



2024 FIRST QUARTER MARKET REVIEW

Optimism leads to  
all-time highs.

IG Investment Strategy Team



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## Leap year lift-off: Q1's market highs

The first quarter delivered a solid performance in equity markets, reinforcing the sentiment that inflation is nearly under control and recession fears in the U.S. economy are subsiding. Central banks are nearing their inflation targets, suggesting an impending monetary policy shift. Year-over-year inflation in Canada has dropped to 2.8%, with the U.S. close behind at 3.2%. Although data has been bumpy in the past few months, the trend is promising, which means the U.S. Federal Reserve and the Bank of Canada may soon lower overnight lending rates, particularly in Canada, where the pressure on consumers is intensifying.

While the U.S. has not dodged all economic threats, the dark clouds of an immediate recession have dissipated. Key economic indicators, such as the Manufacturing Purchasing Managers' Index (PMI), are showing signs of life, and there has been a noticeable boost in global exports. The U.S. maintains a positive economic outlook, whereas Canada has experienced several months of subdued GDP growth, highlighting divergent economic narratives between the two closely linked markets. This contrast may lead the Bank of Canada to enact policy changes before the U.S. Federal Reserve, addressing Canada's specific economic hurdles.

Canadian equities have underperformed compared to global markets, but all things considered, it was a decent quarter, with the S&P/TSX Composite Index rising by 5.77%. In the U.S., the S&P 500 Index rose by 10.16% in the quarter, and in international markets the MSCI Europe Index gained 6.98%. Japanese equities had an impressive quarter, with the Tokyo Stock Exchange (TOPIX Index) gaining 16.24% in local currency (JPY).

“Canada’s economy stalled amid soaring interest costs and waning consumer demand, while the U.S. celebrated growth”

- Philip Petursson

# Index returns

## 2024 equity price returns and fixed income total returns

Table 1 - 2024 equity price returns

EQUITY BENCHMARK PRICE RETURNS	CURRENCY	Q1	YTD	1-YEAR
S&P/TSX Composite	CAD	5.77%	5.77%	10.28%
S&P 500	USD	10.16%	10.16%	27.86%
	CAD	12.91%	12.91%	28.00%
MSCI EAFE	USD	5.06%	5.06%	12.27%
	CAD	7.73%	7.73%	12.43%
MSCI Europe	EUR	6.98%	6.98%	11.72%
	CAD	6.98%	6.98%	11.06%
MSCI Emerging Markets	USD	1.90%	1.90%	5.34%
	CAD	4.49%	4.49%	5.49%

Table 2 - 2024 fixed income total returns

FIXED INCOME BENCHMARK PRICE RETURNS	CURRENCY	Q1	YTD	1-YEAR
FTSE Canadian All Government Bond	CAD	-1.66%	-1.66%	0.95%
FTSE Canada Universe Bond	CAD	-1.22%	-1.22%	2.10%
ICE BofA US Corporate Bond	USD	-0.09%	-0.09%	4.68%
	CAD	2.55%	2.55%	4.69%
ICE BofA US High Yield Composite	USD	1.49%	1.49%	11.00%
	CAD	4.18%	4.18%	11.03%
Bloomberg Global Aggregate Bond	USD	-2.08%	-2.08%	0.49%

Source: IG Wealth Management, Bloomberg; 1 year, March 31, 2023 - March 31, 2024.  
Equity benchmark returns are quoted as price returns, excluding dividends.

# Drivers of market performance: Q1 2024

## Canadian equities

The S&P/TSX Composite Index increased by 5.77% for the first quarter, up by 10.28% in the past 12 months.

The smallest component by weight in the TSX Composite Index made the most positive contribution in the quarter, with the health care sector up 17.7%.

Crude oil prices, measured by West Texas Intermediate (WTI), were up 16% for the quarter, reaching new highs not seen since October 2023. This resurgence in oil prices lent a significant boost to the Canadian stock market in the quarter. Against the backdrop of prevailing economic uncertainties, Canadian equities managed to close out the quarter on a surprisingly positive note.

## U.S. equities

The S&P 500 Index concluded the quarter with a 10.16% increase, sustaining the momentum from Q4's double-digit growth.

The real estate sector lagged, down 1.4% for the quarter, with commercial real estate being a concern. The market saw a broad-based rally with financials, energy and industrials joining AI and technology in driving significant growth. This was a welcome shift from tech's earlier dominance.

The U.S. Federal Reserve (the Fed) continued to maintain a cautious tone as it awaited more evidence inflation is contained. With the U.S. economy exhibiting solid growth, evidenced by an estimated 2.3% real GDP increase in the first quarter, the Fed was in no hurry to reduce interest rates.

## International equities

Equities outside North America fared well in Q1. In Canadian dollar terms, the Europe, Australasia and Far East (EAFE) Index rose 7.73%, the MSCI Europe Index was up 6.98%, and the MSCI Emerging Markets Index was up 4.49%.

Japan had an especially strong quarter, despite the Bank of Japan increasing its overnight rate and leaving behind its own version of the zero-interest-rate policy it had in place for decades.

Overall, international equities benefited, with continued optimism and momentum into the first quarter.

## Fixed income

Bond yields fell during the quarter, as the U.S. Federal Reserve hinted at a pivot in monetary policy. Inflation in the U.S. has come down to just above 3% but is proving sticky.

The Bloomberg Global Aggregate Index declined modestly by 2.08% in U.S. dollar terms, while the Canadian Universe Bond Index fell by 1.22%.

During the quarter, the ICE US High Yield Index, which tracks U.S. high yield bonds, delivered returns of 1.49% in U.S. dollars (4.2% in Canadian dollars), with an annual increase of 11% in U.S. dollars (11.03% in Canadian dollars).

