January 2024 market update

Rates signal peak, consumers spending streaks and supply leaks

Feb. 6, 2024

Introduction

Global equity markets edged higher over January. Sentiment was largely mixed as investors parsed through economic data and central bank comments to try to predict when and how central banks will lower interest rates this year. The Bank of Canada ("BoC"), U.S. Federal Reserve Board ("Fed") and European Central Bank all held steady at their first gatherings of 2024. In China, the People's Bank of China ("PBOC") held its one- and five-year loan prime rates ("LPRs") steady, but it reduced its reserve requirement ratio to improve liquidity.

The U.S. announced its gross domestic product expanded by 3.3%, annualized, in the fourth quarter. China's economy grew by 5.2% year-over-year, while Europe's economy was largely unchanged. Weakness in the global manufacturing and services sectors persisted in January amid still muted demand. Inflation remained elevated but has followed a downward path over the past year.

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The S&P/TSX Composite Index posted a tiny gain, led by the Information Technology sector. U.S. equities finished higher over the month. Yields on 10-year government bonds in Canada moved higher, while those in the U.S. were largely unchanged. Oil prices rose, while the price of gold fell in January.

The BoC signals its has reached peaked rates

The BoC held its benchmark overnight interest rate steady at 5.00% at its first meeting of 2024. While the rate hold was widely expected, comments from the BoC pointed to a strong likelihood that interest rates have reached their peak, heightening expectations of rate cuts later in 2024. Should economic conditions evolve as it expects, Canada's central bank says it might be done raising its policy interest rate. This was welcome news for investors and economists, who have witnessed tight financial conditions weighing on Canada's economic growth. In its latest Monetary Policy Report, the BoC projects inflation to hold near 3% over the first half of this year, before retreating closer to its 2% target in 2025. So, while rate cuts are expected, the BoC sees inflation remaining a risk to its outlook, which could hinder the depth of potential rate cuts this year. Still, the downward trend in inflation, soft economic growth and a slowing labour market might have the BoC reversing course and beginning to lower interest rates.

U.S. consumers stay strong

Once again in December, U.S. consumers showed their relative strength despite navigating through rising prices and higher borrowing costs. Personal spending rose by 0.7% in December, its largest increase since September 2023. And spending was broad-based across both goods and services. Contributing to the rise were large increases in spending for financial services, health care and motor vehicles. One of the key factors keeping U.S. consumers relatively robust has been the strong labour market, which has seen wages grow. Personal income rose by 0.3% in December, helped by higher salaries and wages, and by interest income. With demand remaining high, inflationary pressures persisted. The personal consumption expenditure price index ("PCE") was unchanged at 2.6% year-over-year in December. The Fed's preferred inflation gauge remained above its 2% target, suggesting there is still work to be done in the Fed's fight against inflation. Core PCE was higher at 2.9% in December. Meanwhile, monthly PCE rose for the first time since September 2023. At the end of the month, the Fed held its first meeting of 2024, holding the target range of its federal funds rate steady at 5.25%–5.50%. The Fed noted that it will begin lowering interest rates when it is more comfortable that inflation will indeed reach its 2% target. However, Fed comments suggested a rate cut might be possible later in the year.

Calls for more stimulus in China

China's gross domestic product expanded by 5.2% in the fourth quarter of 2023 over the same quarter in the previous year. While the headline figure seemed relatively stronger, there are significant pockets of weakness in China's economy, hindering overall growth. This has raised calls for the government and PBOC to provide more fiscal and monetary support to help drive stronger economic growth. Domestic demand has been particularly weak. Ongoing lockdown restrictions impeded spending by Chinese households, and despite a sharp increase after the removal of these restrictions, spending returned to muted levels to close out the year. Meanwhile, the weakness in China's property markets persists, with the market being negatively impacted by weak demand and high debt levels. Despite the weak conditions in two critical components of China's economy, the PBOC held its one- and five-year LPRs steady at its first fixing of 2024. However, it reduced its reserve requirement ratio for financial institutions, hoping to raise liquidity in the system. Ramping up support could raise liquidity and boost confidence, which might help propel China's economy to growth later in 2024.

Red Sea troubles cause concern about supply disruption

Complications in the Red Sea since October have threatened the global supply chain. In response to Israel–Palestine tensions, Houthi Rebels have orchestrated attacks on shipping vessels through the Red Sea, which is inhibiting shipping through the Suez Canal. This stretch of water is crucial for trade between Asia, Europe and Africa. The attacks have also hindered shipping to North America. The water passageway carries about 12% of global trade, amounting to billions of dollars each year. In response, several major shipping companies have decided not to use the Red Sea. Instead, they are travelling around the southern tip of Africa, which is adding approximately two extra weeks to shipping times. Companies from BP to Tesla, among others, have been impacted by the disruption. BP has halted oil shipments through the Red Sea, while Tesla had to shut down a plant in Germany due to a lack of parts. During the pandemic, inflation soared due in part to significant supply chain disruptions. The complications in the Red Sea are pushing up shipping costs and times, which could push up prices for products, including energy. As central banks are working to push down prices, more supply chain disruptions might add upward pressure to consumer prices. The price of oil rose over the month of January.

Market performance - as at Jan. 31, 2024

Equity Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
S&P/TSX Composite Index C$	21,021.88	0.30%	**0.30%**	0.30%	**0.30%**	1.23%	**1.23%**
MSCI USA Index US$	4,618.90	1.47%	**2.90%**	1.47%	**2.90%**	19.17%	**19.80%**
MSCI EAFE Index US$	2,248.20	0.54%	**1.95%**	0.54%	**1.95%**	7.03%	**7.61%**
MSCI Emerging Markets Index US$	975.80	-4.68%	**-3.34%**	-4.68%	**-3.34%**	-5.40%	**-4.90%**
MSCI Europe Index US$	2,016.94	-0.17%	**1.23%**	-0.17%	**1.23%**	7.25%	**7.82%**
MSCI AC Asia Pacific Index US$	166.51	-1.70%	**-0.31%**	-1.70%	**-0.31%**	-0.86%	**-0.33%**

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	1,106.15	-1.37%	**-1.37%**	-1.37%	**-1.37%**	2.08%	**2.08%**

Universe Bond Index C$							
FTSE World Investment Grade Bond Index US$	212.69	-1.18%	**0.21%**	-1.18%	**0.21%**	1.16%	**1.53%**

Currencies	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
CAD/USD	0.7444	-1.43%	-	-1.43%	-	0.89%	-

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)	75.85	5.86%	-	5.86%	-	-3.83%	-
Gold (US$/oz)	2,039.52	-1.14%	-	-1.14%	-	5.76%	-
Silver (US$/oz)	22.96	-3.52%		-3.52%		-3.26%	

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