IG PRIVATE WEALTH MANAGEMENT

2024 SECOND QUARTER MARKET REVIEW AND MID-YEAR COMMENTARY

The challenges and opportunities of in-between seasons

IG Investment Strategy Team

2024 SECOND QUARTER MARKET REVIEW

AI euphoria pushes equities to all-time highs

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The second quarter continued to be dominated by the growing influence of artificial intelligence, with investors focused on opportunities in AI-enabled businesses and hardware. Additionally, there was a notable shift in monetary policy, as some central banks adjusted their interest-rate policies as inflation risks receded.

> *"When it comes to monetary policy, there appears to be a bit of divergence among central banks."*
>
> *- Philip Petursson*

In Canada, year-over-year inflation dropped to 2.9%, while in the U.S. it fell to 3.3%. Both indicators were trending downward and remained range-bound. The Bank of Canada was the first among central banks in the G7 to cut its overnight lending rate, a probable precursor to the U.S. Federal Reserve eventually following suit. The European Union also cut rates modestly, while the Bank of England held rates as-is, for now.

Despite the close economic relationship between Canada and the U.S., we noted the U.S. continued to expand modestly, in contrast to the lacklustre growth here at home. This difference coincided with a gradual softening in the employment landscapes of both countries, with unemployment claims receding back to seasonal averages. Currently, the U.S. unemployment rate sits slightly above its post-pandemic low at 4%, while Canada's is still elevated at 5.87%, underscoring the relative performance gap between the two nations.

As we look ahead, the U.S. equity market is poised to advance by double digits this year, as it added 3.92% for the quarter (in Canadian dollar terms). Meanwhile, Canadian equity markets underperformed, contracting by 1.31%. International markets were mixed, with MSCI EAFE down 1.48%, and MSCI Europe flat for the quarter, also in Canadian dollar terms. We expect markets to moderate in Q3 with the upcoming U.S. presidential election expected to dominate headlines. Inflation and economic data will be closely watched, as policymakers look for signs of normalization that could open the door to the easing of monetary policy.

Index returns

2024 equity price returns and fixed income total returns

Table 1 - 2024 equity price returns

EQUITY BENCHMARK PRICE RETURNS	CURRENCY	Q2	YTD	1-YEAR
S&P/TSX Composite	CAD	-1.31%	4.38%	8.54%
S&P 500	USD	3.92%	14.48%	22.70%
	CAD	4.98%	18.54%	26.83%
MSCI EAFE	USD	-1.48%	3.51%	8.58%
	CAD	-0.51%	7.18%	12.24%
MSCI Europe	EUR	-0.08%	6.90%	10.61%
	CAD	0.22%	7.21%	12.23%
MSCI Emerging Markets	USD	4.13%	6.11%	9.78%
	CAD	5.15%	9.87%	13.48%

Table 2 - 2024 fixed income total returns

FIXED INCOME BENCHMARK PRICE RETURNS	CURRENCY	Q2	YTD	1-YEAR
FTSE Canadian All Government Bond	CAD	0.78%	-0.89%	2.75%
FTSE Canada Universe Bond	CAD	0.86%	-0.38%	3.69%
ICE BofA US Corporate Bond	USD	0.12%	0.02%	5.02%
	CAD	1.23%	3.81%	8.62%
ICE BofA US High Yield Composite	USD	1.09%	2.60%	10.41%
	CAD	2.22%	6.49%	14.21%
Bloomberg Global Aggregate Bond	USD	-1.10%	-3.16%	0.93%

Source: IG Wealth Management, Bloomberg; 1 year, June 30, 2023 - June 30, 2024.
Equity benchmark returns are quoted as price returns, excluding dividends.

Drivers of market performance: Q2 2024

Canadian equities

The S&P/TSX Composite Index contracted by 1.31% in the second quarter and was up by 4.38% for the year to date.

Giving up much of the earlier gains in the previous quarter, the health care sector contracted by 19.1%. Materials gained 6.9%, buoyed by rising commodity prices and global demand.

Simultaneously, the consumer staples sector, often considered a defensive haven, delivered a 3.8% gain, highlighting investors' inclination towards stability and consistent dividend income.

U.S. equities

The S&P 500 Index concluded the quarter with a 3.92% increase, led by technology and telecommunication stocks.

While the real estate sector's longer-term fundamentals remain intact, the near-term headwinds of higher financing costs and cooling economic growth saw the segment decline by 2.8% this quarter.

The U.S. Federal Reserve continued to maintain a wait-and-see attitude for confirmation inflation has been contained. The message was clear that rates have peaked, and the next move will be a cut, however vague on when or how much.

International equities

Equities outside North America were mixed in Q2. In Canadian dollar terms, the Europe, Australasia and Far East (EAFE) Index was modestly down by 0.51%, MSCI Europe was up by 0.22%, and MSCI Emerging Markets (the best-performing market) was up by 5.15%.

The outlook for China is set to improve, bolstering growth in the world's second-biggest economy. Exports beat expectations in April and May, reflecting strong demand from overseas and the increasing competitiveness of Chinese producers.