# Canadian equities

Chart 1 – S&P/TSX Composite Index performance

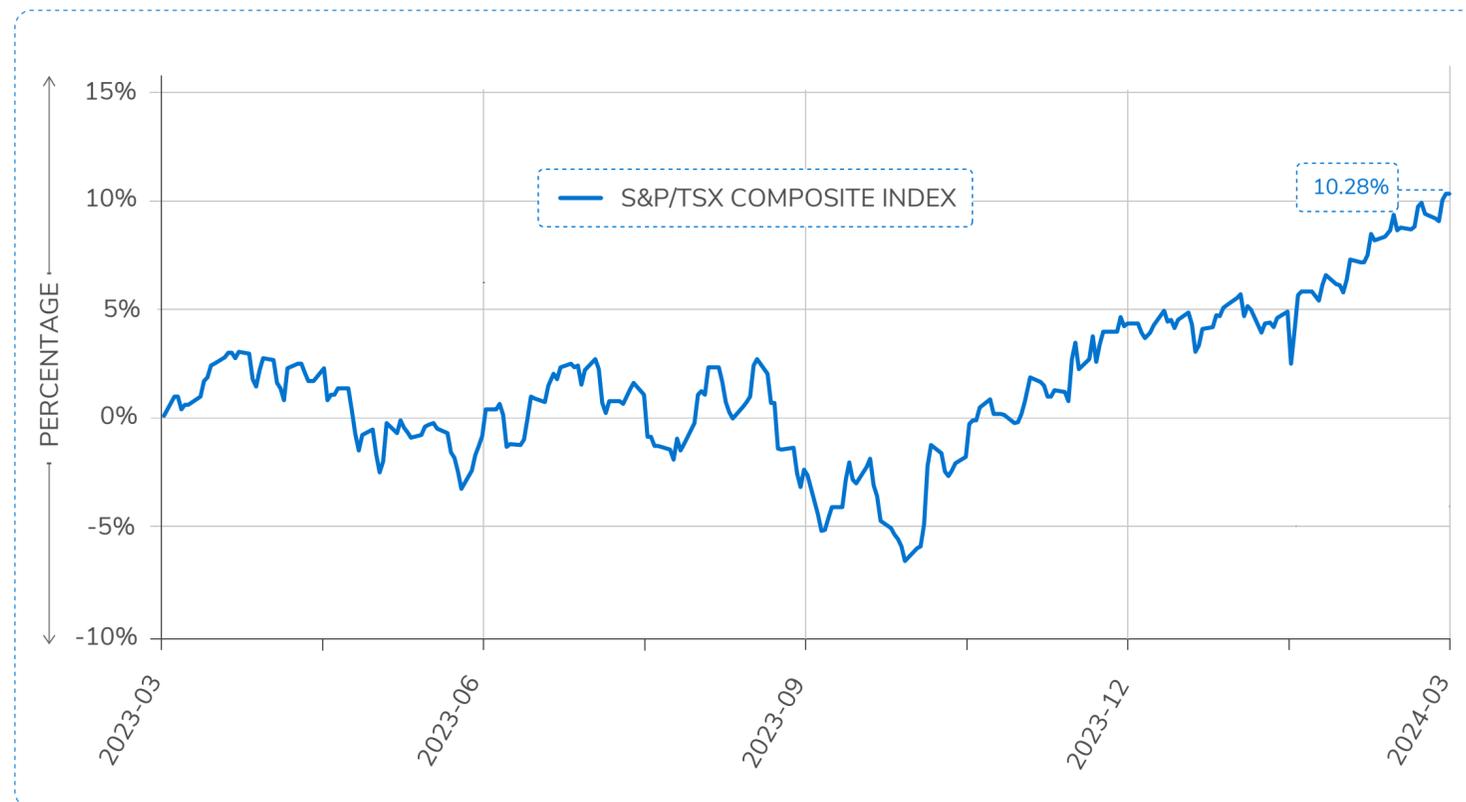
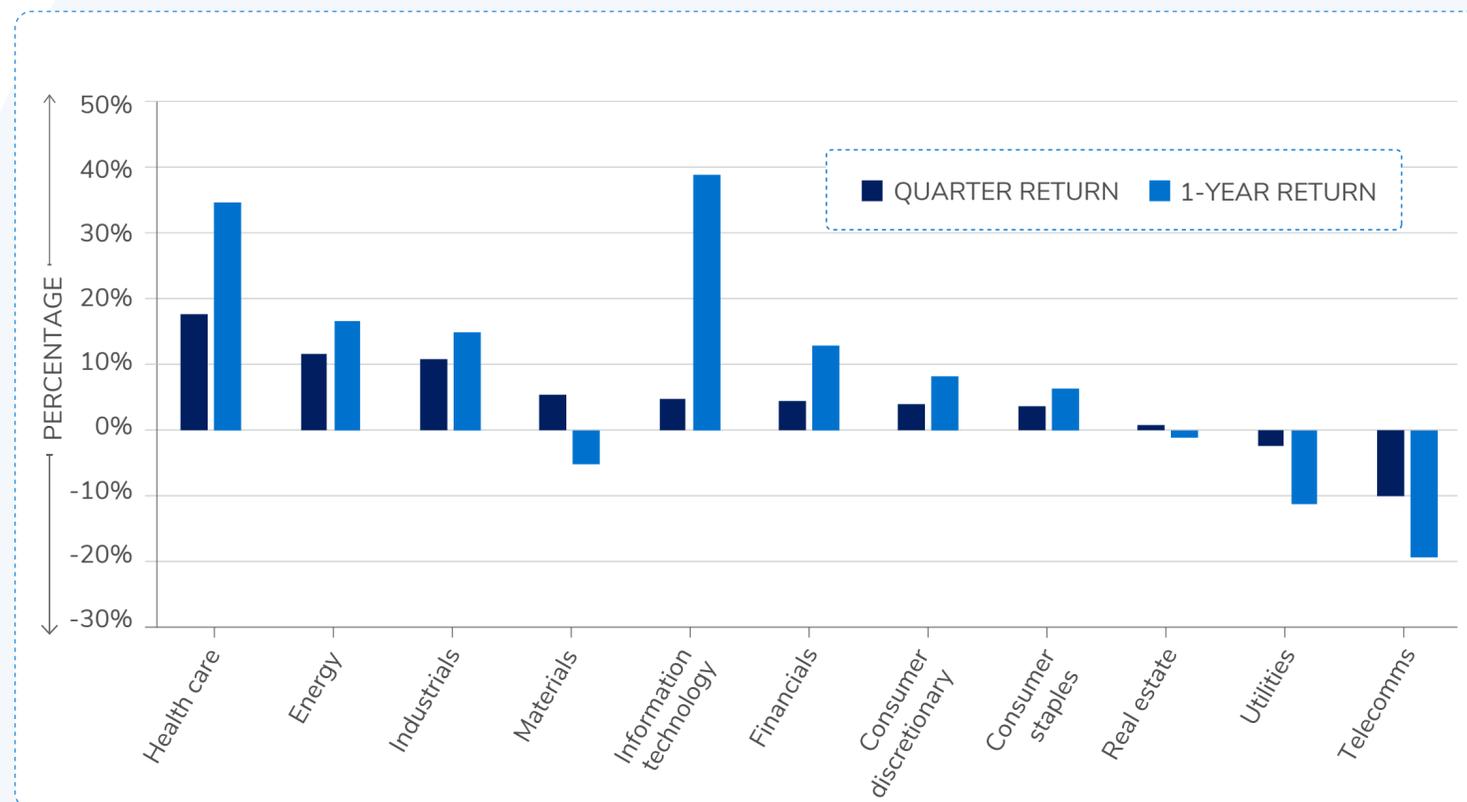


