Equity markets dipped in early April but bounced back in May. Investors were hopeful for interest rate cuts to boost markets, supported by lower inflation and a positive economic outlook. In June, the Bank of Canada and the European Central Bank cut interest rates, starting a policy-easing cycle. However, the US held off due to a strong labor market and sticky inflation.

Market performance continued to broaden beyond tech to other sectors through Q2, corporate earnings continued coming in better than expected and economic growth, though slowing, remained in good shape.

The S&P/TSX Composite Index ended the quarter down 0.5%, the S&P 500 Index up 4.3%, the Nasdaq Index up 8.3%, the MSCI World Index up 3.0% and the MSCI EAFE Index up 1.0%. year to date U.S., Canadian and global stocks are all in positive territory.

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.

Canadian employment slowed, leading to an increase in the unemployment rate to 6.2% (up 2% from a year ago) while wage growth decelerated to 4.7%, the slowest pace since June 2023. This data is consistent with an easing labour market which would be welcomed by the Bank of Canada in its inflation battle. Monthly Canadian GDP data for April along with the preliminary estimate for May were also released. April data revealed 0.3% growth month-over-month (MoM). However, the preliminary estimate for May indicated Canadian growth continues to moderate, showing a modest 0.1% MoM gain.

In contrast, the U.S. job market remained robust with the unemployment rate steady at 3.8% while wage growth accelerated. However, U.S. retail sales and personal spending fell slightly, easing fears about a pick-up in activity and inflation. This highlights the diverging paths of the Canadian and US economies.

China's government unveiled a plan to bolster the Chinese real estate market. This includes lowering the minimum down payment and removing the mortgage rate floor. It also provides 300 billion yuan (approximately C$57 billion) of central bank funding to assist government-backed firms in purchasing inventory from developers to create affordable housing.

**Inflation, interest rates and central banks**

U.S. inflation fell for the first time this year, a welcome relief to investors and the Fed. CPI was 3.4%, down from 3.8% in Q1. While promising, core inflation, which includes food and energy, remains sticky and not low enough for the Fed to consider rate cuts. As expected, the Fed left rates unchanged in the 5.25-5.5% range. Fed chair Powell said while there had been progress toward the Fed's 2% inflation target, current policy would be needed for longer but would prove sufficiently restrictive over time.

Canadian CPI fell back within the Bank of Canada's 1-3% range and close to its 2% inflation target. Falling prices for food, services and durable goods led the way, although rent prices remained high and there was a pick-up in travel costs. The progress in reigning in inflation was enough was for the Bank of Canada to cut its overnight policy rate by 0.25% to 4.75%, the first step towards lower interest rates. Governor Macklem hinted there would be further cuts if inflation continues to ease but reiterated the decision would be dependent on incoming data (inflation, employment, growth, consumer expectations).

Similar to the Bank of Canada, the European Central Bank is making progress towards its 2% inflation target, and echoing the Bank of Canada, lowered its key policy rate 0.25% to 3.75%. Both cut rates in June. Japanese inflation also continued to decelerate although it remains above the Bank of Japan's 2% target meaning it may consider further policy measures. As a result, the Bank of Japan kept its policy rate range at 0.0-0.1%.

Inflation moderated in the U.K. as well, coming in at 2%, the lowest reading since April 2021 and in line with the Bank of England's (BoE) inflation target. U.K. GDP data was also released showing the economy has rebounded after falling into a recession during the second half of 2023. Q1 2024 GDP was 0.6%, the strongest pace of growth since Q1 2021. The BoE opted to keep its bank rate at 5.25% but Governor Bailey noted it was likely the BoE will need to cut rates in the coming quarters and make policy less restrictive. The People's Bank of China also kept it benchmark rate unchanged.

**What we can expect now?**

Inflation and anticipated rate cuts continue to drive markets. Central banks are monitoring inflation and underlying economic indicators to assess the timing of rate cuts. Market performance has also been broadening beyond AI and mega cap tech to other sectors and this will likely continue as we head into the second half of the year. There might be additional volatility as the U.S presidential election looms in November, but there is little reason to expect a severe slowdown. Volatility and pullbacks are a normal part of investing and present strategic buying and rebalancing opportunities for asset managers.

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.

Thank you for your continued trust in me and my team for the opportunity to assist you in working toward your financial goals. We are with you every step of your investment journey. Should you have any questions regarding your portfolio, please do not hesitate to contact my office, 250-785-9603.

Sincerely,
**Dean Falkenberg**

*The information in this letter is derived from various sources, including CI Global Asset Management, Statistics Canada, U.S. Bureau of Labor Statistics, Bloomberg, National Post, Wall Street Journal, Toronto Sun, and Morningstar as at various dates. This material is provided for general information and is subject to change without notice. Every effort has been made to compile this material from reliable sources and reasonable steps have been taken to ensure their accuracy. Market conditions may change which may impact the information contained in this document. Before acting on any of the above, please contact me for individual financial advice based on your personal circumstances. Certain statements contained in this communication are based in whole or in part on information provided by third parties and CI Global Asset Management has taken reasonable steps to ensure their accuracy. Market conditions may change which may impact the information contained in this document.*

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