MARKET & ECONOMIC SUMMARY

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MARKET SUMMARY

Second Quarter 2024

S&P/TSX Composite TR

Q2	YTD	1 year
↓ 0.5%	↑ 6.1%	↑ 12.1%

S&P 500 TR (USD)

Q2	YTD	1 year
↑ 4.3%	↑ 15.3%	↑ 24.6%

MSCI EAFE GR (C$)

Q2	YTD	1 year
↑ 1.0%	↑ 9.7%	↑ 15.9%

ICE Bof AML Canada Brd Mkt TR

Q2	YTD	1 year
↑ 1.0%	↓ 0.3%	↑ 3.7%

SECOND QUARTER HIGHLIGHTS

- S&P/TSX Composite hits a new all-time high of 22,555.00 on May 21st
- S&P 500 hits a new all-time high of 5,505.53 on June 20th
- Canadian dollar hits year-to-date low of $0.7223 USD on April 15th
- WTI Oil range bound ending quarter at $81.84 USD
- Bank of Canada lowered overnight rate by 0.25% to 4.75%

SUMMARY

Equity markets dipped in early April but bounced back in May. Investors were hopeful for interest rate cuts, supported by lower inflation and a positive economic outlook. In June, the Bank of Canada and the European Central Bank cut interest rates, starting a policy-easing cycle, while the US held off due to a strong labor market and persistent inflation.

Market performance broadened beyond tech to other sectors in Q2, with corporate earnings proving better than expected. Economic growth, though slowing, remained stable. The S&P/TSX Composite Index ended the quarter down 0.5%, the S&P 500 Index up 4.3%, the MSCI EAFE Index up 1.0%, and the Canadian Bond market up 1.0%. Year-to-date, U.S., Canadian, and global stocks are all in positive territory.

Canadian employment slowed, raising the unemployment rate to 6.2%, while wage growth decelerated to 4.7%. Monthly Canadian GDP data for April showed 0.3% growth month-over-month, but the preliminary estimate for May indicated a modest 0.1% gain. In contrast, the U.S. job market remained robust, with the unemployment rate steady at 3.8% and wage growth accelerating. U.S. retail sales and personal spending fell slightly, highlighting the diverging paths of the Canadian and U.S. economies.

U.S. inflation fell to 3.4% in Q2, down from 3.8% in Q1. The Fed left rates unchanged at 5.25-5.5%, with Chair Powell stating that current policy would need to remain restrictive for longer. Canadian CPI fell within the Bank of Canada's 1-3% range, leading to a 0.25% rate cut to 4.75%. The European Central Bank also lowered its key policy rate by 0.25% to 3.75%, while the Bank of Japan and the Bank of England opted to keep their rates unchanged.

Oil prices continued rising due to several factors, including Saudi Arabia-led OPEC's decision to maintain current production levels and geopolitical tensions in the Middle East. In Canada, the carbon tax increase on April 1 further inflated pump prices.

Inflation and anticipated rate cuts continue to drive markets. Central banks are monitoring inflation and economic indicators to assess the timing of rate cuts. Market performance has broadened beyond AI and mega-cap tech to other sectors, and this trend will hopefully continue. Volatility and pullbacks are a normal part of investing, presenting strategic buying and rebalancing opportunities. It's important to take a disciplined approach to investing and stay focused on long-term goals, ensuring your portfolio remains on track and diversified to reduce risk.

> *"The reserve bank does not determine (market) interest rates but merely sets rates at what the market is telling it to"* – *Alan Greenspan*

STRATEGIC NOTES

On June 5th the Bank of Canada (BoC) cut the Overnight Repo Rate (ORR) by 0.25% from 5% to 4.75%. The ORR is the only interest rate which the BoC *has the ability to* dictate. It is important to note a comment from Alan Greenspan, the former Chairman of the Federal Reserve Bank of America, who stated "The reserve bank does not determine (market) interest rates but merely sets rates at what the market is telling it to". A "repo" more formally a "repurchase agreement" is a short-term liquidity transaction where a party sells an asset in exchange for cash to create liquidity with the obligation to buy the asset back plus interest.

The interest rate in a repo transaction is determined by the quality of the asset and the length of the agreement. The ORR set by the BoC is the interest rate the BoC will *pay* to buy Government of Canada Treasury Bills to be held overnight and sold back to the original seller. Government of Canada debt is the only investment *which can be labelled guaranteed* and therefore the quality is the highest in the land. Overnight is also the shortest period to lend. Therefore, when the BoC consents to paying a set rate for the highest quality collateral over the shortest period it sets the low-interest-rate floor and the rest of the lending market *adjusts* accordingly *if in agreement*.

It deserves to be mentioned we're not seeing signs of the market disagreeing. If the lending market saw higher risk of borrowers defaulting or inflation, the free market of a willing lender and a willing borrower would not be adjusting to an arbitrary interest rate set by the BoC. Furthermore, the higher risk of borrowers defaulting also deserves further discussion. Default comes when debt can't be serviced either from job loss or financial conditions having deteriorated materially enough. Therefore, the market adjusting is also a sign higher rates haven't done irreparable damage to borrowers in the market's view. An hypothesis we're watching closely…

The largest positive implication is the BoC setting the direction of interest rates as downwards as a confirmation of diminished inflation risk. The prior uncertainty of whether rates would go up, down, or remain the same created indecisiveness for consumers and businesses to plan spending and capital-intensive projects. With the path now set as downwards and barring a return of inflation we should hopefully see more economic activity and evidence of an economic spring appear. Ultimately, less money spent on interest by consumers and corporations is good for economic activity. In consideration to all of the above we remain cautious about slowing growth but otherwise optimistic until the economy gathers momentum and a solid upward trend is formed.

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