Chart 2 – S&P/TSX Composite sector level returns: Q1 and 1-year



Source: IG Wealth Management, Bloomberg as March 31, 2024.

# U.S. equities

Chart 3 – S&P 500 Index performance (USD)

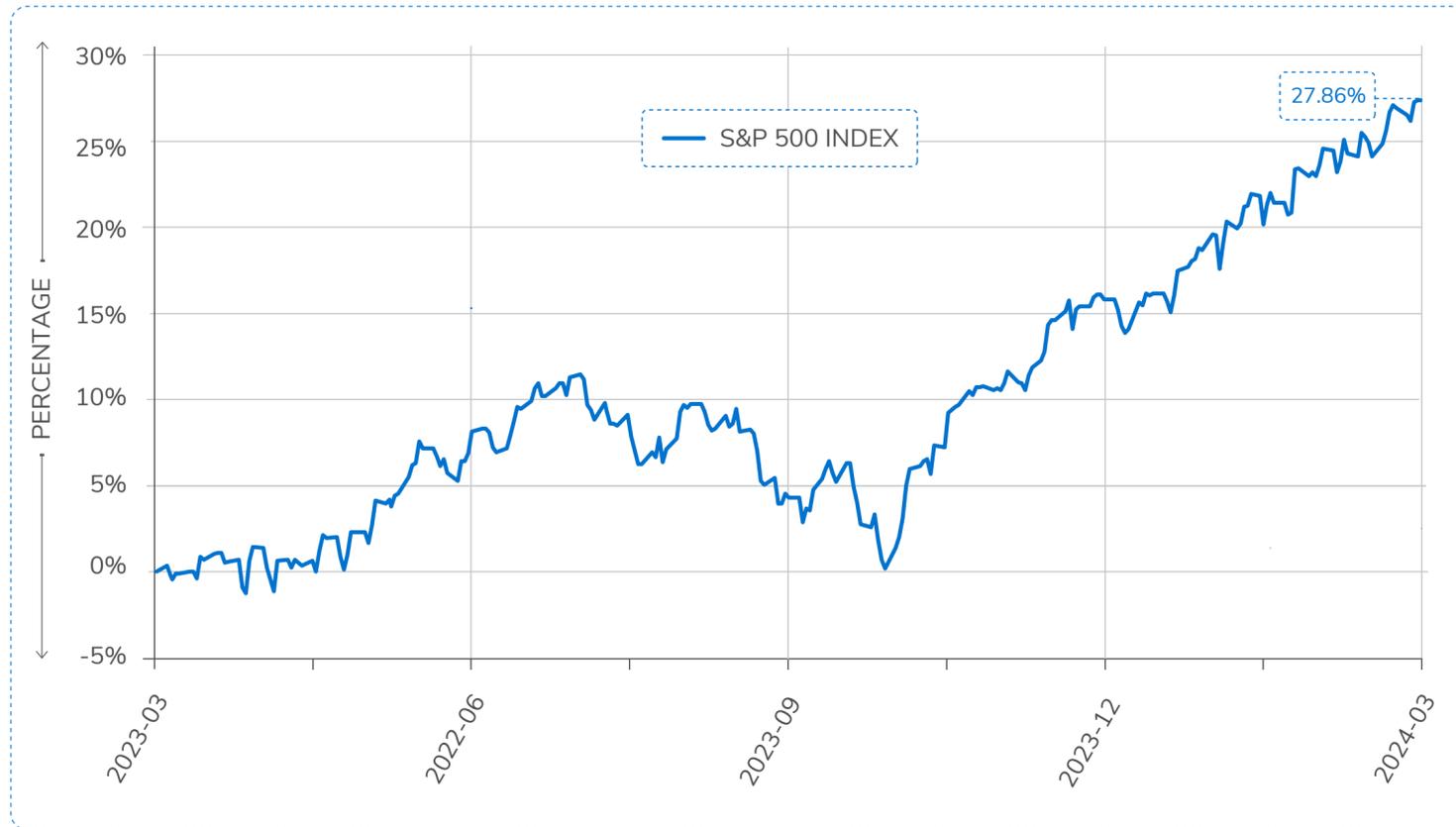
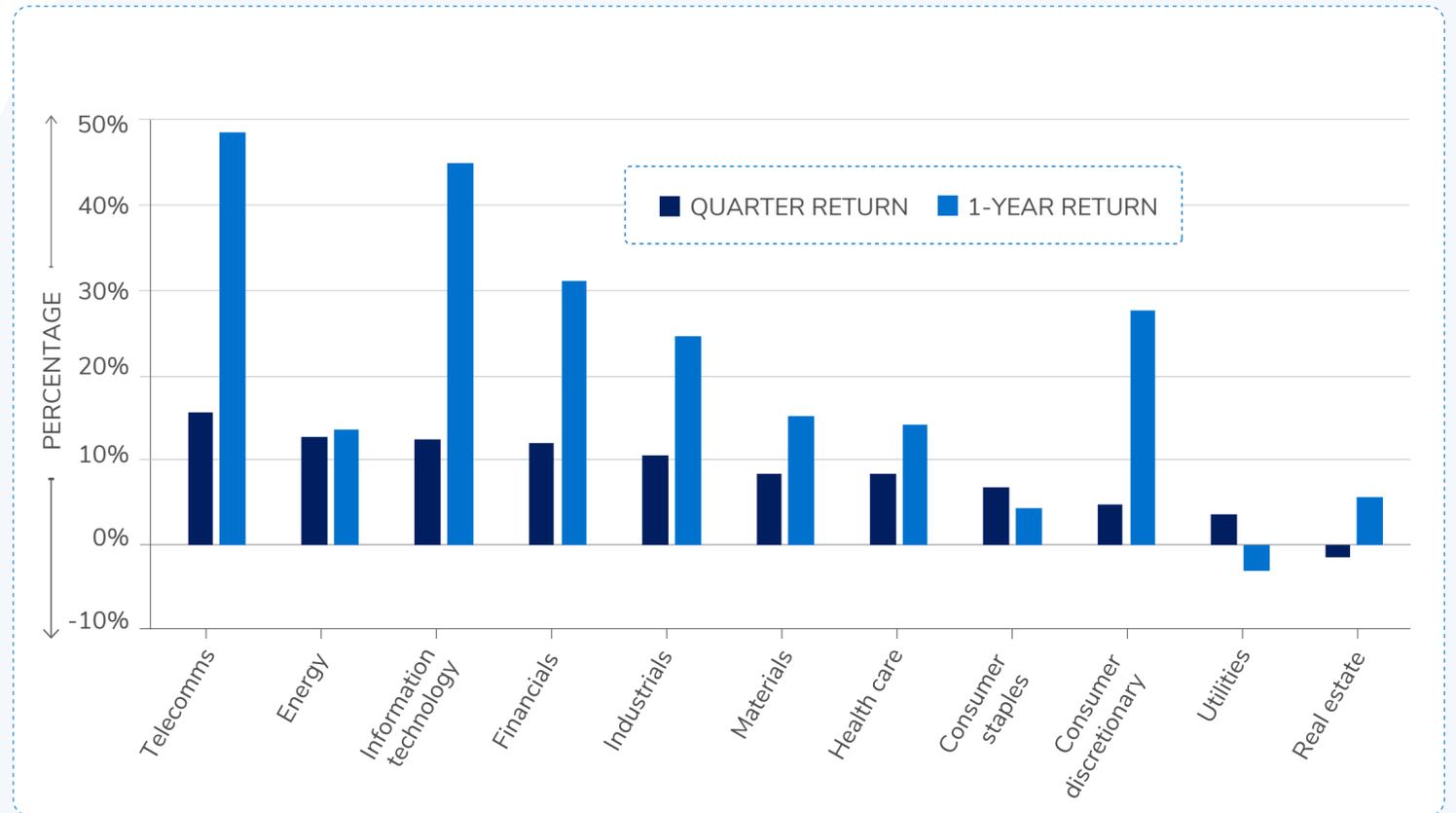


