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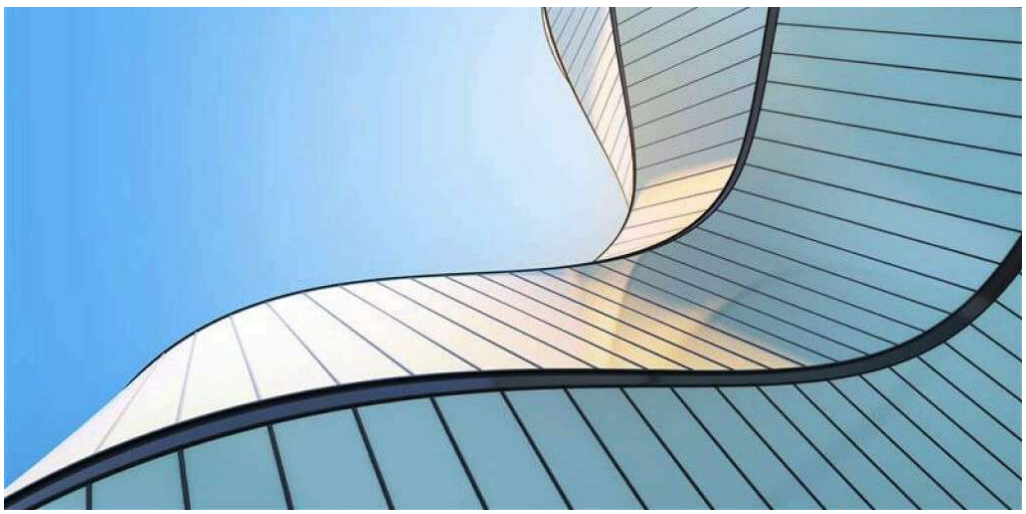
January 2025 market update

From interest rates to Trump being sworn in, the Canada economy navigates uncertainty. Stay up-to-date with January highlights.

Feb. 5, 2025



Introduction

Global equity markets moved higher in January. Despite the hiccup in U.S. technology heavyweight stocks and ongoing talk about tariffs, investors maintained a relatively bullish sentiment towards risk assets. Investors hope U.S. President Donald Trump's pro-growth policies will benefit the global business environment.

Data showed that the U.S. and Chinese economies both expanded in the fourth quarter of 2024, demonstrating their relative strength. The Bank of Canada ("BoC") and European Central Bank cut interest rates over the month, while the U.S. Federal Reserve Board ("Fed") held steady.

In Canada, the S&P/TSX Composite Index advanced, led by the Materials sector. U.S. equities also advanced. Yields on 10-year government bonds in Canada and the U.S. ticked lower. The price of oil and gold finished higher over the month.

Give Feedback

On February 1, the U.S. announced a 25% tariff on Canada and Mexico, along with a 10% tariff on China. Energy exports from Canada will have a 10% tariff. The tariffs were widely expected but the timing was a bit uncertain. After the announcement, the Canadian government announced a 25% tariff on the U.S. However, the tariffs on Canada and Mexico have been delayed by a month. The two countries met with the U.S. and agreed to the delay.

Another rate cut from the Bank of Canada

The BoC was back at it in January, lowering its benchmark overnight interest rate by 25 basis points ("bps") to 3.00%. This marked its sixth consecutive rate cut. Canada's central bank noted that its 200 bps in rate cuts to this point are "substantial." The economy needed some support. The BoC is hoping its rate cuts help spur household and business spending. Regarding inflation, the BoC expects it to stay close to its 2% target over the next two years. Although investors were looking for some guidance on future rate cuts, the BoC stopped short of providing any. The central bank expressed its concern about the threat of tariffs and how this could impact the Canadian economy. In response, the BoC may take a gradual approach and be data-dependent.

Early in the year, looming tariffs are clouding the outlook for Canada's economy. The federal and provincial governments have discussed putting a plan in place. However, not all lawmakers are easily agreeing to the approach. It appears nothing is off limits, with many business leaders calling for dollar-for-dollar retaliatory tariffs. Within the political arena, Canada will see a change at the top. Prime Minister Justin Trudeau announced he would resign once a new Liberal party leader is found. He served as Prime Minister for over nine years. He continues to work with the provincial Premiers to prepare for tariffs.

