

WEEK IN REVIEW

June 28, 2024

In focus

Global equity markets finished the week with mixed results. The S&P 500 and the Dow posted a small decline, while the NASDAQ rose slightly. Overall, however, U.S. stocks posted strong first-half gains, led by positive economic data and expectations of interest rate cuts some time this year. Mega-cap technology stocks emerged as the winners in the first half, driven by investors' enthusiasm for AI technology.

The Federal Reserve's preferred measure of underlying U.S. inflation decelerated in May, bolstering the case for lower interest rates later this year. The personal consumption expenditures (PCE) index edged lower in May to 2.6% on a yearly basis, from 2.7% in April, while the core PCE, which excludes volatile food and energy prices, fell from 2.8% in April to 2.6% in May.

Japanese stocks rose for the week, with the broader TOPIX index reaching a 34-year high on Friday. Bank shares gained amid a gradual rise in domestic bond yields, and technology shares rebounded. Core consumer prices in the Tokyo area rose 2.1% in June compared with a year earlier, highlighting the challenge the Bank of Japan (BoJ) faces in timing its next interest rate hike.

In fixed income, U.S. Treasury yields rose after uncertainties regarding the U.S. presidential election and the imminent French legislative elections offset confidence stemming from a slowdown in U.S. inflation. The yield on ten-year Japanese government bonds rose on growing anticipation of further monetary policy tightening by the BoJ.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	21,875.79	1.49%	-1.77%	4.38%
S&P500	5,460.48	-0.08%	3.47%	14.48%
NASDAQ	17,732.60	0.24%	5.96%	18.13%
DJIA	39,118.86	-0.08%	1.12%	3.79%
Russell 2000	2,047.69	1.27%	-1.08%	1.02%
FTSE 100	8,164.12	-0.89%	-1.34%	5.57%
Euro Stoxx 50	4,894.02	-0.27%	-1.80%	8.24%
Nikkei 225	39,583.08	2.56%	2.85%	18.28%
Hang Seng	17,718.61	-1.72%	-2.00%	3.94%
Shanghai Comp.	2,967.40	-1.03%	-3.87%	-0.25%
MSCI ACWI	802.01	0.10%	2.10%	10.32%
MSCI EM	1,086.25	-0.06%	3.55%	6.11%
MSCI ACWI ESG Leaders	2,137.73	-0.20%	2.49%	11.53%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,117.26	-0.93%	1.13%	-0.38%
BBG Global Agg.	356.48	-0.53%	0.18%	-4.02%
TSX Pref	1,930.37	4.09%	-0.02%	14.19%

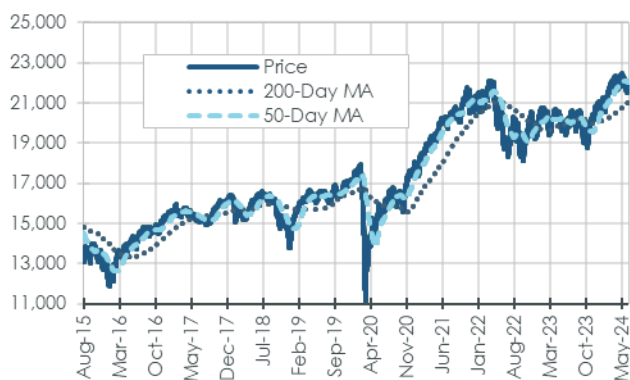
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	3.51%	15.7	-12.3	40.0
10 yr U.S. Govt.	4.37%	11.7	-11.6	50.5
30 yr Canada Govt.	3.40%	13.1	-8.0	37.2
30 yr U.S. Govt.	4.54%	14.6	-9.4	52.0

Commodities	Close	Weekly	MTD	YTD
Oil	81.54	1.00%	5.91%	13.80%
Natural gas	2.60	-3.84%	0.54%	3.46%
Gold	2,340.00	-1.06%	-0.72%	13.48%
Silver	29.14	-1.35%	-4.13%	22.54%
Copper	4.39	-2.30%	-4.76%	13.14%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.73	0.12%	-0.38%	-3.16%
USD/EUR	0.93	-0.21%	1.19%	3.00%
CAD/EUR	0.68	-0.07%	0.81%	-0.23%
USD/JPY	160.87	0.79%	2.29%	14.10%
USD/CNY	7.30	0.13%	0.46%	2.54%
USD/MXN	18.29	0.93%	7.77%	7.78%
GBP/CAD	1.73	-0.14%	-0.40%	2.55%
GBP/USD	1.26	-0.02%	-0.77%	-0.68%

