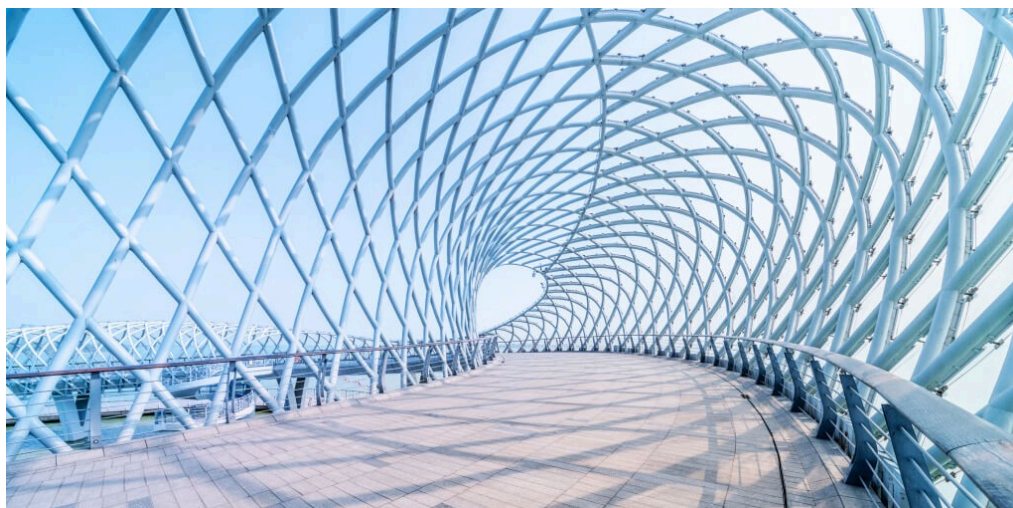


## February 2024 market update

### Whose economy is shrinking and who continues to outperform?

March 5, 2024



### Introduction

Global equity markets moved higher over the month of February. Investors held largely positive sentiment towards riskier assets based on expectations that central banks might begin lowering interest rates later this year and that the global economy could avoid a recession. The Bank of Canada (“BoC”) and U.S. Federal Reserve Board (“Fed”) did not hold meetings in February, but comments from officials at both central banks pointed to rates staying higher for longer. As reported in February, inflationary pressures around the world continued to soften in January, raising hopes that central banks could soon begin lowering interest rates. Global business activity, represented by manufacturing and services sector activity, was relatively muted over the month, suggesting that demand remains soft amid tight financial conditions.

In Canada, the S&P/TSX Composite Index advanced over February, benefiting from the strong performance of the Health Care sector. Canada’s main index hit a new record high over the month. U.S. equities also rose over the month, reaching new highs. Yields on 10-year government bonds in Canada and the U.S. rose over the month. Oil and gold prices advanced.

## Canadian inflation continues its descent

Canada's inflation rate continued to decline in January, reflecting a positive development for the BoC, which is working to bring inflation back to its 2% target. Canada's inflation rate was 2.9% in January. This was a slowdown from the 3.4% rate in December, and lower than the 3.3% rate economists had expected. The decline in January was driven by a drop in gasoline prices, which fell by 4% year-over-year. Food prices moderated again in January. Conversely, high mortgage rates are keeping mortgage costs high, contributing to the elevated rate. January's result suggests the BoC's aggressive rate hikes since the beginning of 2022 are helping to bring down inflationary pressures. Still, the job isn't done quite yet. Comments from BoC officials show that rates might be staying higher for longer to keep inflationary pressures softening. The BoC might not be getting enough help from Canadian households, who are keeping demand relatively robust. Retail sales rose by 0.9% in December, benefiting from higher sales for motor vehicles and parts. Canada's economy has picked up its pace as well. After falling in the third quarter of 2023, Canada's economy expanded by 1.0%, annualized, in the fourth quarter of 2023.

## U.S. labour market continues to outperform

Despite signs to the contrary in late 2023, the U.S. labour market appears to be picking up steam in this early part of 2024. The U.S. economy added 353,000 jobs in January, which topped the 185,000 job additions economists had expected. This follows 333,000 job additions in December and was the highest amount since the beginning of 2023. While job openings and announced job cuts are pointing to a slower labour market, the headline data appears to tell a different story. The U.S. unemployment rate remained unchanged at 3.7% for a third consecutive month. The strong market and elevated wage growth are adding to inflationary pressures in the U.S. economy. While the Fed has been largely successful in pulling down inflation, it hasn't had the same impact on the U.S. labour market. This is one of the reasons why the Fed is pushing back potential interest rate cuts to later in the year. On several occasions over the month, Fed officials commented that rate cuts may be pushed back to later in 2024. Inflationary pressures remain elevated, the economy is growing at a relatively robust pace and the labour market shows little signs of falling. The Fed is hoping to see more confirmation that inflation will indeed fall to its 2% target.

