October 2024 market update

From the Bank of Canada delivering a fourth straight rate cut to the U.S. domestic demand remaining strong, check out our round up to stay up-to-date quickly.

Nov. 5, 2024

Introduction

A mixed bag of economic data and corporate financial results left investors pondering the overall health of the global economy and the next actions by global central banks. In response, global equity markets finished lower over the month of October. In Canada, the S&P/TSX Composite Index ticked higher, getting a strong performance from the Energy sector. U.S. equities moved lower. Oil and gold prices increased over the month. Yields on 10-year government bonds in Canada and the U.S. increased.

Give Feedback

Inflationary pressures continued to subside over the month, which contributed to the Bank of Canada ("BoC") and European Central Bank ("ECB") lowering interest rates. Several major economies reported that their respective economies expanded in the third quarter of 2024 but at relatively modest levels. Global manufacturing activity remains an area of concern amid changing spending habits. Conversely, services sector activity continues to expand.

BoC delivers 50-basis-point rate cut

At its October meeting, the BoC lowered its benchmark overnight interest rate by 50 basis points ("bps") to 3.75%. While the large rate cut was widely expected by economists, the reduction reflects how much support Canada's economy needs in the current environment. The BoC believes the rate cut was warranted, with economic growth stalling, a weaker labour market and inflation falling below its 2% target. Canada's annual inflation rate was 1.6% in September. BoC Chair Tiff Macklem commented that officials believe we are now in a lower inflation environment. Given its ongoing goal of keeping inflation close to its 2% target, the BoC is hoping its recent rate cuts will help stimulate spending and economic activity. The soft real estate market has also come into focus for the BoC. Canada's central bank hopes its large rate cut will lower mortgage rates to a level that reignites demand and purchasing activity in this critical sector of Canada's economy. More rate cuts are likely to come at future meetings, but the BoC reiterated its stance that each rate decision will be data dependent.

U.S. domestic demand remains robust

U.S. consumers continue to demonstrate their relative strength and resiliency despite still tight financial conditions. Retail sales increased for the third straight month in September, this time by 0.4%. And sales were relatively broad-based. Spending for clothing, health care and food increased over the month. Tight financial conditions have largely been a non-factor for U.S. consumers, who have benefited from savings built up during the pandemic and a relatively robust labour market. This strength has helped lift U.S. economic growth. An advanced estimate showed the U.S. economy expanded by 2.8%, annualized, in the third quarter of 2024. The economy benefited from rising personal spending, which grew by 3.7% over the quarter. While another quarterly expansion was encouraging, the pace slowed from the 3.0% expansion in the second quarter and was below the 2.9% increase expected by economists. There are some areas of the U.S. economy that are weighing on growth. The real estate market fell again in the third quarter, hindered by relatively soft demand due to elevated borrowing costs and high home prices.

Another quarter of growth and ongoing consumer strength left investors questioning how quickly the U.S. Federal Reserve Board ("Fed") will lower interest rates. The Fed appears likely to continue lowering interest rates in the coming months, but the pace might not be as quick as had been expected just a few months ago. The Fed will make two more interest rate announcements this year.

IMF says public debt could reach US$100 trillion

The International Monetary Fund ("IMF") is raising caution about public debt levels. In its most recent Fiscal Monetary Report, the IMF says public debt could reach US$100 trillion (C$139 trillion) by the end of the year, and 100% of gross domestic product by the end of this decade. The IMF believes this could have a negative impact on the global economy. The IMF believes that countries' debt calculations are too optimistic and might not properly reflect the actual value. Countries are facing an environment where they need to spend more to support growth, but they are finding it difficult to raise taxes in the current economy. The IMF believes this also puts a lot of stress on countries to find solutions for increasing poverty rates and environmental goals. Growing public debt in a country can make financial markets unattractive to both domestic and foreign investors.

In its World Economic Outlook released at the same time, the IMF downgraded its projection for global economic growth next year to 3.2% from 3.3%. While looser monetary policy and lower inflation should provide a tailwind for economic activity, ongoing geopolitical tensions and escalating trade protectionism measures could stunt growth. Looking at Canada, the IMF expects economic growth to accelerate next year given the BoC's swift and relatively aggressive rate cuts, which should help reignite consumer spending, business investment and the real estate market.

Investors look for stimulus from China

Investors are losing confidence in China's economy and financial markets, and they have been clamouring for the government and the People's Bank of China ("PBOC") to step up with stimulus measures to help support the economy. Those measures appear to be on the way after China's economic growth slowed to 4.6% year-over-year in the third quarter of 2024. Near the end of September, the PBOC announced that it would look to loosen policy to help kickstart loan, spending and property market activity. At its October fixing, the PBOC lowered its one- and five-year loan prime rates by 25 bps each to 3.10% and 3.60%, respectively. Both now stand at their lowest levels ever. The rate reductions were implemented to help spur domestic demand and activity in China's property market. Fiscal measures to support growth could also be on the way. In late October, China's parliament announced plans to hold a meeting in early November, which might provide details on any fiscal stimulus measures planned by the government.

A stronger Chinese economy will also benefit Europe. Europe's economy expanded by 0.4% over the third quarter, according to a flash estimate. Europe's economic growth has been relatively flat, hindered by tight financial conditions, which have weighed on consumer and business activity. In October, the ECB lowered its policy interest rates by 25 bps in an effort to help spur growth. The ECB is expected to keep lowering interest rates, particularly with muted growth and below-target inflation.

Market performance - as at Oct. 31, 2024

Equity Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
S&P/TSX Composite Index C$	24,156.87	0.65%	**0.65%**	15.26%	**15.26%**	27.99%	**27.99%**
MSCI USA Index US$	5,438.03	-0.81%	**2.24%**	19.46%	**25.94%**	36.44%	**36.87%**
MSCI EAFE Index US$	2,332.94	-5.50%	**-2.59%**	4.33%	**9.98%**	19.77%	**20.15%**
MSCI Emerging Markets Index US$	1,119.52	-4.38%	**-1.44%**	9.36%	**15.28%**	22.33%	**22.71%**
MSCI Europe Index US$	2,092.60	-5.98%	**-3.08%**	-3.57%	**9.19%**	19.20%	**19.58%**
MSCI AC Asia Pacific Index US$	186.09	-4.59%	**-1.65%**	9.86%	**15.82%**	23.52%	**23.91%**

Fixed Income Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
FTSE Canada Universe Bond Index C$	1,157.51	-1.01%	**-1.01%**	3.21%	**3.21%**	11.34%	**11.34%**
FTSE World Investment Grade Bond Index US$	216.01	-3.17%	**-0.19%**	0.36%	**5.80%**	9.98%	**10.32%**

Currencies	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
CAD/USD	0.7177	-2.93%	-	-4.96%	-	-0.43%	-

Commodities	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
West Texas Intermediate (US$/bbl)	69.26	3.46%	-	-1.56%	-	-12.32%	-
Gold (US$/oz)	2,743.97	4.15%	-	33.01%	-	38.31%	-
Silver (US$/oz)	32.66	4.81%		37.25%		42.96%	