Give Feedback

President Trump takes office again

Donald Trump was sworn in as the 47th President of the United States on January 20, becoming only the second person to serve two non-consecutive terms. President Trump wasted little time putting some of his policy changes into place while ramping up the talk about tariffs. Several countries and regions could face tariffs, including Canada, Mexico and China. Canada and Mexico are facing the possibility of 25% tariffs on a broad list of goods going into the U.S. Early estimates show this could have a significant impact on Canada's economic growth. The President is looking to bring manufacturing and jobs back to the U.S. However, there are warnings that it could put upward pressure on prices at a time when inflation is already elevated. President Trump expressed his desire for the U.S. to be a leader in artificial intelligence ("AI") development. In response, a joint venture of technology heavyweights was formed to invest US$500 billion over the next five years to build up AI infrastructure. China emerged as a lofty competitor in the race for AI dominance over the month. Chinese company DeepSeek developed AI technology at a much lower cost. This immediately sent shares of technology heavyweights down. However, sentiment towards the group steadied as investors took in earnings results and future potential. President Trump also told an economic conference that he will push for lower interest rates. He may need to wait a bit longer after the Fed held steady at its January meeting.

China's economy seeking some more support

China's government and central bank began to provide fiscal and monetary policy measures to help support its economy, which appeared to be taking hold over the final quarter of 2024. However, economic data in early 2025 may be pointing to an economy that needs even more support. China's economy expanded by 5.4% year-over-year in the fourth quarter, which was its sharpest pace of growth since the second quarter of 2023. Fourth-quarter growth benefited from fiscal and monetary policy measures meant to help boost domestic demand and industrial activity. As 2024 ended, relatively stronger growth pointed to a stabilizing economy. However, that optimism has faded early in the year. Business activity, as measured by manufacturing and services sector activity, slowed in January. The manufacturing sector contracted in response to falling new orders and output. This marked its biggest contraction since August. Calls immediately started for the government to provide even more stimulus to the economy. In nearby Japan, the Bank of Japan ("BoJ") raised its policy interest rate by 25 bps to 0.50%, its highest level in 17 years. The BoJ believed the rate hike was necessary with inflation remaining elevated, due in part to higher wages. Economic activity in Japan was shaky in 2024.

Give Feedback

U.K. economic conditions draw concerns

Markets and investors are getting concerned about economic conditions in the U.K. Elevated inflationary pressures and soft economic growth are raising concerns about stagflation. The U.K. economy grew by only 0.1% over November, which followed a 0.1% decline in October. The data points to struggles amid tight financial conditions. Meanwhile, inflation has crept higher in recent months, with few signs that downward pressure is coming. Furthermore, the new government has pledged to increase spending to help the economy, which could add to inflationary pressures, worrying markets. Amid stagflation concerns early in the month, the yield on the U.K. 10-year Gilt increased to its highest level since 2008, before paring back. The British pound dropped sharply against the greenback over the same time. The Bank of England ("BoE") holds its first meeting of 2025 in early February. At its last meeting, the BoE noted it is likely to take a gradual approach to cutting interest rates. And a cautious stance seems warranted as it seeks to bring down inflation but help the economy avoid a recession.

Market performance - as at Jan. 31, 2025

Give Feedback

Equity Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
S&P/TSX Composite Index C$	25,553.10	3.26%	**3.26%**	3.26%	**3.26%**	21.46%	**21.46%**
MSCI USA Index US$	5,783.64	2.96%	**3.04%**	2.96%	**3.04%**	25.22%	**34.64**
MSCI EAFE Index US$	2,379.76	5.21%	**5.30%**	5.21%	**5.30%**	5.85%	**13.82%**
MSCI Emerging Markets Index US$	1,093.37	1.66%	**1.74%**	1.66%	**1.74%**	12.05%	**20.48%**
MSCI Europe Index US$	2,139.61	6.82%	**6.91%**	6.82%	**6.91%**	6.08%	**14.07%**
MSCI AC Asia Pacific Index US$	184.10	1.36%	**1.44%**	1.36%	**1.44%**	10.56%	**18.88%**

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Fixed Income Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
FTSE Canada Universe Bond Index C$	1,182.88	1.20%	**1.20%**	1.20%	**1.20%**	6.94%	**6.94%**
FTSE World Investment Grade Bond Index US$	213.13	0.51%	**0.59%**	0.51%	**0.59%**	0.21%	**7.75%**

Currencies	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
CAD/USD	0.6877	-0.71%	-	-0.71%	-	-7.26%	-

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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)	72.53	1.13%	-	1.13%	-	-4.38%	-
Gold (US$/oz)	2,798.41	6.63%	-	6.63%	-	37.21%	-
Silver (US$/oz)	31.30	8.31%		8.31%		36.36%	

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