Fixed income

Bond yields were volatile in the quarter, as the U.S. Federal Reserve held off on lowering rates, while Canada and Europe did start their cycle. Inflation in the U.S. has come down to just above 3% but is proving sticky.

The Bloomberg Global Aggregate Index declined modestly by 1.1% in U.S. dollar terms, while the Canadian Universe Bond Index gained 0.86%.

During the quarter, the ICE US High Yield Index, which tracks U.S. high-yield bonds, delivered returns of 1.09% in U.S. dollars (2.22% in Canadian dollars) and saw an annual increase of 10.41% in U.S. dollars (14.21% in Canadian dollars).

Canadian equities

Chart 1 – S&P/TSX Composite Index performance

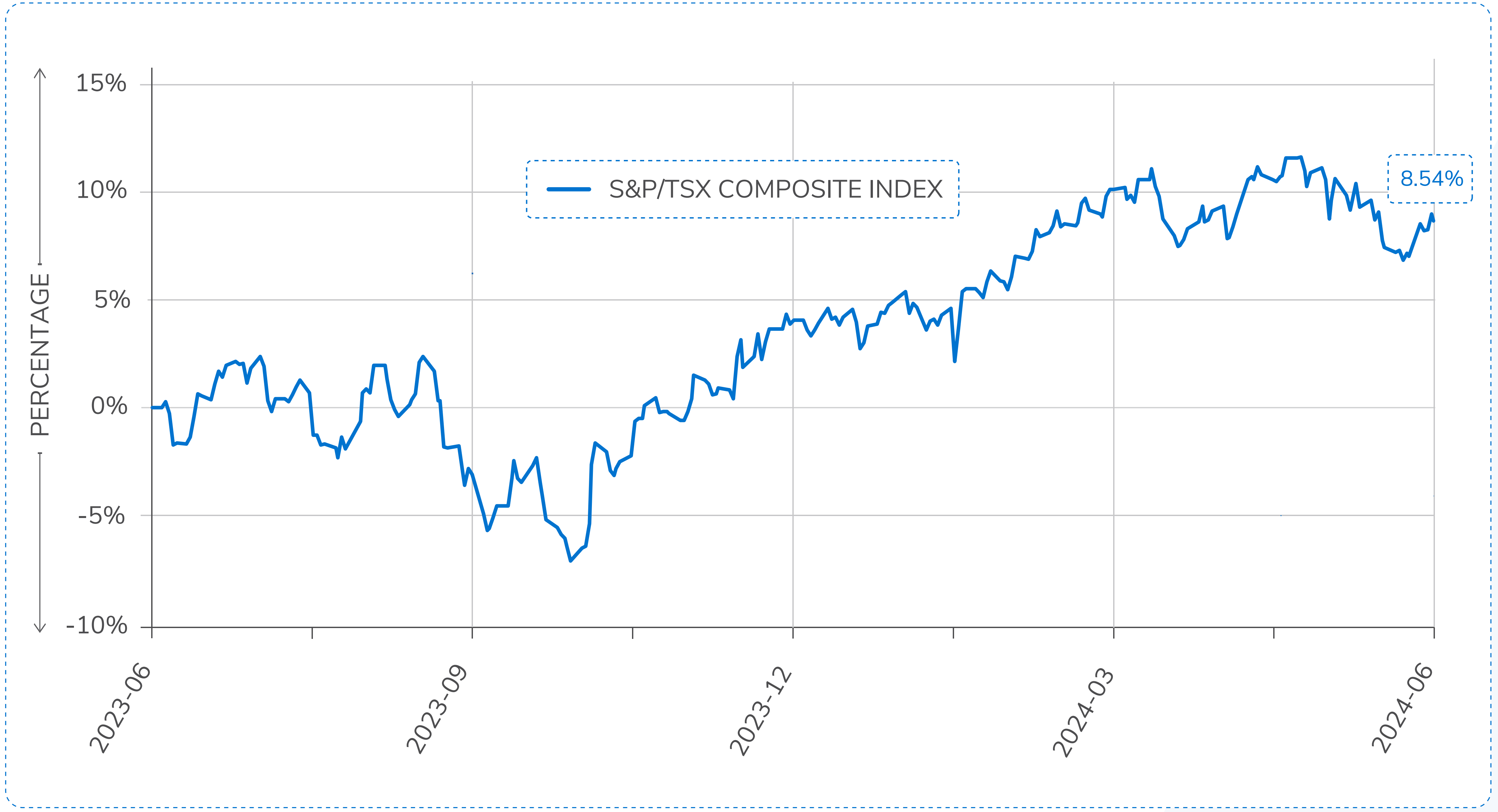
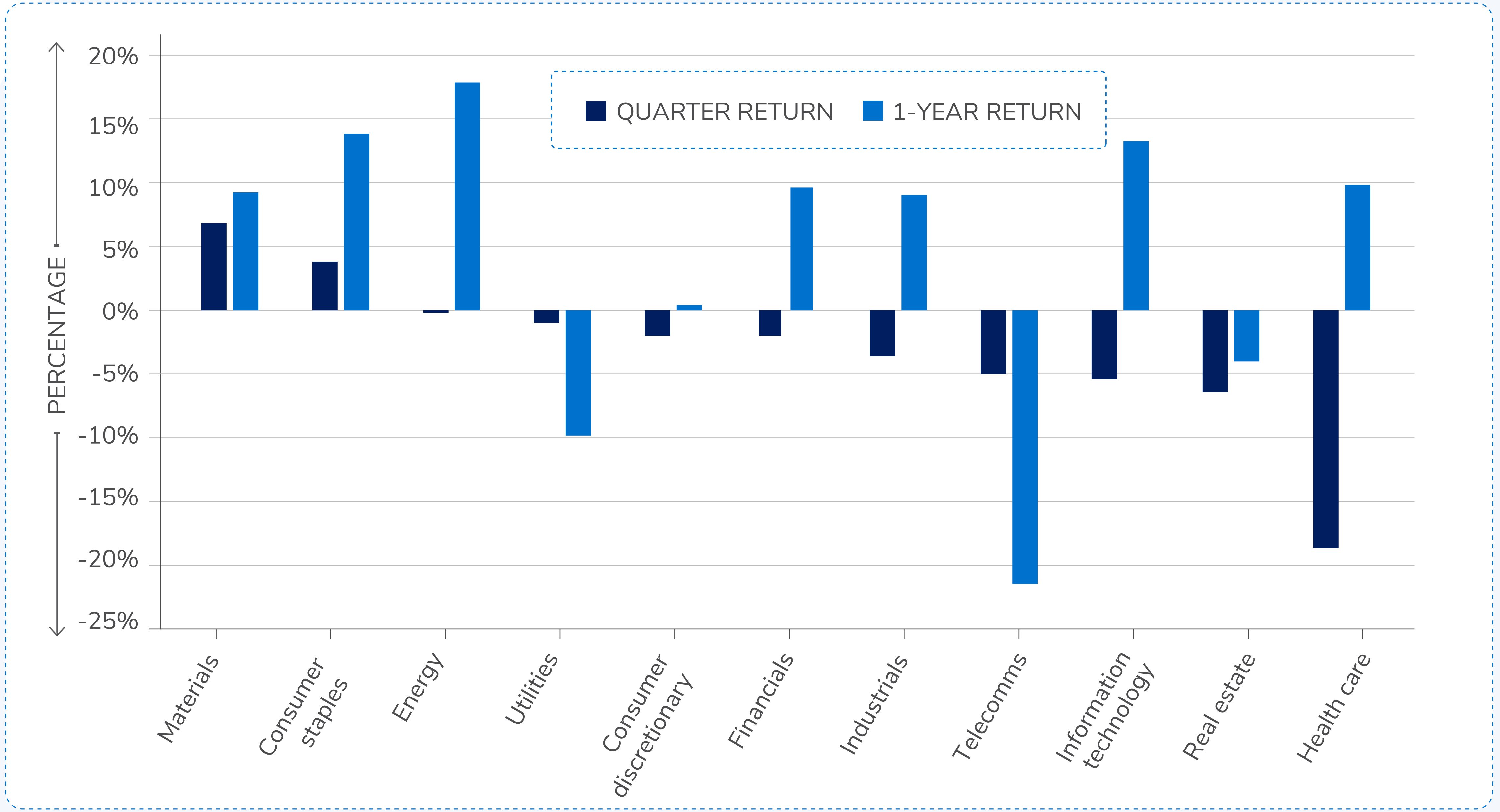