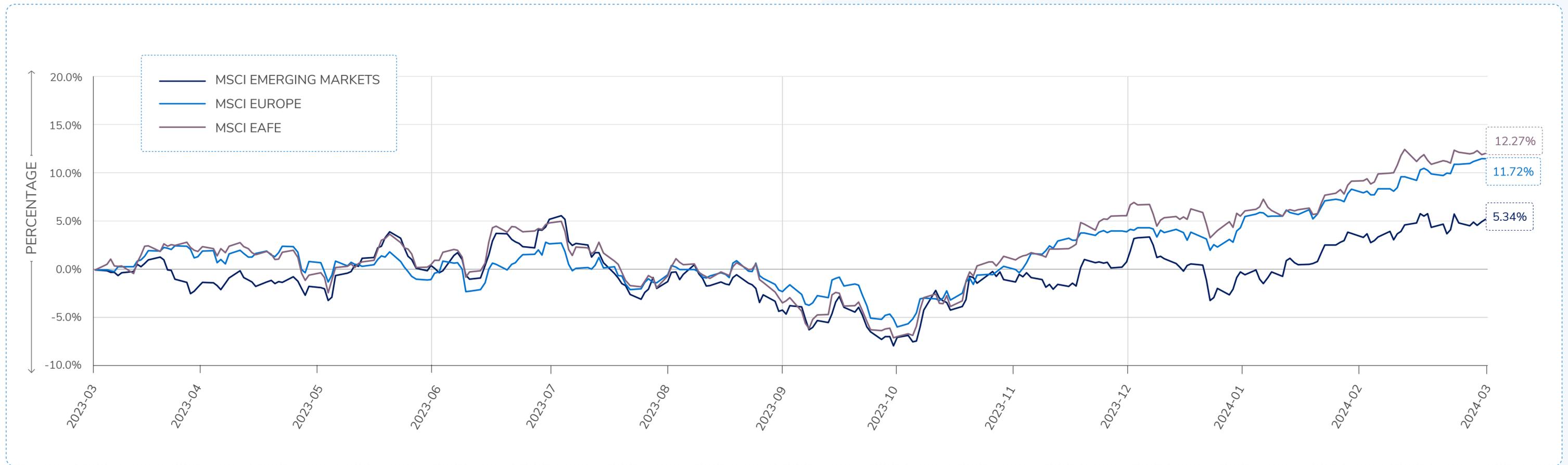
Chart 4 – S&P 500 Composite sector level returns: Q1 and 1-year



Source: IG Wealth Management, Bloomberg as of March 31, 2024.

# International equities

Chart 5 – MSCI Emerging Markets (USD), MSCI Europe (EUR) and MSCI EAFE (USD) indices performance



Source: IG Wealth Management, Bloomberg as of March 31, 2024.

