



**September 10, 2024**

Dear Client,

Volatility rose, equities fell sharply, and bonds jumped in the first three trading days of August, but markets soon stabilized, and stocks regained a positive tone throughout the rest of the month. Here's a summary of the main events that steered the markets.

### **Monthly market developments**

- Catalysts for the **stock market sell-off** included fears of a U.S. recession sparked by an unexpectedly weak July jobs report, the unwinding of the yen carry trade following a Japanese rate hike in July, anticipation of lower U.S. rates, an accelerating rotation away from the tech sector, and ongoing geopolitical issues.
- **Equities started recovering** in the second week of the month as secondary data suggested a more resilient U.S. labour market than initially thought. By mid-month investors were also reassured by lower U.S. inflation data and an uptick in July U.S. retail sales after a slight decline in June. Recession concerns ebbed and investors refocused on cooling inflation and the probability of a U.S. rate cut in September, an outlook confirmed on August 23 by Fed Chair Jerome Powell at the annual Jackson Hole central bank summit.
- Despite the volatile start to the month, major U.S., Canadian, European and Japanese equity indices all posted **solid gains for the month**.

- Canada's July **unemployment rate** held steady from a month prior at 6.4%, despite losing 2,800 jobs. The U.S. unemployment rate rose in July for the fifth month in a row, to 4.3%, up from 4.1% in June.
- **Inflation** in Canada rose 2.5% in July, on an annualized basis, down from 2.7% in June, a three-year low. The employment and inflation data underpinned the case for the Bank of Canada to trim its key policy rate for a third time this year on September 4th.
- **CPI data** also continued its recent downward trend, slipping to 2.9% in July, the lowest reading since 2021. Core U.S. inflation, which excludes volatile food and energy items, was 3.2%, also a three-year low.
- Inflation decelerated significantly in **Germany, the eurozone's largest economy**, with August data of 1.9%, the lowest reading since March 2021, and down from 2.3% in July. Broad eurozone inflation data released at the end of the month dipped to 2.2%, down from 2.6%. The trend opens the door for the ECB to cut interest rates for a second time this year in September. Lower than expected eurozone wage inflation of 3.5% for the three months ending June was also supportive of further easing by the ECB.
- **The Bank of England's** Monetary Policy Committee trimmed its key bank rate by .25 basis points to 5% on August 1st, bringing the rate down from a 16-year high. UK inflation for July was a less than expected 2.2%, but still up slightly from June levels.
- **Japan's** core inflation measure, which excludes food and energy fell to 1.9% in July.
- **China's** central bank kept its key policy rates unchanged, as expected, after cutting short and long-term rates in July.
- The Dow, S&P 500 and S&P/TSX each **ended August at or near YTD highs**, while the NASDAQ finished 5% below a YTD high notched in July. European equities also rose but Chinese stocks continued to slide.

- Late in the month **U.S. GDP growth** for the three months ending June 30 was revised upward to 3% (annualized, quarter on quarter) from an initial reading of 2.8%, in part due to revised data indicating higher consumer spending levels. The new data more than doubled the growth rate of 1.4% recorded in the first three months of the year and further soothed recession concerns.
- **Canada's Q2 GDP report**, released on the last trading day of the month, was a higher than expected 2.1%, although much of the growth was attributable to government spending while consumer spending slowed.

### **How does this affect my investments?**

After the slump and subsequent recovery in stock prices in August, the positive economic prospect of declining inflation and lower interest rates continues to support markets and a soft-landing narrative. Investors will closely monitor economic data throughout the fall to allay any concerns that central banks have left rate cuts too late to avoid a slowdown, but the Bank of Canada and U.S. Fed have clearly signalled their intent to prioritize growth going forward after successfully wrestling inflation down close to their stated target ranges.

Sincerely,

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