Chart 2 – S&P/TSX Composite sector level returns: Q2 and 1-year



Source: IG Wealth Management, Bloomberg as of June 30, 2024.

U.S. equities

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

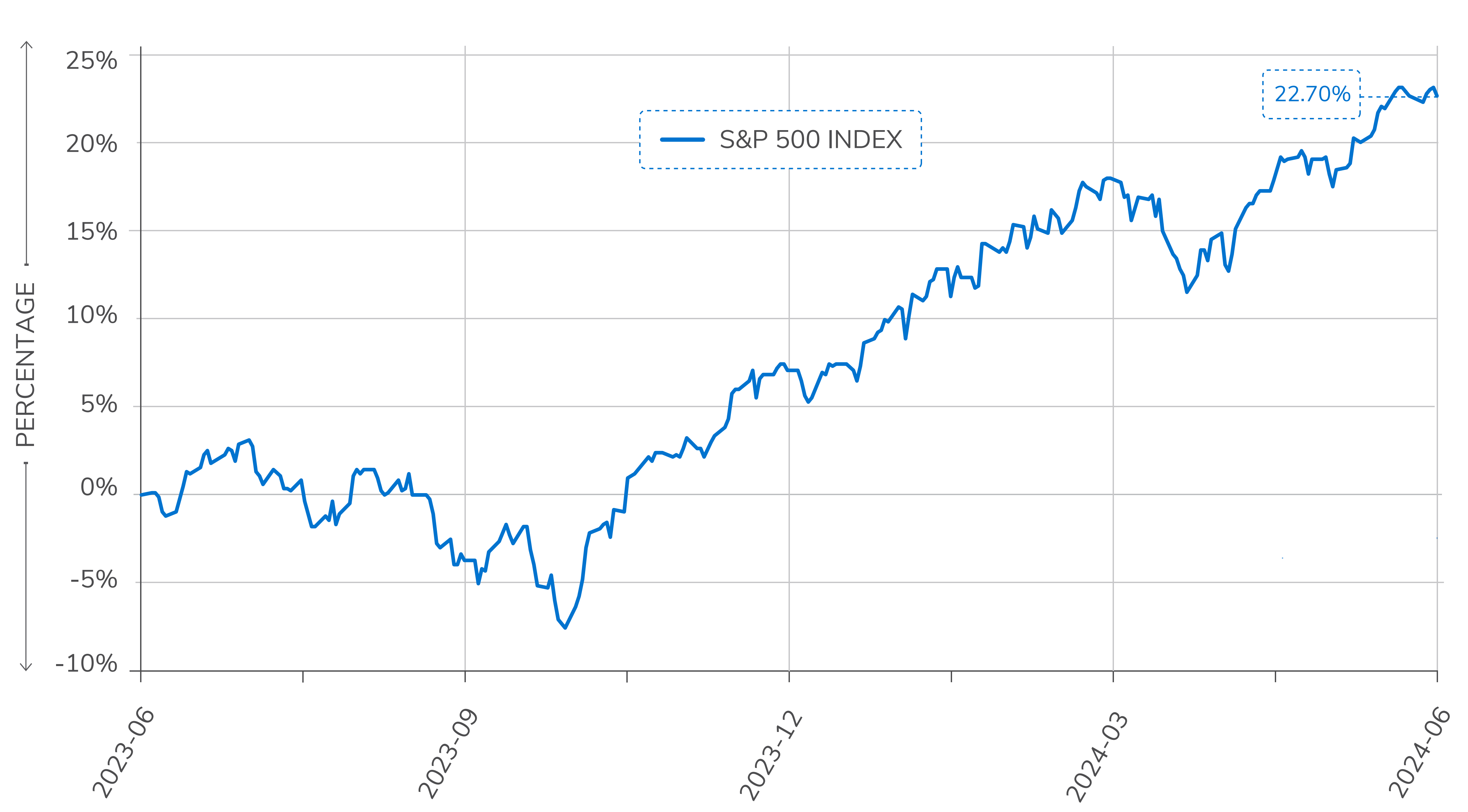
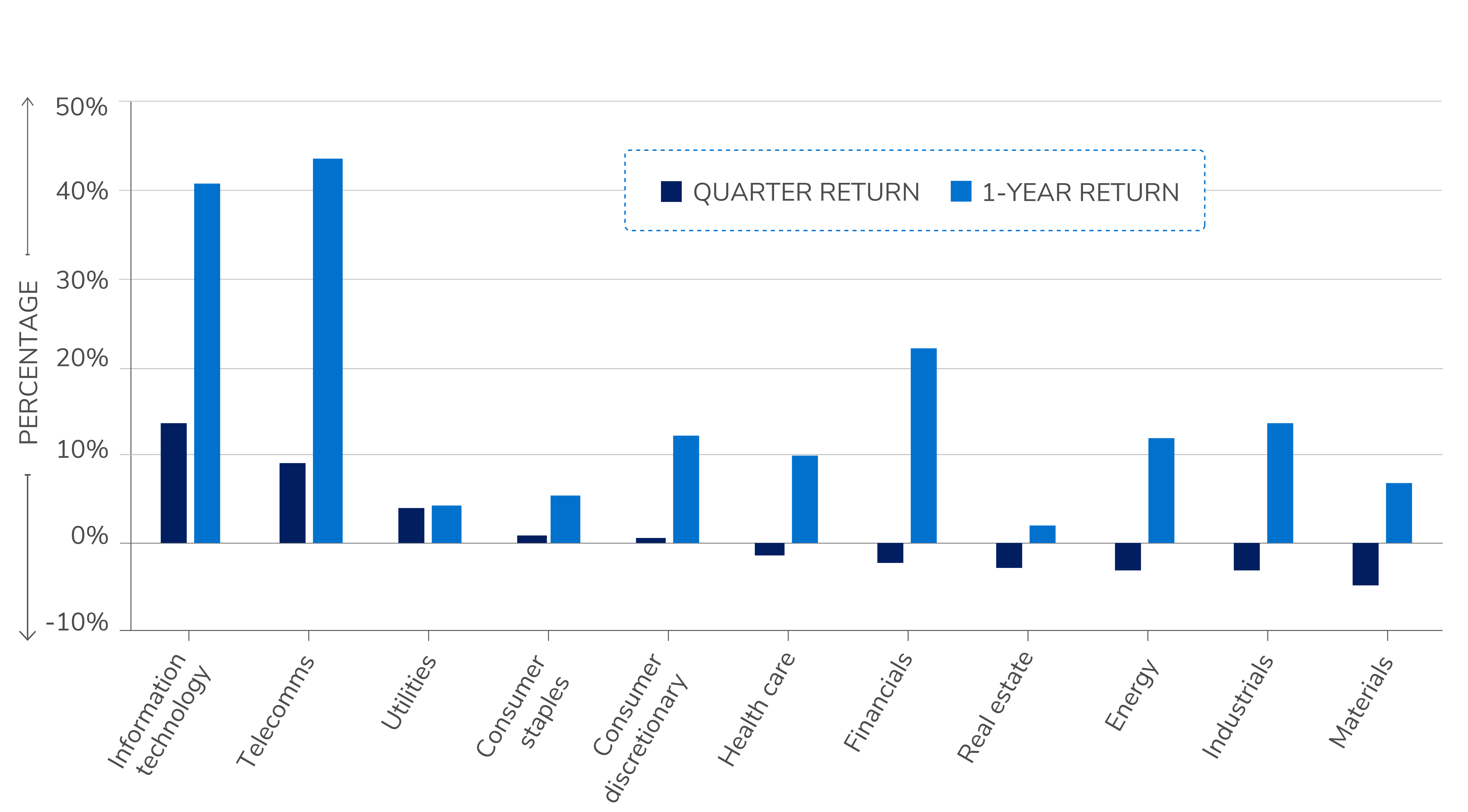


