



# CHARTBOOK

## Market Comment

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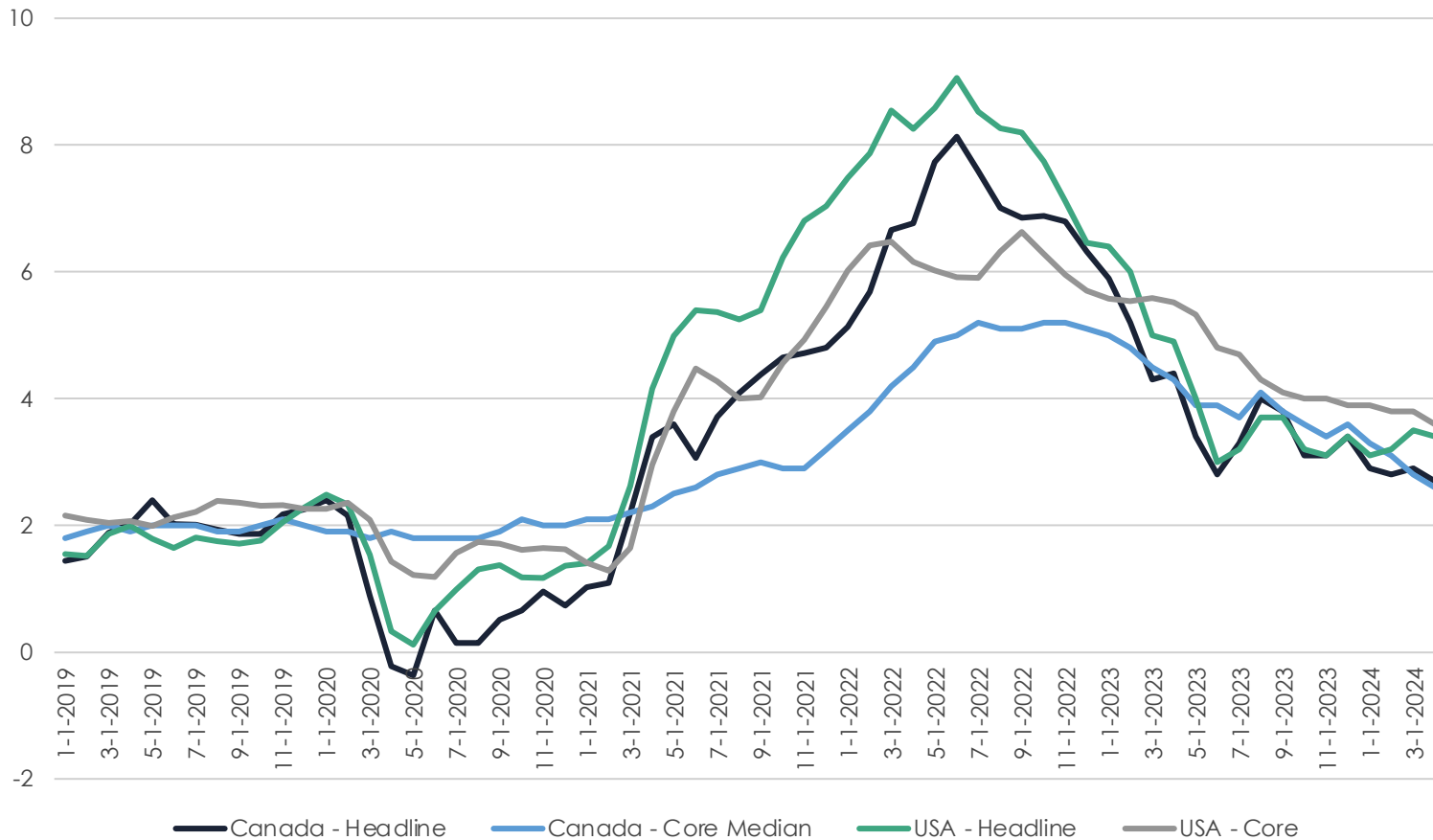
# Market Comment

On Wednesday, the Bank of Canada cut its policy interest rate by 25 basis points, to 4.75%. After sluggish GDP data and cooling inflation, it was a logical decision. Canada is the first of the G7 nations to cut its interest rate this cycle. Following the decision, the Loonie fell against the US Dollar and Government of Canada bond yields dropped across the curve, all the way out to the 30-year bond.

Markets expect one more 25 basis point cut from the Bank of Canada this year, with more likely to come in 2025. It will be important now to watch the Federal Reserve and their interest rate decisions, as the Bank of Canada will not want the interest rate differential to grow too large as it will put a lot of pressure on the Loonie. Bank of Canada governor Tiff Macklem commented that we should expect further cuts to the policy interest rate, but the timing will depend on the path of inflation, which the Bank wants to see at an annual rate of 2%.