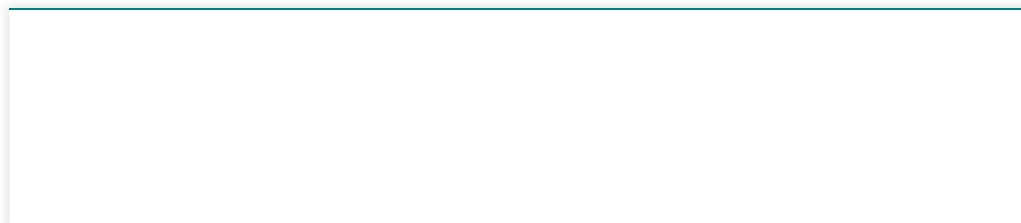
## Tight financial conditions weigh on U.K. economy

A preliminary estimate showed U.K. gross domestic product shrank in the fourth quarter of 2023, sending the economy into a technical recession. The U.K. economy contracted by 0.3% in the fourth quarter of 2023 after falling by 0.1% in the previous quarter. Economic growth was hindered by a decline in consumer spending and exports. The critical services sector also contracted over the quarter, weighing on growth. Underpinning weakness in the U.K. economy is muted demand, which has been brought on by tight financial conditions. Within the U.K., inflation ran at 4.0% in January, still well above the Bank of England's ("BoE") 2% target. At its first meeting of 2024 at the beginning of February, the BoE held its policy interest rate steady at 5.25%. While inflation has come down, the BoE expressed its desire to keep interest rates restrictive. However, the BoE removed language about the potential to tighten policy further, which suggests the central bank has likely reached peak rates. Still, tight financial conditions are likely to persist, which could keep a lid on U.K. economic growth.

## Global trade growth muted in the fourth quarter

Global merchandise trade was relatively unchanged in the fourth quarter of 2023 compared to the previous quarter. The Organisation for Economic Co-operation and Development reported that among G20 nations, merchandise exports ticked higher by 0.1% in the fourth quarter, following a 0.6% decline in the previous quarter. Conversely, merchandise imports edged lower by 0.1%. Looking at exports, flat merchandise exports out of the U.S. and falling shipments from Europe offset China's 0.6% increase in exports. This was positive news for China's economy, which has struggled under the weight of weak domestic and global demand amid tight financial conditions. Furthermore, China's property market has weakened under the weight of high debt levels. In February, the People's Bank of China lowered its five-year loan prime rate looking to kickstart growth in China's property market. A strong China is positive for global trade activity. Looking at the services side of global trade, activity in G20 countries moved slightly higher. Both exports and imports of services products grew over the quarter, driven by a rise in trade activity in the U.S. The U.S. economy expanded in the fourth quarter, benefiting from stronger trade activity.

## Market performance - as at Feb. 29, 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\$	21,363.62	1.63%	<b>1.63%</b>	1.93%	<b>1.93%</b>	5.65%	<b>5.65%</b>
MSCI USA Index US\$	4,859.23	5.20%	<b>6.66%</b>	6.75%	<b>9.75%</b>	28.66%	<b>28.29%</b>
MSCI EAFE Index US\$	2,285.97	1.68%	<b>3.08%</b>	2.23%	<b>5.10%</b>	11.31%	<b>10.99%</b>
MSCI Emerging Markets Index US\$	1,020.94	4.63%	<b>6.07%</b>	-0.27%	<b>2.53%</b>	5.91%	<b>5.60%</b>
MSCI Europe Index US\$	2,045.27	1.40%	<b>2.81%</b>	1.23%	<b>4.07%</b>	9.59%	<b>9.27%</b>
MSCI AC Asia Pacific Index US\$	172.93	3.86%	<b>5.29%</b>	2.09%	<b>4.96%</b>	9.46%	<b>9.15%</b>
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	1,102.34	-0.34%	<b>-0.34%</b>	-1.71%	<b>-1.71%</b>	3.79%	<b>3.79%</b>

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Universe Bond Index C\$							
FTSE World Investment Grade Bond Index US\$	209.78	-1.37%	<b>-0.01%</b>	-2.54%	<b>0.20%</b>	3.98%	<b>3.81%</b>
Currencies	Level	Month to date	Month to date (C\$)	Year to date	Year to date (C\$)	1 year	1 year (C\$)
CAD/USD	0.7364	-1.06%	-	-2.47%	-	0.50%	-

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)	78.30	3.23%	-	9.28%	-	-1.73%	-
Gold (US\$/oz)	2,044.30	0.23%	-	-0.91%	-	11.90%	-
Silver (US\$/oz)	22.68	-1.23%		-4.71%		8.44%	

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