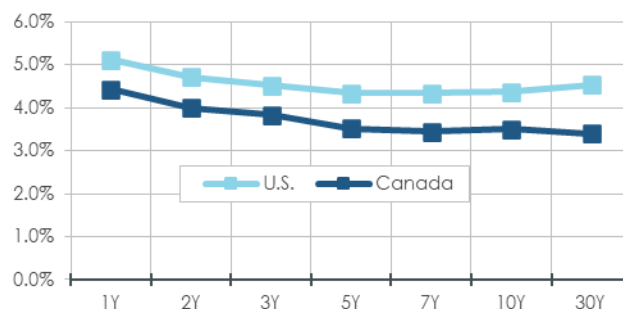
*Please refer to the Appendix for the above table in Canadian dollar terms. Natural gas prices subject to change post-se

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
Canada CPI YoY	May	2.6%	2.9%	2.7%
Canada GDP YoY	Apr	1.1%	1.1%	0.6%
U.S. initial jobless claims	Jun-22	235k	233k	239k
U.S. GDP annualized QoQ	Q1'24	1.4%	1.4%	1.3%
U.S. Conference Board consumer confidence	Jun	100.0	100.4	101.3
U.S. durable goods orders	May	-0.5%	0.1%	0.2%

Canada

Canadian equities rose over the week. All sectors except communication services ended with positive returns, with the real estate and energy sectors leading the gains.

Consumer prices in Canada rose surprisingly in May after having shown signs of almost consistent cooling since the start of the year. The annual inflation rate accelerated to 2.9% in May from 2.7% in April; the Bank of Canada's preferred core inflation measure also rose to 2.9% in May, compared with a 2.7% rise in April. Meanwhile, Canada's GDP increased 0.3% in April, matching market expectations.

U.S.

U.S. equity markets ended the week flat, with the NASDAQ recording modest gains, supported by technology stocks, and the S&P 500 and the Dow both down slightly.

The PCE index was unchanged in May, at the lowest level in six months, fuelling optimism that the Federal Reserve could begin cutting interest rates in September. The core PCE price index, which excludes food and energy prices, rose 0.1% from April. A U.S. Commerce Department report showed that personal income rose slightly higher than expected in May, while personal spending saw a slightly smaller increase than expected.

Most of the S&P sectors ended with negative returns; materials and utilities led the losses, while energy and communication services experienced the most sizable gains. The energy sector rose as oil prices climbed; supply risks due to rising tensions in the Middle East countered demand fears in the U.S. amid a surprise buildup of stockpiles. In other sectors, Alphabet and Meta Platforms gained, providing support for the communication services sector. Nike had its steepest one-day fall in over two decades on Friday after forecasting an unexpected

drop in fiscal 2025 revenue.

In economic developments, new orders for manufactured durable goods rose in May for the fourth consecutive month, albeit at a slower pace. A separate report showed that the number of initial claims for unemployment benefits last week fell more than expected.

Rest of the world

European equities declined for the week: all major indexes posted weekly losses, against heightened political uncertainty in France. The Riksbank, Sweden's central bank, held its key interest rate at 3.75% at its June meeting, in line with expectations.

Preliminary data showed that French and Spanish inflation both slowed in June, while Italian inflation remained unchanged. Meanwhile, the unemployment rate in Germany edged up unexpectedly to 6.0%, from 5.9% in May, reaching the highest since May 2021. A survey released by the Ifo Institute showed that German business confidence fell unexpectedly in June. Expectations in manufacturing and trade worsened, and German consumers and businesses alike expressed a more pessimistic outlook, reflecting increased uncertainty about the country's economic rebound.

In Asia, Chinese equities ended the week lower; market sentiment remained sluggish due to concerns about the slowing economy and a lack of further catalysts from the government. The National Bureau of Statistics reported that China's industrial profits rose at a slower pace in May.

Japanese equities rose over the week, with historic weakness in the yen continuing to support the country's export-heavy industries. The Japanese yen fell to a 38-year low against U.S. dollar, heightening expectations of an intervention by Japanese authorities to stem the weakness.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada unemployment rate	Jun	6.4%	6.2%
Canada net change in employment	Jun	25.0k	26.7k
U.S. non-farm payroll changes	Jun	190k	272k
U.S. initial jobless claims	Jun-29	235k	233k
U.S. ISM manufacturing	Jun	49.1	48.7
U.S. S&P Global manufacturing PMI	Jun	51.7	51.7

