May 3, 2024

Investors experienced their first pullback of 2024 in April with US, Canadian and global equities ending the month in the red. Here's a summary of the main events that steered the markets.

Monthly market developments

- Equities stumbled and bond yields climbed as investors reluctantly accepted that sticky U.S. inflation will delay Fed rate cuts. The Iranian-Israeli flare-up also spooked markets. That said, corporate earnings have been better than expected and economic growth, though slowing, remains in good shape.
- Oil prices continued rising. Several factors were to blame, including Saudi Arabia led OPEC's decision to maintain its current production levels and geopolitical tensions in the Middle East. In Canada, the carbon tax increase on April 1, further inflated pump prices.
- U.S. GDP growth data for Q1 2024 was released, coming in at 1.6% annualized. This fell short of the consensus estimate of 2.5% but domestic demand growth was much stronger at 2.8% annualized.
- Canadian employment slowed, leading to an increase in the unemployment rate to 6.1% (up 1% from a year ago). In contrast, the U.S. job market remained robust, with more than 300,000 new jobs created and the unemployment rate steady at 3.8%. This highlights the diverging paths of the two economies and supports the view that interest rates are likely to be reduced earlier in Canada.
- There was also contrasting economic indicators in Asia. China's manufacturing sector grew for the first time in six months, highlighting recent stimulus measures are working. However, manufacturing in Japan, South Korea and Taiwan contracted, largely attributed to weakening domestic demand.
- U.S. inflation remained stubborn, driven by the services sector. Despite a drop in core goods prices influenced by factors such as declining used car prices and easing supply chains, services prices in areas such as auto insurance and health care offset the downward momentum. Fed Chair Powell acknowledged the Fed would need to wait longer to cut rates than it had previously anticipated.
- Canadian CPI rose fractionally from 2.8% to 2.9%, although this was in line with expectations and is still within the Bank of Canada's 1-3% target. The increase was driven primarily by rising gasoline prices. The Bank of Canada held rates at 5% but Governor Macklem hinted at the potential for a rate cut in June while reiterating the decision would be dependent on favorable data (inflation, employment, growth, consumer expectations) between now and the bank's June policy meeting.
- Inflation in the eurozone took a slight dip. Headline CPI decreased from 2.6% to 2.4% while core inflation, which strips out the fluctuating costs of food and energy, also dropped from 3.1% to 2.9%. Similar to the Bank of Canada, the European Central Bank is making progress towards its 2% inflation target. And echoing the stance of the Bank of Canada, the European Central Bank opted to hold interest rates but positioned itself for the possibility of lowering rates as early as June.

How does this affect my investments?

Markets have been laser-focused on inflation and rate cuts. Previously investors were hopeful about Fed rate cuts coming soon but are now digesting that rates might stay higher for longer. Middle East tensions also sparked a rise in oil prices and demand for safe haven assets like the US dollar and gold. Despite this month's volatility, progress is being made with inflation, even though the final stretch might be a bit slow. Corporate earnings and the economy continue to be resilient. Overall, after a solid Q1 investors chose to consolidate gains and shift to a slightly more defensive posture.

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.
Sincerely,
Dean Falkenberg

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