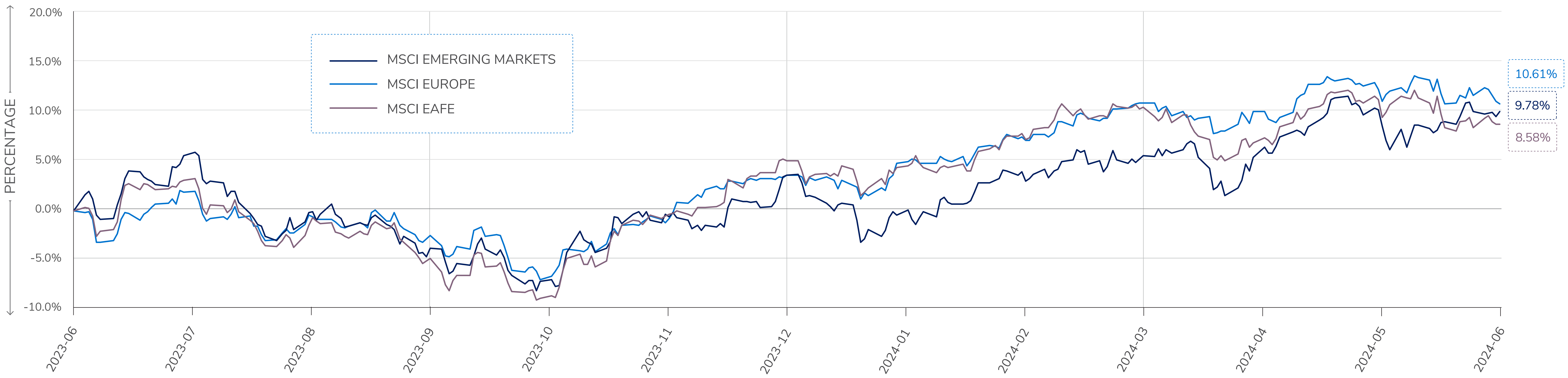
Chart 4 – S&P 500 Composite sector level returns: Q2 and 1-year



Source: IG Wealth Management, Bloomberg as of June 30, 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 June 30, 2024.

