

MONTH IN REVIEW

May 2024

In focus

Global equities advanced in May, with developed markets outperforming emerging markets. U.S. and eurozone equities rose on the back of strong corporate earnings and renewed hopes for interest rate cuts by the Federal Reserve (the Fed) later this year. In Asia, Japanese stocks advanced, driven by stronger-than-expected full-year earnings results. In contrast, Chinese equities declined modestly, despite a strong rally in the first half of the month.

In economic developments, the U.S. Commerce Department reported that the Personal Consumption Expenditures Price Index, the Fed's preferred gauge for tracking inflation, remained unchanged in April, at 2.8% year-over-year, and well above the long-term target of 2.0%. In Europe, preliminary data indicated that both the headline and core inflation rates in the eurozone had accelerated to 2.6% and 2.9%, respectively, surpassing market expectations.

In the fixed income market, U.S. Treasury yields fell from their year-to-date highs, outperforming European markets, where yields rose. Positive inflation data, signs of weaker economic growth and indications of a cooling labour market supported U.S. bonds. In the commodities market, energy prices declined due to a fall in oil prices, while natural gas prices rose sharply. Renewed confidence that the Fed will lower interest rates later this year also bolstered credit markets.

Indexes	Close	MTD	YTD	2023
S&P/TSX	22,269.12	2.55%	6.25%	8.12%
S&P500	5,277.51	4.80%	10.64%	24.23%
NASDAQ	16,735.02	6.88%	11.48%	43.42%
DJIA	38,686.32	2.30%	2.64%	13.70%
Russell 2000	2,070.13	4.87%	2.12%	15.09%
FTSE 100	8,275.38	1.61%	7.01%	3.78%
Euro Stoxx 50	4,983.67	1.27%	10.22%	19.19%
Nikkei 225	38,487.90	0.21%	15.01%	28.24%
Hang Seng	18,079.61	1.78%	6.06%	-13.82%
Shanghai Comp.	3,086.81	-0.58%	3.76%	-3.70%
MSCI ACWI	785.54	3.82%	8.05%	20.09%
MSCI EM	1,048.96	0.29%	2.46%	7.04%
MSCI ACWI ESG Leaders	2,902.06	4.17%	9.59%	23.07%

Fixed income	Close	MTD	YTD	2023
FTSE Canada Uni.	1,104.81	1.77%	-1.49%	6.69%
BBG Global Agg.	455.83	1.31%	-3.30%	5.72%
TSX Pref	1,930.82	2.94%	14.22%	5.90%

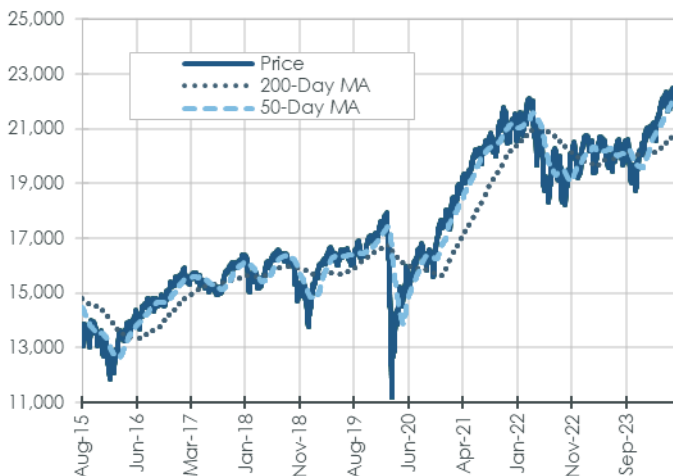
Bond yields	Close	bps chg MTD	bps chg YTD	bps chg 2023
10 yr Canada Govt.	3.63%	-18.7	51.9	-19.0
10 yr U.S. Govt.	4.50%	-18.1	61.9	0.4
30 yr Canada Govt.	3.48%	-19.1	45.0	-24.4
30 yr U.S. Govt.	4.65%	-13.7	61.9	6.5

Commodities	Close	MTD	YTD	2023
Oil	76.99	-5.28%	6.98%	-2.95%
Natural gas	2.59	11.56%	-2.45%	-33.43%
Gold	2,327.33	1.80%	12.81%	13.10%
Silver	30.41	15.65%	27.79%	-0.66%
Copper	460.20	0.82%	17.19%	3.49%

