corporate earnings. While elevated valuations and narrow market breadth present risks, historical data suggest that strong performance often leads to further gains. U.S. large-cap stocks, particularly in technology, continue to command global leadership. Nevertheless, there is also a significant valuation gap emerging across global equity markets. As the chart below shows, Asia-Pacific (ex Japan) and the Hang Seng China Enterprise Index are trading at a significant discount to U.S. equities in terms of their forward price-to-earnings ratio.



Source: Bloomberg, as at September 2024.

## Appendix

### Global markets (Returns in Canadian dollar terms)

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Commodities	Close	Weekly	MTD	YTD
Oil	92.15	-5.58%	-7.15%	-2.92%
Natural gas	3.92	18.75%	36.65%	17.77%
Gold	3,599.04	1.61%	6.05%	32.37%
Silver	42.67	0.95%	9.72%	36.09%
Copper	6.14	5.64%	9.73%	19.39%
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7399	0.40%	-0.16%	-1.98%
USD/EUR	0.8958	-0.01%	-1.04%	-1.14%
CAD/EUR	0.6628	0.39%	-1.19%	-3.09%
USD/JPY	142.1750	-1.21%	-2.74%	0.85%
USD/CNY	6.9806	-1.01%	-1.49%	-1.96%
USD/MXN	19.6902	1.45%	-0.06%	16.05%
GBP/CAD	1.8077	-0.01%	2.03%	7.18%
GBP/USD	1.3375	0.39%	1.86%	5.05%

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

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