Fixed income

Chart 6 - Global central bank policy rates

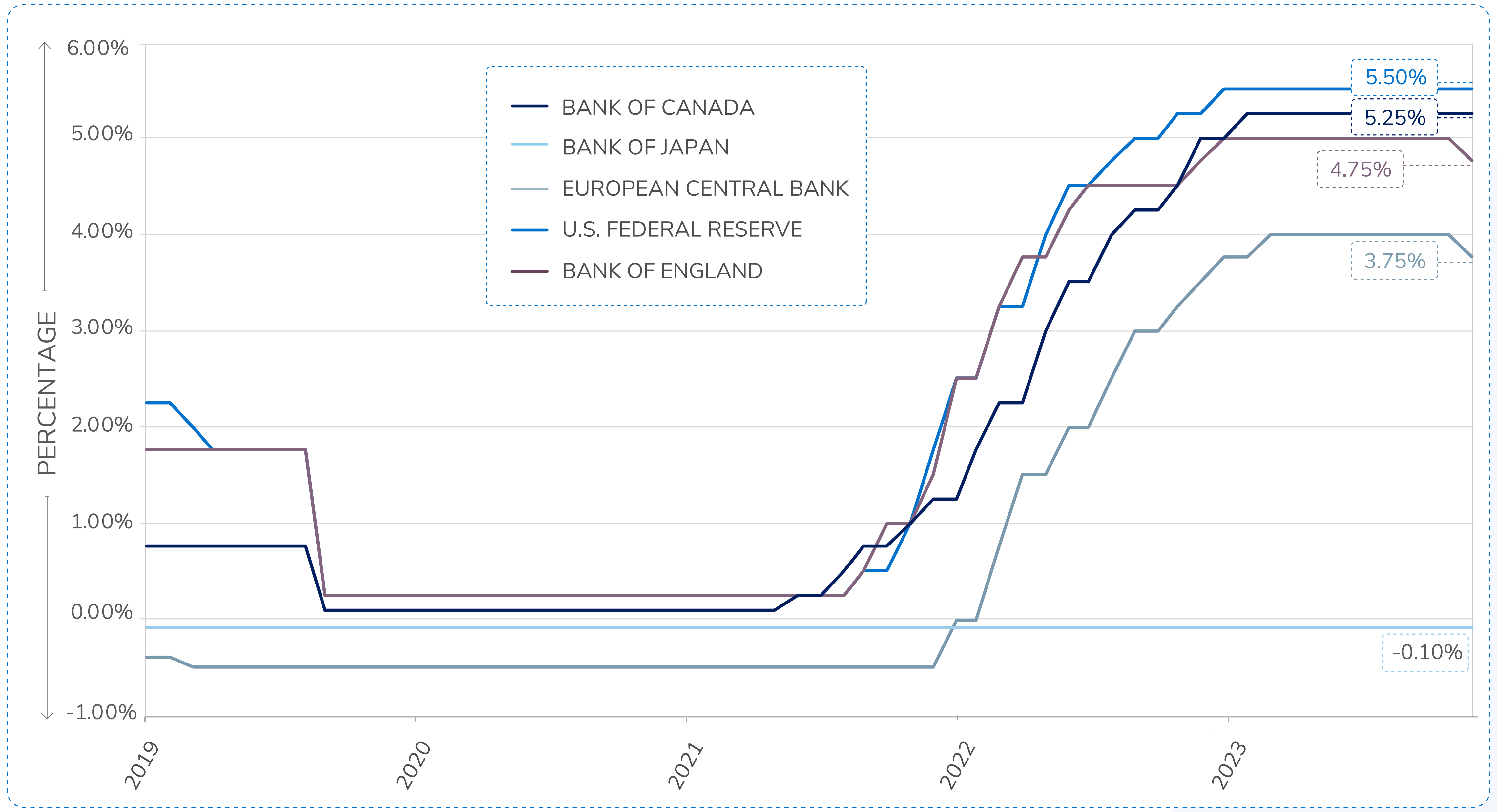
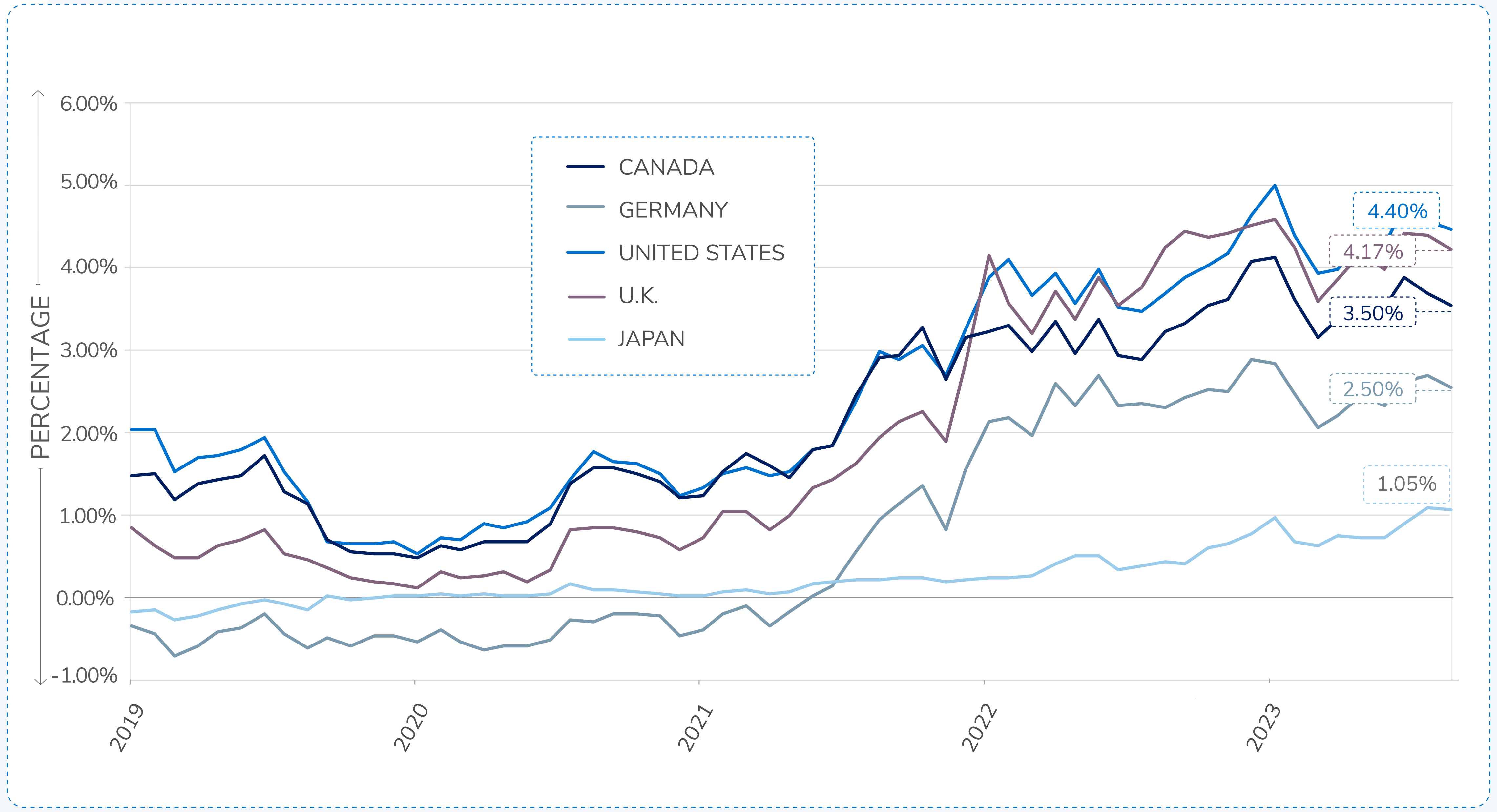