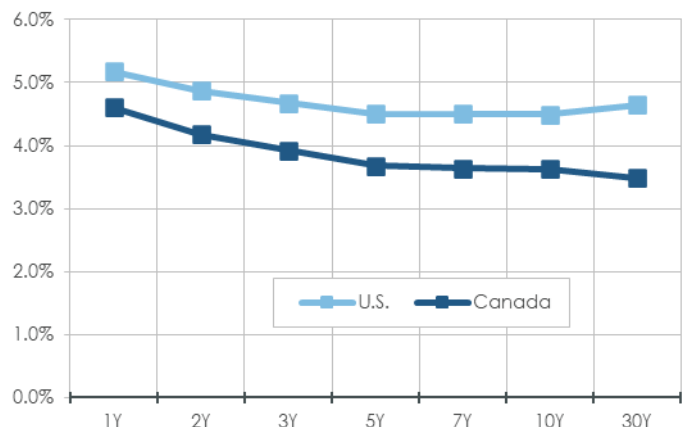
Currencies	Close	MTD	YTD	2023
CAD/USD	0.7338	1.10%	-2.82%	2.34%
USD/EUR	0.9218	-1.69%	1.76%	-3.02%
CAD/EUR	0.6763	-0.60%	-1.10%	-0.81%
USD/JPY	157.3100	-0.31%	11.54%	7.57%
USD/CNY	7.2418	0.01%	2.00%	2.92%
USD/MXN	17.0119	-0.75%	0.24%	-12.96%
GBP/CAD	1.7365	0.89%	2.93%	2.90%
GBP/USD	1.2742	2.00%	0.09%	5.36%

Please refer to Appendix for the above table in Canadian dollar terms.

S&P/TSX Composite Index



Treasury yield curves



Source: Bloomberg and Refinitiv DataStream. Index returns are in local currency. All equity indexes are price returns and do not include dividends.



Economic indicators	Period	Survey	Actual	Prior period
Canada CPI YoY	Apr	2.7%	2.7%	2.9%
Canada unemployment rate	Apr	6.2%	6.1%	6.1%
U.S. GDP annualized QoQ	Q1	1.3%	1.3%	1.6%
U.S. CPI YoY	Apr	3.4%	3.4%	3.5%
U.S. Conference Board consumer confidence	May	96.0	102.0	97.5
China CPI YoY	Apr	0.2%	0.3%	0.1%

Canada

Canadian equities rose over the month as investors welcomed upbeat corporate earnings and signs of moderating inflation. All sectors advanced except for health care and information technology. The materials sector was the best performer, benefiting from higher gold prices.

In economic developments, Canadian retail sales contracted in March for a third consecutive month, falling 0.2% and highlighting the impact of high interest rates on consumer spending. Statistics Canada reported that the Canadian economy expanded at a slower-than-expected pace in the first quarter, which increased expectations of policy easing and a potential rate cut by the Bank of Canada in June.

U.S.

The U.S. equity market got off to a bumpy start to the month after the Fed decided to keep its benchmark interest rate unchanged, at the highest level in more than two decades. However, equities rebounded on renewed hopes for interest rate cuts later this year, buoyed by positive sentiment regarding earnings and employment data. All the major U.S. stock indexes advanced. The NASDAQ led, with a gain of almost 7%, while the Dow added more than 2%, despite a late-month decline that pulled it down from its mid-month all-time high.

Amid this backdrop, all sectors except energy advanced, with information technology, utilities and communication services among the best performers. The energy sector was the only laggard, given weaker oil prices. From a style perspective, growth and quality stocks outpaced value and risk stocks. Large-cap stocks outperformed their small- and mid-cap counterparts.

In macroeconomic news, the U.S. unemployment rate rose marginally in April to 3.9%, from 3.8% in March,

remaining at a historically low level and reflecting a strong labour market. The Personal Consumption Expenditures (PCE) index, excluding food and energy, for April remained at 2.8% year-on-year, unchanged from March. The S&P Global U.S. Manufacturing PMI rose to 51.3 in May, from 50.0 in April, indicating a modest improvement in the manufacturing sector; new orders began to grow again, supporting a faster expansion in production.

Rest of the world

European equities advanced in May, rebounding from an April decline. Markets were supported by a strong earnings season and optimism about potential interest rate cuts, although rising bond yields tempered investor sentiment. The real estate and utilities sectors led the gains in the run-up to the European Central Bank meeting in June, when a rate cut is widely anticipated. From a style perspective, value stocks slightly outperformed growth names, while small caps outpaced their mid- and large-cap counterparts.

Business activity in the eurozone accelerated over the month, with the flash composite PMI hitting a 12-month high of 52.3. Activity in the services sector increased for the fourth consecutive month, with the pace of growth remaining steady. Meanwhile, manufacturing production experienced another month of decline, although the rate of contraction eased slightly.

