Market in Review

Global stocks posted solid gains in the first quarter of 2024, continuing the rally that began in the fourth quarter of 2023. South of the border, the bellwether S&P 500 rose +10.6% in Q1, a solid follow-up to its +11.7% increase in Q4 2023.

To put these impressive back-to-back quarterly gains in perspective, the S&P 500 Index has averaged +10% for the entire year over the past thirty years.

As reflected by the S&P/TSX Composite Index, the Canadian market lagged in comparison, posting a more modest yet still respectable gain of +5.77% in Q1.

International stocks also posted respectable gains, with the MSCI EAFE (Europe, Australasia, Far East) index clocking a +5.8% total return (in U.S. dollar terms).

Investing in an election year

2024 is a U.S. presidential election year, and history shows that U.S. stocks tend to perform well in presidential election years, slightly better on average than in non-election years. However, market volatility is typically higher during election years, and this can give investors the jitters, particularly those who watch the markets closely. The thing to keep in mind is that, historically, the markets will begin stabilizing in the fall, following the conclusion of the state primaries and after the November election is held. Indeed, the election's outcome generally has little impact on this pattern, suggesting that clarity is more important than politics when it comes to investing.

Global Outlook

The gloom in Europe is lifting, and the story is evolving into one of economic resilience. The drivers are lower natural gas prices, the pick-up in global manufacturing activity and real wage gains for households. Additionally, responding to the downward trend in core inflation, the European Central Bank (ECB) has hinted that rate cuts will likely commence in June.

Similarly, Japan is exceeding expectations in terms of economic activity, growth in corporate-profit and stock market performance.
The news out of China continues to be mixed. The country's real estate issues remain unresolved, and the consumer price index reflects a deflationary trend. So far, stimulus efforts have been piecemeal, but the government is expected to announce more meaningful policy measures to help it achieve its 5% GDP growth target for 2024.

KEY TAKEAWAYS

- S&P 500 rose +10.6% in Q1, a solid follow-up to its +11.7% increase in Q4 2023.
- In Canada, the S&P/TSX Composite posted a more modest yet respectable gain of +5.77% in Q1.
- The gloom in Europe is lifting, and the story is evolving into one of economic resilience.
- Similarly, Japan is exceeding expectations in terms of economic activity, growth in corporate-profits and stock performance.
- Investors are turning their focus to earnings to predict the future direction of U.S. stocks.
- The conflict in the Middle East is in increasing danger of escalating, while Russia's war against Ukraine has entered its third year with no signs of a resolution.
- Other market risk factors include resurgent inflation and the ongoing rise in sovereign deficits.

Market risk factors

Global equity markets are hovering around new all-time highs, but multiple potential risks, particularly in the form of geopolitical events, could disrupt the party.

The conflict in the Middle East is in increasing danger of escalating, while Russia's war against Ukraine has entered its third year with no signs of a resolution. Meanwhile, Chinese President Xi Jinping has been sending aggressive signals concerning Taiwan's independent status, adding to the already elevated tensions between the U.S. and China.

Other market risk factors include resurgent inflation and the ongoing rise in sovereign deficits.

United States snapshot

U.S. stocks rose strongly in the year's first quarter, continuing the rally that got started in the fall of 2023. From its low in October 2023, the S&P 500 has climbed nearly 30% and added $10 trillion in market value.

At first, the impetus for the rally was the anticipation of imminent Fed rate cuts. Because lower interest rates lead to reduced borrowing costs and increased consumer activity, equities could be expected to return to favour among investors, displacing alternatives like money market funds.

However, the rate cuts did not materialize, and with inflation still above 3%, expectations for Fed rate cuts in 2024 have been moderated substantially. Currently, they are down from seven expected cuts of 175 total basis points at the start of the year to just three expected cuts of 75 basis points anticipated as of the end of March.

Nonetheless, U.S. stock markets have continued to climb higher, led by growth and technology stocks. The primary drivers have been a group of mega cap tech stocks, known as the Magnificent Seven, that are leading innovation and change in the technology sector.

At this point, the focus is on earnings, which are expected to rise in 2024. If they do, the rally is more likely to continue. Conversely, if earnings fail to meet expectations, the rally could quickly derail.

Spotlight on Canada

At +5.77%, the S&P/TSX Composite's Q1 2024 return was less than half the S&P 500's return of +12.91%. This difference could partly be explained by the Canadian market having less exposure to large-cap technology stocks, the major growth drivers in the U.S. market.

The S&P/TSX Composite's top-performing sectors were energy, health care and industrials, each delivering double-digit returns.

Of the 226 stocks in the index at some point in 2023, 149 (66%) recorded a gain.
In Q1, the Canadian market underperformed the U.S. market in home-currency terms with the U.S. returning +10.2% and in Canadian-dollar terms the U.S. returned +12.9%.

Canada's latest GDP report showed the economy grew by +0.6% in January, driven by broad expansion. The performance exceeded expectations and reflected a strong rebound from December 2023. February's preliminary estimates point to further expansion on the way.

Additionally, stable energy prices and the recent strengthening in global manufacturing are positive for Canada's cyclical economy, while solid population growth will underpin spending.

What's next?

In the U.S., moderating inflation, near-full employment and growing corporate earnings have the potential to lift economic growth further and produce solid returns for stock investors.

The situation is less favourable in Canada, where risk of recession remains considerable. Still, an expanding U.S. economy would give Canada a meaningful buffer, given U.S. trade accounts for about 20% of Canada's GDP.

As always, we recommend that investors stay focused on the fundamentals and valuations rather than allowing recent market activity to impact their judgment.

MARKET MONITOR (Returns in CAD)

MARKET INDICATORS	MARKET CLOSE*	2023 ANNUAL RETURN	2024 Q1 ACTUAL*	2024 YTD ACTUAL*
S&P/TSX Composite	22,167.03	8.12%	5.77%	5.77%
Dow Jones	39,807.37	10.99%	8.26%	8.26%
MSCI World	3,437.76	18.86%	11.23%	11.23%

*As of March 31, 2024

TOP GIC RATES

ACCOUNT TYPE	1YR	2YR	3YR	4YR	5YR
Non-Registered	5.12	4.87	4.71	4.45	4.35
RRSP	5.12	4.87	4.69	4.40	4.35
RRIF	5.12	4.85	4.66	4.35	4.18

*As of March 31, 2024

Getting Advice

Are you looking for additional perspectives on the financial markets and how they might affect your portfolio? We encourage you to talk to us. Speak to your Financial Advisor or contact investor services at 1 800 608 7707.