The good start to 2024 continued for investors in February as equities had another positive month and Q4 2023 earnings season has been strong. Here's a summary of the main events that steered the markets.

Monthly market developments

- Despite dipping mid-month on a higher than hoped January U.S. CPI resulting in rate cut expectations being scaled back, U.S., Canadian and global equities recovered to post a fourth straight month of gains.
- AI chipmaker Nvidia, the bellwether for the tech sector and the broader S&P 500 Index, announced another round of exceptional results for Q4 2023, prompting an equity rally felt across the globe.
- The U.S. economy added an impressive 353,000 new jobs in January, and the unemployment rate ticked down to 3.7%. Of some concern was an increase in average hourly earnings, as wage increases are a crucial factor in driving inflation. The resilient employment backdrop may delay forthcoming rate cuts.
- In a strategic move to revitalize its real estate market, China's central bank made an unprecedented reduction in its five-year loan prime rate, dropping it from 4.2% to 3.95%. This significant cut is expected to lower mortgage costs across various cities, potentially stimulating demand.
- The International Monetary Fund (IMF) released its growth forecasts for 2024 and 2025, predicting a global increase in output of 3.2%, a slight uptick from last year. Notably, the IMF projects Canada's GDP will grow quite rapidly, ranking third among advanced economies, with an expected growth rate of 1.4% in 2024 and 2.4% in 2025. This is a bit more optimistic than the Bank of Canada's estimate for this year, which is just 0.8%, although it matches the Bank of Canada's expectations for 2025.
- U.S. CPI for January cooled from 3.4% to 3.1% although this was less than expected largely due to slow-adjusting shelter costs and is still above the Fed's 2% target. The data prompted a short-lived pullback across asset classes as expectations for rate cuts were scaled back. Despite this, the Fed's focus on the Personal Consumption Expenditures (PCE) Index, where shelter costs are a smaller factor, suggests the reaction may have been overblown, and helps explain the quick market recovery.
- Canadian CPI for January dipped from 3.4% to 2.9% with the largest contributor being falling gasoline prices. Excluding mortgage interest costs which remain problematic, inflation would now be 2%. The Bank of Canada is a step closer to reducing rates but will need to see a continuation of this downward trend.

How does this affect my investments?

Global equity markets are reaching new all-time highs, led by U.S. and Japanese stocks. U.S. firms are also delivering strong earnings, reflecting a resilient economy. Although positive for investors, the pace of these rallies and the rising valuations are causing a bit of concern and could lead to some near-term volatility. Meanwhile, Chinese equities have rebounded on the back of regulatory oversight changes.

Regardless of where we are in the market cycle, it's important to take a disciplined approach to investing and stay focused on your long-term goals. This strategy helps you keep your emotions out of investing, typically buying high and selling low like many investors do. Ongoing monitoring and reviewing of your portfolio also ensure it remains on track. Diversifying investments reduces risk as well.

We are here to support you in achieving your financial goals. Please do not hesitate to contact us, 250-785-9603.
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