RESEARCH CAPITAL CORPORATION

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After advancing strongly during the first two weeks of October, stocks sold off on the final day of the month on mixed earnings (and spending) reports from Big Tech, leaving Canadian and U.S. equity indices essentially flat for the period. Bond yields rose in October, reversing the downward trend of the previous five months. Investors continued to focus on inflation, growth and employment trends, and the implications for central bank interest rate decisions going forward. The S&P/TSX Composite Index ended the third quarter up 10.54%, the S&P 500 Index up 5.78%, the Nasdaq Index up 2.76%, the MSCI World Index up 4.69%, and the MSCI EAFE Index up 0.82%. The FTSE Canada Universe Bond Index dipped in October but remained in positive territory YTD.

Monthly market developments

- Canada's headline inflation in September surprised on the downside, sliding to 1.6%, year-over-year, down from 2% a month earlier and below the Bank of Canada’s (BoC) target. The drop cemented the case for a larger than usual rate cut and the BoC trimmed its overnight policy rate by 50 basis points to 3.75% on October 23rd. The move followed three consecutive 25-basis point reductions this year.
- According to Statistics Canada the economy added 47,000 jobs in September after several months of tepid reports, nudging the unemployment rate down to 6.5% from 6.6%. The strongest gains were recorded in the ages 15-24 category.
- Economic growth remained weak however, with August GDP data recording no gain following an anemic 0.1% rise in July. A preliminary September estimate, subject to confirmation in late November, was slightly better, but Q3 growth is shaping up to be approximately 1%, significantly less than the 2.1% pace recorded in Q2.

- In contrast, U.S. economic data releases during the month were broadly positive, with a further dip in inflation plus solid employment gains and steady growth. Inflation dropped in September to its lowest point since 2021, rising just 2.4% from a year earlier, down from 2.5% in August.
- U.S. GDP grew at an annual rate of 2.8% in Q3 2024, slightly below estimates and the 3% recorded in Q2. The Q3 data primarily reflected increases in consumer spending, exports, and federal government spending. Retail sales rose 0.4% from August to September, up from 0.1% the previous month and the third straight increase.
- Robust job gains of 254,000 in September pushed the U.S. unemployment rate down to 4.1% from 4.2% a month prior. Upward revisions for July and August jobs data released in early October added to a picture of a stronger U.S. labour market than previously thought. The mix of data available in the month significantly dampened market expectations that the Federal Reserve might make another 50 basis points cut to the federal funds rate.
- October was also corporate America's reporting season, and the results were broadly positive. By month end 70% of the companies in the S&P 500 had announced their Q3 2024 results and 75% of them beat analysts' earnings per share estimates. This is below the 5-year average beat rate of 77% but matches the 10-year average of 75%.
- UK GDP data for August showed modest growth of 0.2% after zero growth in July. The mild gain was in line with recent data that suggests expansion is unlikely to pick up in the near term. Inflation continued to moderate in September, with headline data retreating to 1.7%, year-over-year, with declining gas and airfares being two key contributors. Soft growth and lower inflation are supportive of the Bank of England possibly lowering its policy rate by another 25 basis points.
- Eurozone headline inflation also fell, dropping to 1.8% on an annualized basis in September, a level below the European Central Bank's (ECB) 2% target and a trend facilitating the ECB's third rate cut of 2024. The 25-basis point reduction on October 17th brought the ECBs benchmark rate down to 3.25%. Late in the month Q3 eurozone GDP came in higher than expected at 0.4% (1.5% annualized), quarter-over-quarter, vs. estimates of 0.2% growth. While still weak, the data suggested the continent could avoid a recession.

- The Bank of Japan left its key policy rate unchanged as underlying inflationary pressures moderated somewhat. China's Q3 GDP data indicated a continued slowing of growth, dropping to 4.6% year over year from 4.7%. Industrial production and retail sales grew in September, but property investment continued to decline. As part of stimulus measures first announced in late September, China's central bank lowered prime rates in October for 1- and 5-year loans by a quarter point.

How does this affect my investments?

The U.S. election on November 5th dominated the news cycle for the early part of November, and investors will continue weighing in the potential effects of economic policies advocated by the winner during the preceding campaign, including spending and trade. Data released in the final days of October painted two quite different pictures of the American and Canadian economies with implications for the pace of interest rate cuts for the remainder of this year and 2025. The U.S. economy appears to be in a much stronger position than that of Canada, and the Fed may be inclined to proceed more cautiously with future rate reductions than the BoC.

I am here to support you in achieving your financial goals. Please do not hesitate to contact me if you have any questions.

Sincerely,

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