# Fixed income

Chart 6 - Global central bank policy rates

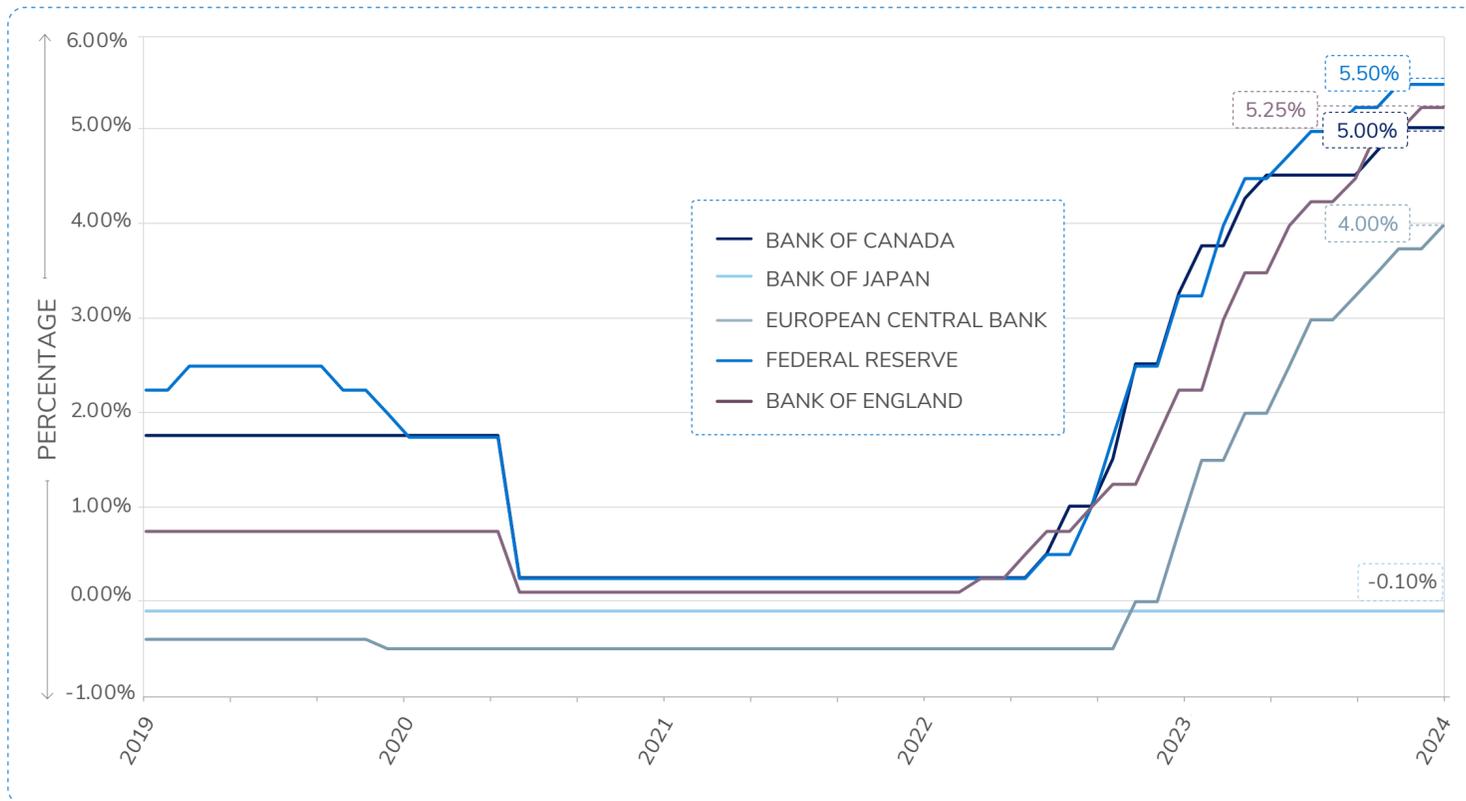
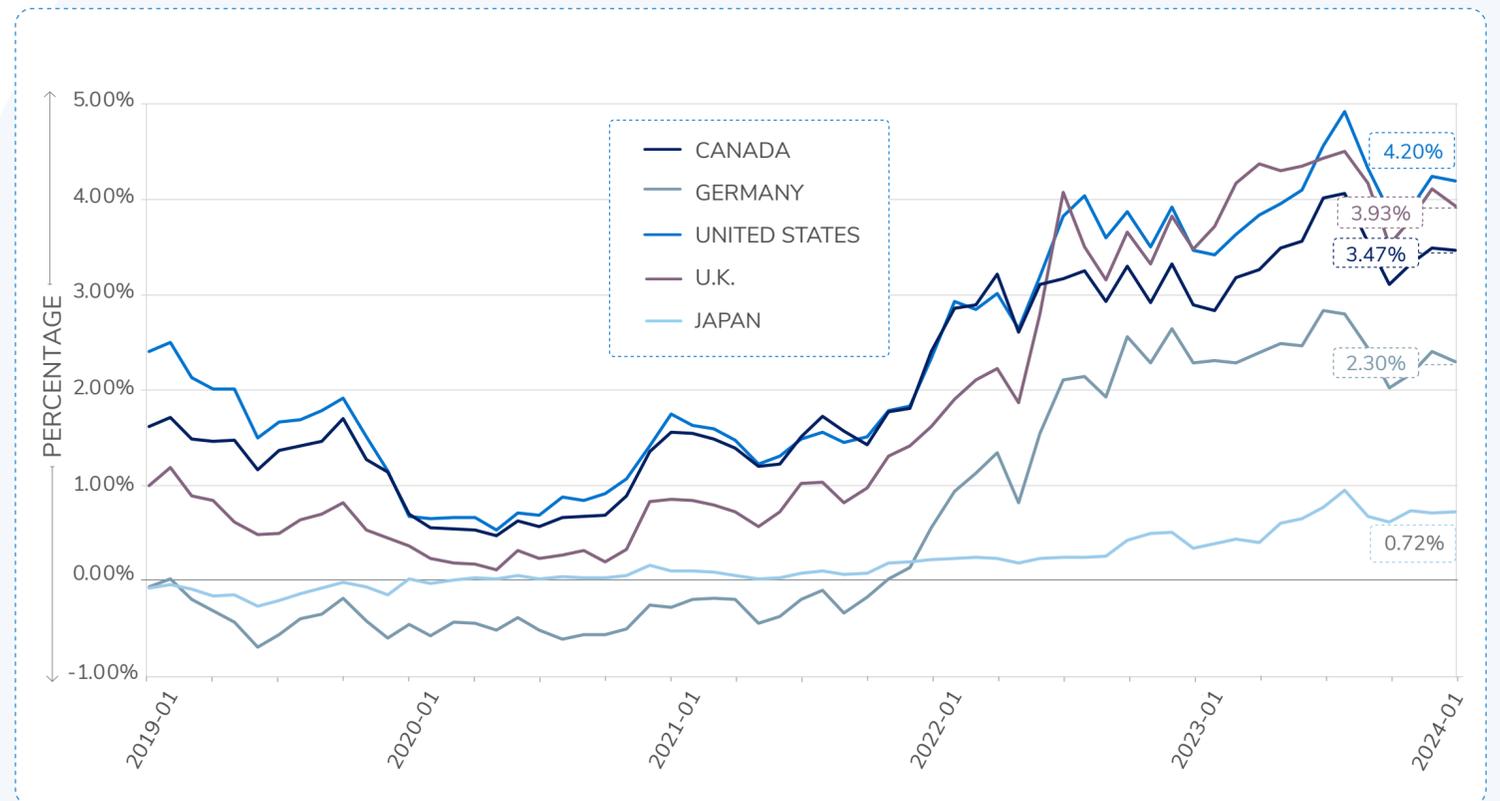


Chart 7 - Sovereign bond 10-year maturity yields



Source: IG Wealth Management, Bloomberg as of March 31, 2024.