In Asia, Japanese equities rebounded in May, but still underperformed other developed markets, dragged down by weakness in large-cap technology stocks. Chinese equities ended the month with negative returns. Despite a strong rally in the first half of May, driven by robust tourism data for the May holiday week and extended policy support for the struggling real estate sector, the market faced headwinds. A weaker-than-expected manufacturing reading toward the end of the month underscored ongoing growth challenges for the Chinese economy.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada CPI YoY	May	--	2.7%
Canada unemployment rate	May	6.2%	6.1%
U.S. change in non-farm payrolls	May	185k	175k
U.S. CPI YoY	May	3.4%	3.4%
U.S. durable goods orders	May	--	0.6%
China CPI YoY	May	0.4%	0.3%

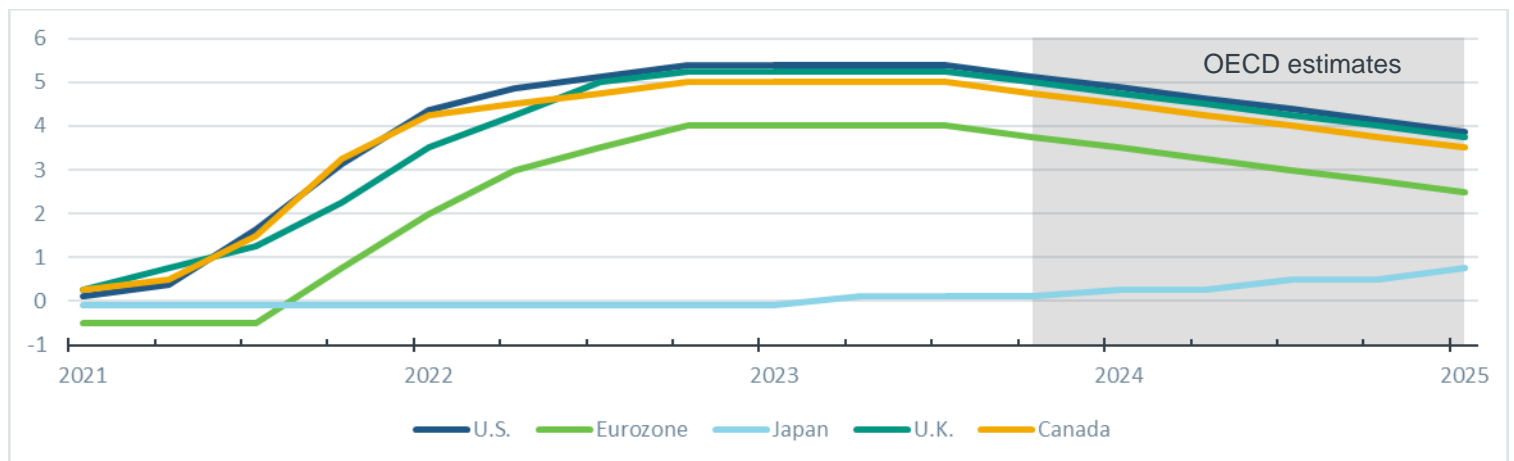
Central bank meetings			
Central banks	Date	Probability of change	Current rate
European Central Bank	06-Jun	-117.7%	4.50%
Federal Open Market Committee	12-Jun	-1.3%	5.50%
Bank of Japan	13-Jun	8.0%	-0.10%
Bank of England	20-Jun	-4.5%	5.25%
Bank of Canada	24-Jul	-71.0%	4.75%

Source: Bloomberg. 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

Policy rates are projected to decline this year in most advanced economies.

Policy interest rates have remained unchanged in most major advanced economies in recent months. Given the projected outlook for inflation and growth, estimates by the Organization for Economic Cooperation and Development (OECD) suggest that policy interest rate reductions are expected to begin this year in all the major advanced economies other than Japan. According to the OECD estimates, reductions in policy rate will begin in the second half of 2024 in the U.S. and the eurozone, as well as in the U.K. and Canada.



Source: OECD Economic Outlook, May 2024.

Appendix

Global markets (Returns in Canadian dollar terms)

Indexes	Close	MTD	YTD	2023
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30 yr U.S. Govt.	4.65	-13.7	61.9	6.5
Commodities	Close	MTD	YTD	2023
Oil	104.92	-6.31%	10.08%	-5.18%
Natural gas	3.53	10.34%	0.38%	-34.96%
Gold	3,171.52	0.68%	16.03%	10.58%
Silver	41.44	14.38%	31.45%	-2.88%
Copper	627.15	-0.28%	20.59%	1.12%
Currencies	Close	MTD	YTD	2023
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