March 2024 market update

World wealth watch: interest rates and consumer spending around the globe

April 3, 2024

Introduction

Central bank rate announcements dominated the headlines in March. Most held steady, while pointing to a strong likelihood of beginning to lower interest rates sometime in 2024. This excited investors who helped push global equity markets higher over the month.

Global inflation kept coming down in February, as reported in March, which has set the stage for central bank rate cuts. Business activity in the world's two largest economies, the U.S. and China, expanded over the month. Meanwhile, manufacturing activity in Europe and the U.K. continued to contract, weighed down by weak demand. In North America, labour markets remained relatively strong, but signs of slowing persisted.

In Canada, the S&P/TSX Composite Index moved higher over the month, getting strong performances from the Materials and Health Care sectors. U.S. equities also advanced. Yields on 10-year government bonds swung higher and lower over the month, before finishing largely unchanged. Oil and gold prices both rose in March.

The Canadian consumer appears to be feeling the pinch

Retail sales data over January and February show that Canadian consumers might be feeling weighed down by elevated inflationary pressures and high borrowing costs. Statistics Canada ("StatsCan") reported retail sales dropped by 0.3% in January. While the decline wasn't as sharp as the 0.4% decline economists had expected, it was the first drop in retail sales since August 2023. In January, sales fell sharply at motor vehicles and parts dealers, along with food and beverage retailers. Some categories did see a rise in sales. E-commerce sales increased over January, as did sales at furniture stores. The outlook for February looks better but is still muted. StatsCan estimated that retail sales grew by only 0.1% in February. However, February brought some signs that the pressure on Canadians might be easing. Canada's inflation rate fell to 2.8% in February, largely in response to lower internet and cellular costs. Economists had expected the inflation rate to rise. While the Bank of Canada held steady at 5.00% at its March meeting, minutes showed officials may be ready to start considering interest rate cuts this year.

Global central banks point to rate cuts ahead

March brought in a bevy of central bank announcements, which had market participants reacting and making predictions on when central banks might start lowering interest rates. The U.S. Federal Reserve Board ("Fed") held the target range for its federal funds rate steady at 5.25%–5.50% at its March meeting. At this meeting, the Fed provided new data for its outlook for economic growth and inflation. In response to these expectations, Fed officials are expecting three interest rate cuts in 2024. However, the Fed increased its outlook for inflation in 2025, meaning its policy interest rate might stay relatively higher over 2025.

The European Central Bank ("ECB") and Bank of England also held meetings in March, with both holding steady. At a speech later in the month, ECB President Christine Lagarde noted the bank might start to consider lowering interest rates in June. However, that will depend on the ECB's new set of projections on the path of inflation and the European economy. While most major central banks held steady, the Bank of Japan ("BoJ") raised its policy interest rate to a target range of 0.00%–0.10% from −0.10%. This ended eight years of negative rates from the BoJ and was its first rate increase since 2007. With Japan's inflation rate above the BoJ's 2% target for over a year, the central bank believed it was necessary to raise rates to help moderate those inflationary pressures. Furthermore, Japan's largest companies agreed to raise salaries by 5.3%. The BoJ also ended its yield curve control program for the 10-year Government of Japan bond.

China targets 5% growth in 2024

China's National People's Congress met in March, where it was announced the government is targeting gross domestic product growth of 5.0% in 2024. This is largely in line with the growth target in 2023. China's economy grew by 5.2% in 2023, but there were pockets of weakness that kept growth relatively muted. One of those pockets is China's real estate market, which has been hindered in recent years by high debt levels, which has weighed on activity. In hopes of helping to spur real estate market activity, the People's Bank of China reduced its five-year loan prime rate, which serves as a reference rate for mortgages in the country. Another concern for officials has been relatively muted domestic demand. Retail sales growth wavered as 2023 progressed. In response, the government noted it might be willing to introduce stimulus measures to help boost demand. Market participants are hopeful that early economic data might be pointing to a strong 2024 for the Chinese economy. Business activity expanded at the beginning of the year, while industrial production rose at a relatively strong pace year-over-year. A strong Chinese economy is good for the overall health of the global economy.

OPEC+ to extend voluntary production cuts

To try to keep the oil market balanced and stable, the Organization of the Petroleum Exporting Countries and allies ("OPEC+") announced it would extend voluntary production cuts through the second quarter of 2024. Russia began with voluntary production cuts in April 2023, but more OPEC+ countries agreed to voluntary production cuts in November. The voluntary production cuts have amounted to approximately 2.2 million barrels of oil per day. Major oil producers Saudi Arabia and Iraq, among others, are participating in the voluntary cuts. By extending into the second quarter of 2024, the production cuts will extend into the beginning of summer when demand for oil has historically gone up. The increased demand combined with lower supply could put upward pressure on oil prices. This could be a wildcard development for inflation. Higher energy prices could push up inflation rates, potentially disrupting the progress made by global central banks. The price of oil moved higher over March.

Market performance - as at March 31, 2024

Equity Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
S&P/TSX Composite Index C$	22,167.03	3.76%	**3.76%**	5.77%	**5.77%**	11.16%	**11.16%**
MSCI USA Index US$	5,008.17	3.07%	**2.75%**	10.02%	**12.77%**	30.17%	**30.25%**
MSCI EAFE Index US$	2,349.42	2.78%	**2.50%**	5.06%	**7.73%**	12.71%	**12.82%**
MSCI Emerging Markets Index US$	1,043.20	2.18%	**1.91%**	1.90%	**4.49%**	5.83%	**5.93%**
MSCI Europe Index US$	2,113.34	3.33%	**3.05%**	4.60%	**7.25%**	11.32%	**11.43%**
MSCI AC Asia Pacific Index US$	176.88	2.28%	**2.01%**	4.42%	**7.07%**	9.87%	**9.97%**

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	1,107.75	0.49%	**0.49%**	-1.22%	**-1.22%**	2.24%	**2.24%**

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Universe Bond Index C$							
FTSE World Investment Grade Bond Index US$	211.24	0.70%	**0.43%**	-1.86%	**0.63%**	1.28%	**1.37%**

Currencies	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
CAD/USD	0.7386	0.29%	-	-2.19%	-	-0.13%	-

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)	83.17	6.27%	-	16.08%	-	11.83%	-
Gold (US$/oz)	2,229.30	9.08%	-	8.09%	-	12.60%	-
Silver (US$/oz)	24.96	10.09%		4.91%		4.44%	

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