Chart 7 – Sovereign bond 10-year maturity yields



Source: IG Wealth Management, Bloomberg as of June 30, 2024.

Key benchmark performance

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

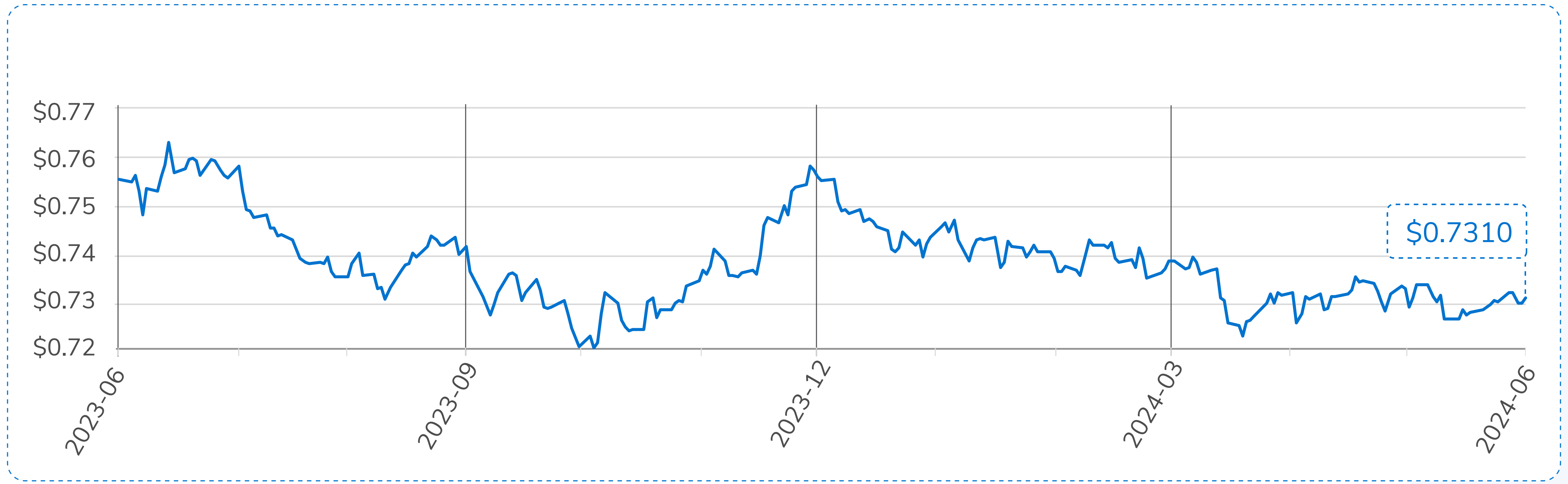


Chart 9 – Crude oil (WTI) US$/bbl

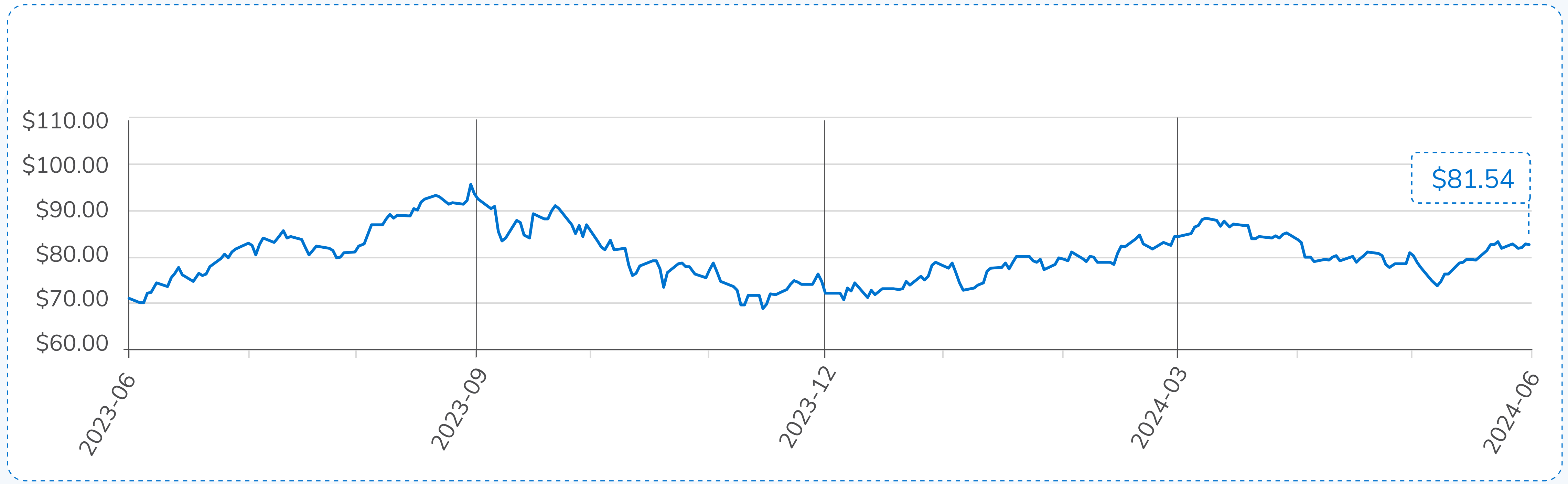


Chart 10 – Gold US$/oz.

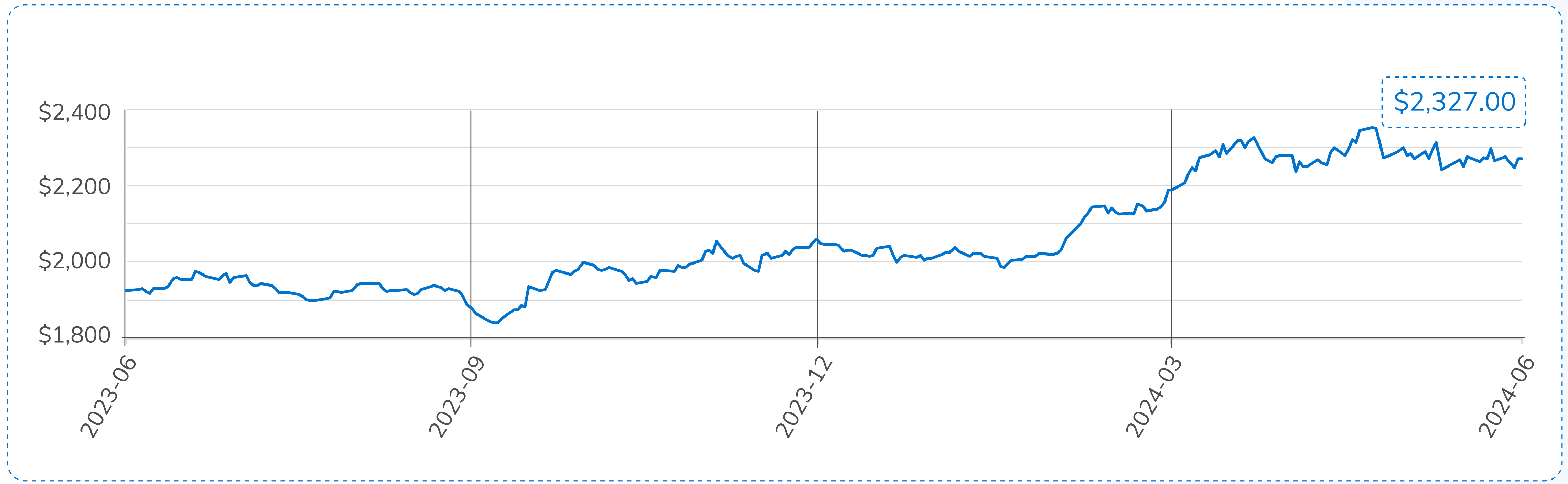


Chart 11 – Natural gas US$/mmbtu

Source: IG Wealth Management, Bloomberg as of June 30, 2024.

> *When talking markets, we're in-between seasons... some data is encouraging, and some data is soft."*
>
> *- Philip Petursson*

Market outlook

Globally, equity markets in the second quarter grew modestly, with U.S. equities the clear front-runner. The S&P 500 Index was driven by improvements in earnings and encouraging economic indicators. Investments in artificial intelligence are benefiting the technology and communications sectors, particularly semiconductor manufacturers, which are seeing persistent strength. There are now six companies in the S&P 500 Index with a market capitalization of over $1 trillion. While some concerns have been raised about market enthusiasm and hyped sectors, historical analysis suggests the current rally is well supported and may continue.

We believe interest rates at central banks have peaked, with Canada and the European Union lowering rates ahead of the U.S. Federal Reserve. The economic outlook shows signs of levelling out from three months ago, as unemployment ticked higher and consumer spending plateaued. The summer months may bring heightened headline risk surrounding the U.S. presidential election, but seasonality and historical data suggest equity markets are typically positive heading into the fall.

Position, don't predict

Rather than predict market movements, investors should review their portfolios, specifically sectors or positions with outsized performance, bringing allocations back into balance. Overall, the team maintains an optimistic view for investors through the remainder of 2024, buoyed by the positive momentum in the markets and economic data returning to historical patterns.

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