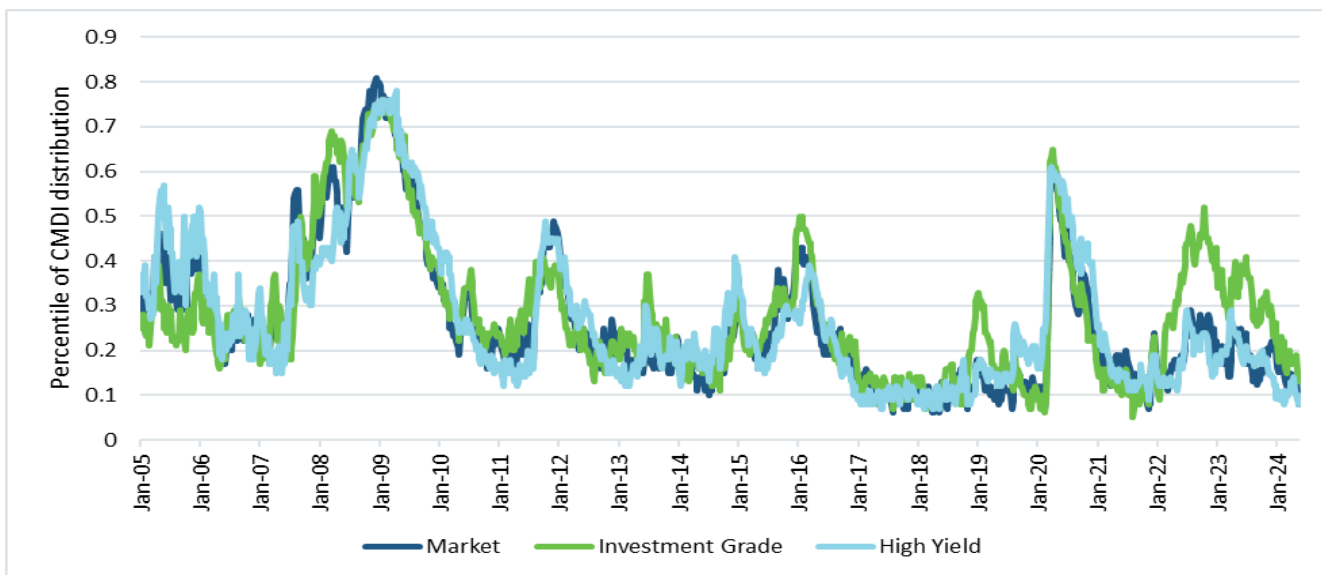
Central bank meetings			
Central banks	Date	Probability of change*	Current rate
European Central Bank	18-Jul-24	-	4.25%
Bank of Canada	24-Jul-24	-	4.75%
Bank of Japan	30-Jul-24	-	-0.10%
Federal Open Market Committee	31-Jul-24	-	5.50%
Bank of England	1-Aug-24	-	5.3%

Source: Bloomberg and Refinitiv DataStream. * Probability of change data are not available for this week. Probability of change implies the possibility of a central bank hiking interest rates during its upcoming meeting. A negative number in this case means chances of a rate cut rather than a hike.

Spotlight

Why are corporate bonds doing well?

The chart below shows New York Fed's Corporate Bond Market Distress Index (CMDI), a unified measure that quantifies joint dislocations in the primary and secondary corporate bond markets. The corporate bond market functioning appears healthy, and the end-of-month market-level CMDI is below its historical 15th percentile. Market functioning in both the high-yield and investment-grade sectors remained within historical norms for the past month.



Sources: FINRA Trade Reporting and Compliance Engine (TRACE); Mergent Fixed Income Securities Database (FISD); ICE; authors' calculations. <https://www.newyorkfed.org/research/policy/cmdid#/interactive>.

Appendix

Global markets (Returns in Canadian dollar terms)				
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Hang Seng	17,718.61	-1.88%	-1.42%	7.88%
Shanghai Comp.	2,967.40	-1.23%	-3.79%	1.04%
MSCI ACWI	802.01	-0.04%	2.49%	14.48%
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Natural gas	3.56	-3.96%	0.92%	6.83%
Gold	3,201.97	-1.19%	-0.34%	17.76%
Silver	39.87	-1.49%	-3.76%	27.17%
Copper	6.01	-2.42%	-4.40%	16.83%
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7310	0.12%	-0.38%	-3.16%
USD/EUR	0.9333	-0.21%	1.19%	3.00%
CAD/EUR	0.6823	-0.07%	0.81%	-0.23%
USD/JPY	160.8650	0.79%	2.29%	14.10%
USD/CNY	7.3010	0.13%	0.46%	2.54%
USD/MXN	18.2862	0.93%	7.77%	7.78%
GBP/CAD	1.7296	-0.14%	-0.40%	2.55%
GBP/USD	1.2644	-0.02%	-0.77%	-0.68%

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

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