# Key benchmark performance

Chart 8 – Canadian dollar/U.S. dollar cross

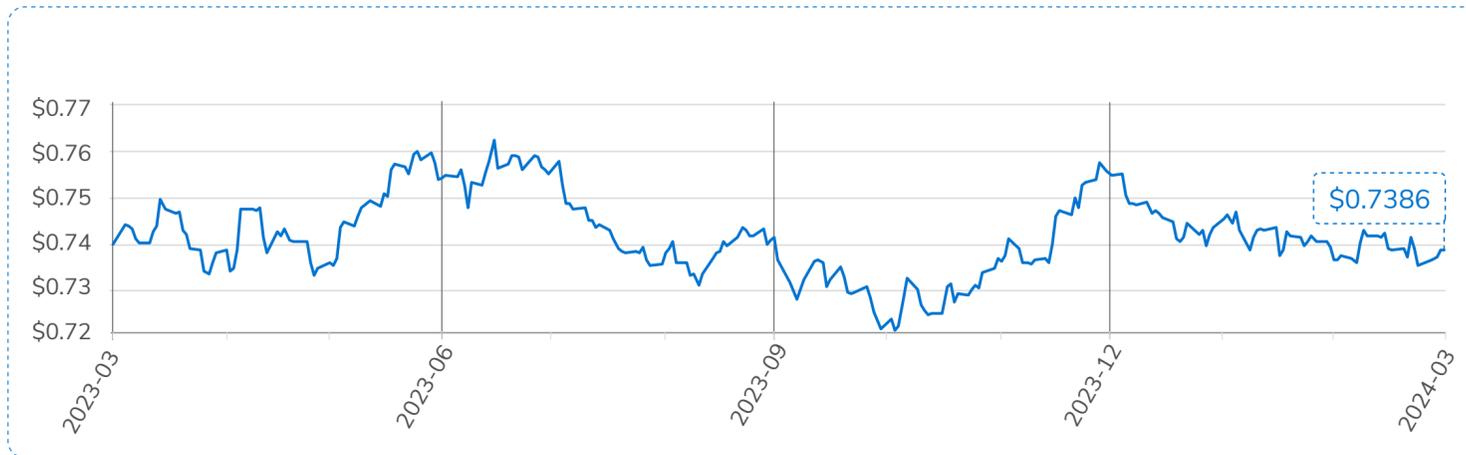


Chart 9 – Crude oil (WTI) US\$/bbl

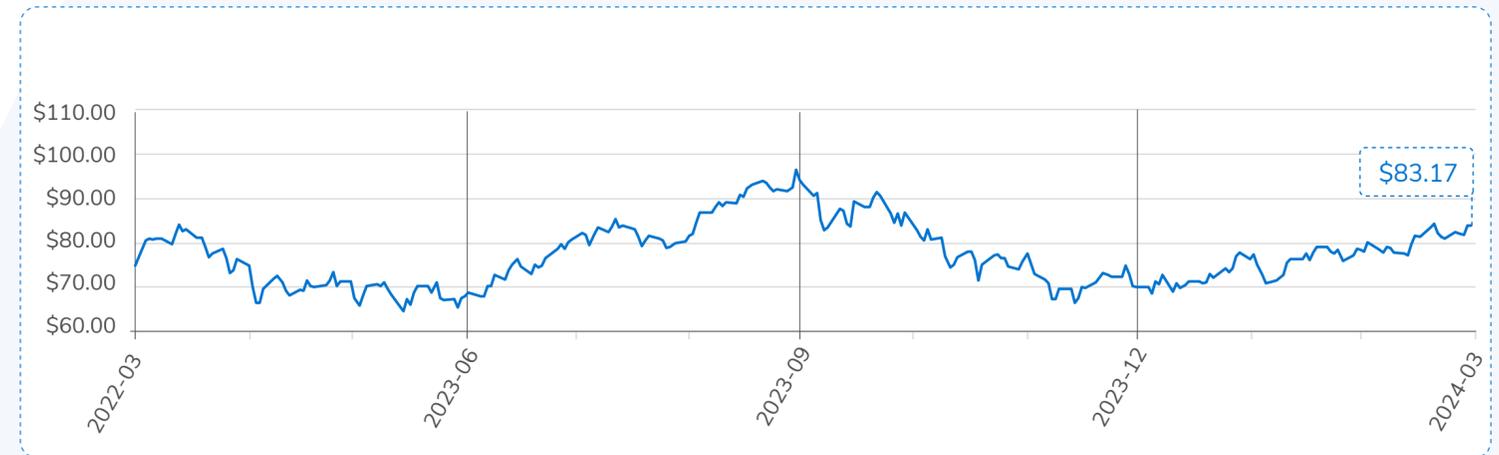


Chart 10 – Gold US\$/oz.

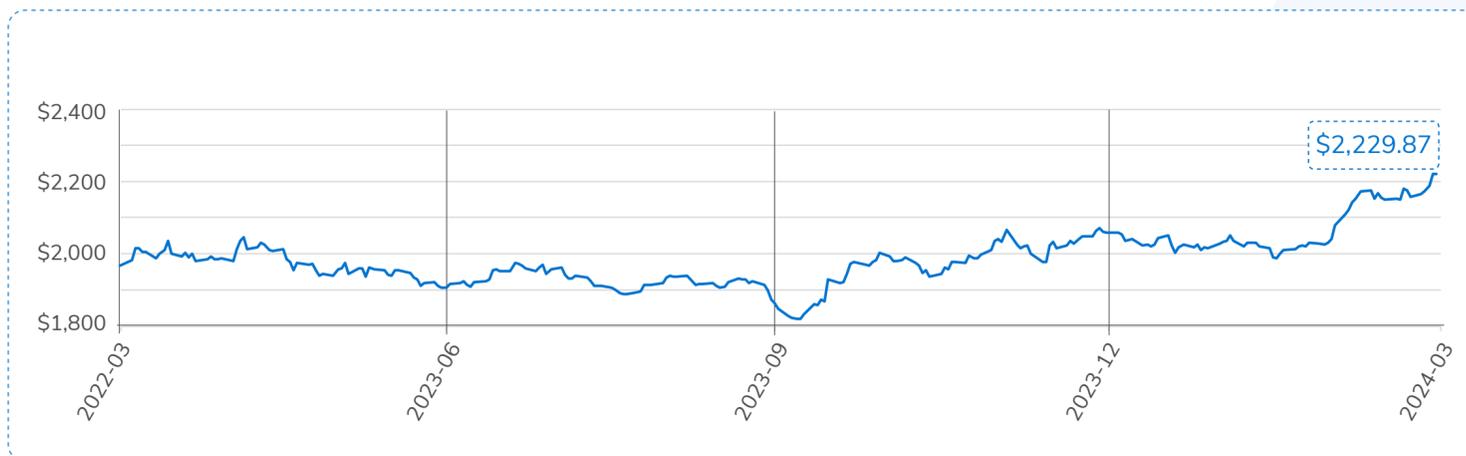
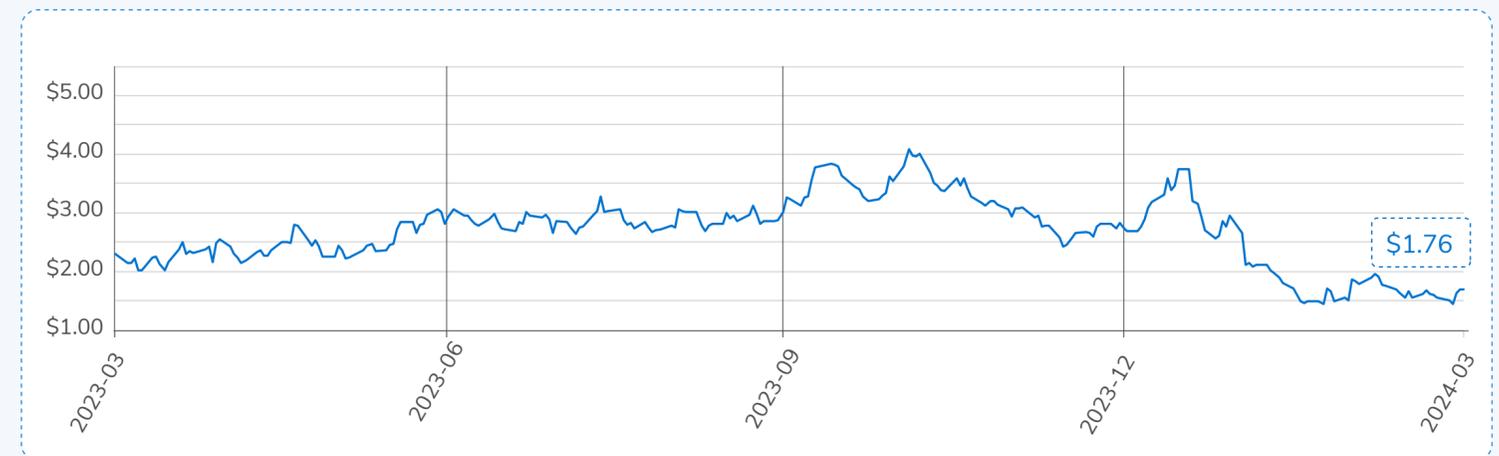


Chart 11 – Natural gas US\$/mmbtu



Source: IG Wealth Management, Bloomberg as of March 31, 2024.

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# Market outlook

## Canada's stock market remains dependent on oil prices

The Canadian economic landscape remains relatively unexciting. The health of the global economy significantly influences Canada, particularly its energy sector. Despite this, the S&P/TSX 60 Index achieved a respectable gain, mainly due to robust oil prices. We expect that sustained high energy prices may continue to bolster the equity market, helping to counterbalance the effects of weak consumer spending in Canada. The telecommunications sector, which is more sensitive to consumer confidence than international economic trends, has entered correction territory, declining 10% for the quarter and 19.8% for the year. A broad-based global recovery in developed markets can help maintain today's higher energy prices, but consumers will require relief in borrowing costs to help boost economic growth in Canada.

## The rally is expanding

It's full steam ahead for the S&P 500 Index. The momentum in the technology sector, specifically the euphoria around AI (artificial intelligence) built upon the momentum of the latter part of 2023. Marking a departure from the previous narrative of tech dominance, the financials, energy and industrials sectors are making significant contributions to the index's growth. This expansion of breadth is healthy and a good sign that we are not only in a technology revolution but in a genuine market upswing.

Despite the bullish trends, U.S. real estate found itself on the back foot. Commercial real estate remains an issue globally, with lower demand for office space and evolving work-from-home policies. It's interesting that investors expected commercial real estate to be a tipping point for market volatility, but efforts by regulators and creative negotiations have contained the short-term impact, for now. We are in a market environment where defensive sectors are overshadowed by the allure of a thriving American economy. Defensive stocks, such as utilities, continue to underperform the broad market. The past six months have seen equity markets rally, so while growth opportunities persist, they may be less evident or more nuanced than before.

## Negative correlation between stocks and fixed income

The negative correlation between bonds and stocks observed in Q1 implies that bonds remain an essential defensive and diversifying component for portfolios, providing a buffer against potential equity volatility. Despite bond yields returning to their November 2023 levels, equity markets showed a surprising lack of response. This detachment may be seen as a silver lining, reinforcing the idea that bonds can act as a reliable hedge in times of recessionary concerns.



The equity market performance in the first quarter of 2024 was strong. In fact, “exceptionally strong” might be a more apt description. This strength is justified by improvements in economic indicators, including robust earnings data from companies globally, not just in the United States.

While there are concerns that the markets may be overextended and due for a pullback, our research suggests that this is not the case. Historical analysis indicates that the S&P 500 Index is no more susceptible to a correction in the next six months than at any other time since 1927. The data even suggests the potential for further market strength ahead. The rally isn’t purely tech driven anymore, and this new breadth is a strong signal that we’re in a healthy market, or at the very least, a healthier market than in the previous quarter.

As we look ahead, the market’s optimism has notably improved from six months ago. U.S. equity markets appear to be priced to perfection, and continued positive economic news is essential to support valuations in the near term. The Canadian markets, meanwhile, have been riding the surging wave of global crude prices. This boon from the energy sector is bolstering the country’s economic and stock market performance, providing a buffer that could mitigate the impact of a sluggish consumer sector, should higher oil prices persist. Internationally, markets are on the upswing, rallying from a period of low stock valuations and slow manufacturing. Historically, these signs have often led to a phase of strong economic growth.

We’re encouraged by the momentum in the markets and inflection points in the economic data to the upside, and that leaves us with an optimistic view for investors through the remainder of 2024.

“We’re encouraged by the momentum in the markets and inflection points in the economic data to the upside.”

- Philip Petursson

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