# Inflation

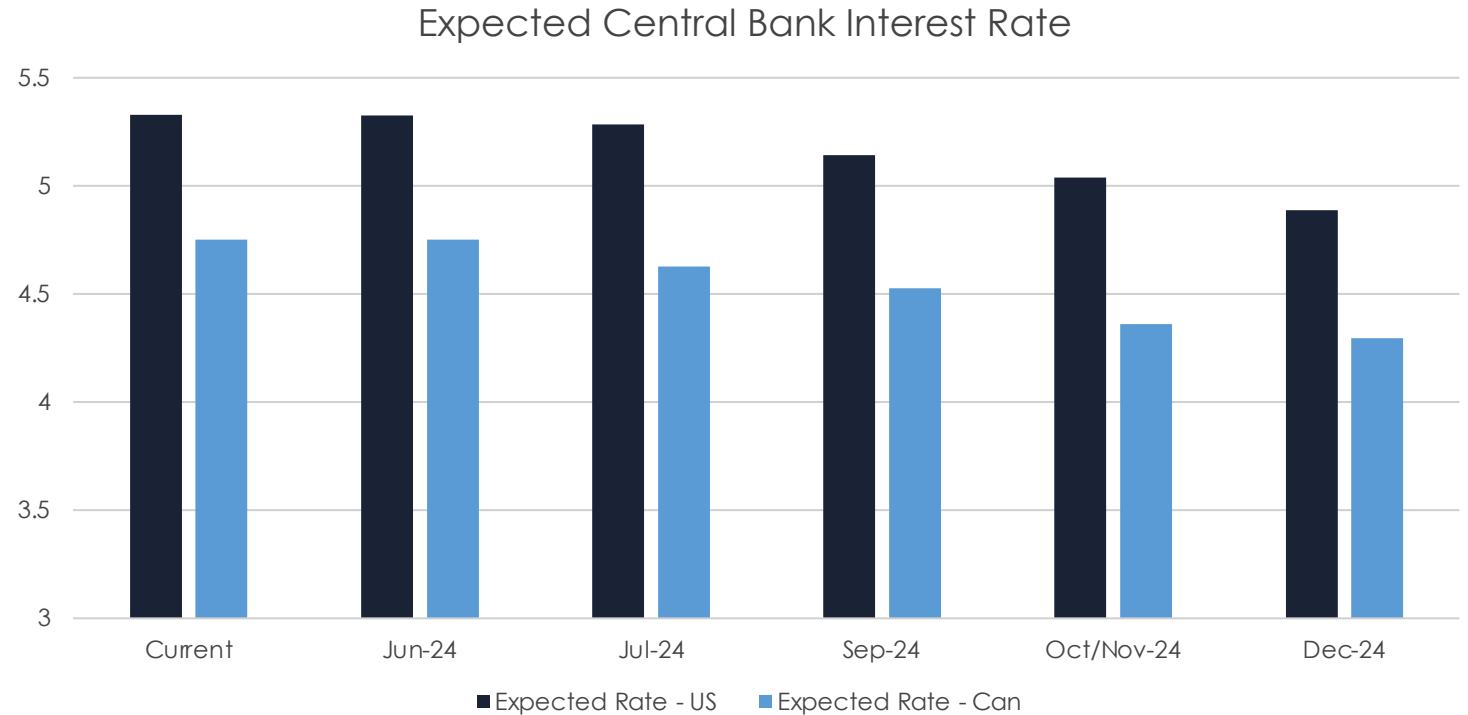
CPI Year-Over-Year Change (%)



The most recent inflation data for Canada was positive, with the Year-Over-Year numbers for both core and headline inflation marking a new low since the peak in 2022. In the US, inflation has been a little stickier, remaining in the mid 3% range. This is one factor that has allowed the Bank of Canada to be more aggressive in beginning to cut than the Federal Reserve has.

# Interest Rate Expectations

Following the cut from the Bank of Canada, markets are pricing in one further cut this year from the bank. In the US, markets are pricing in a single 25 basis point cut from the Federal Reserve.



Data: Overnight Index Swap markets as of June 5, 2024

# Bond Yields

The yield on the 5 year Government of Canada bond is an important benchmark for pricing of 5 year mortgage rates. After the Bank of Canada announcement on Wednesday, it fell to about 3.4%. As you can see in the chart on the right, it remains much higher than the pre-COVID level and is still substantially higher than it has been for most of the past few years.

For mortgage borrowers who financed at the ultra-low levels of the COVID era, there is still a lot of re-financing pain that would be felt at the current level of rates.



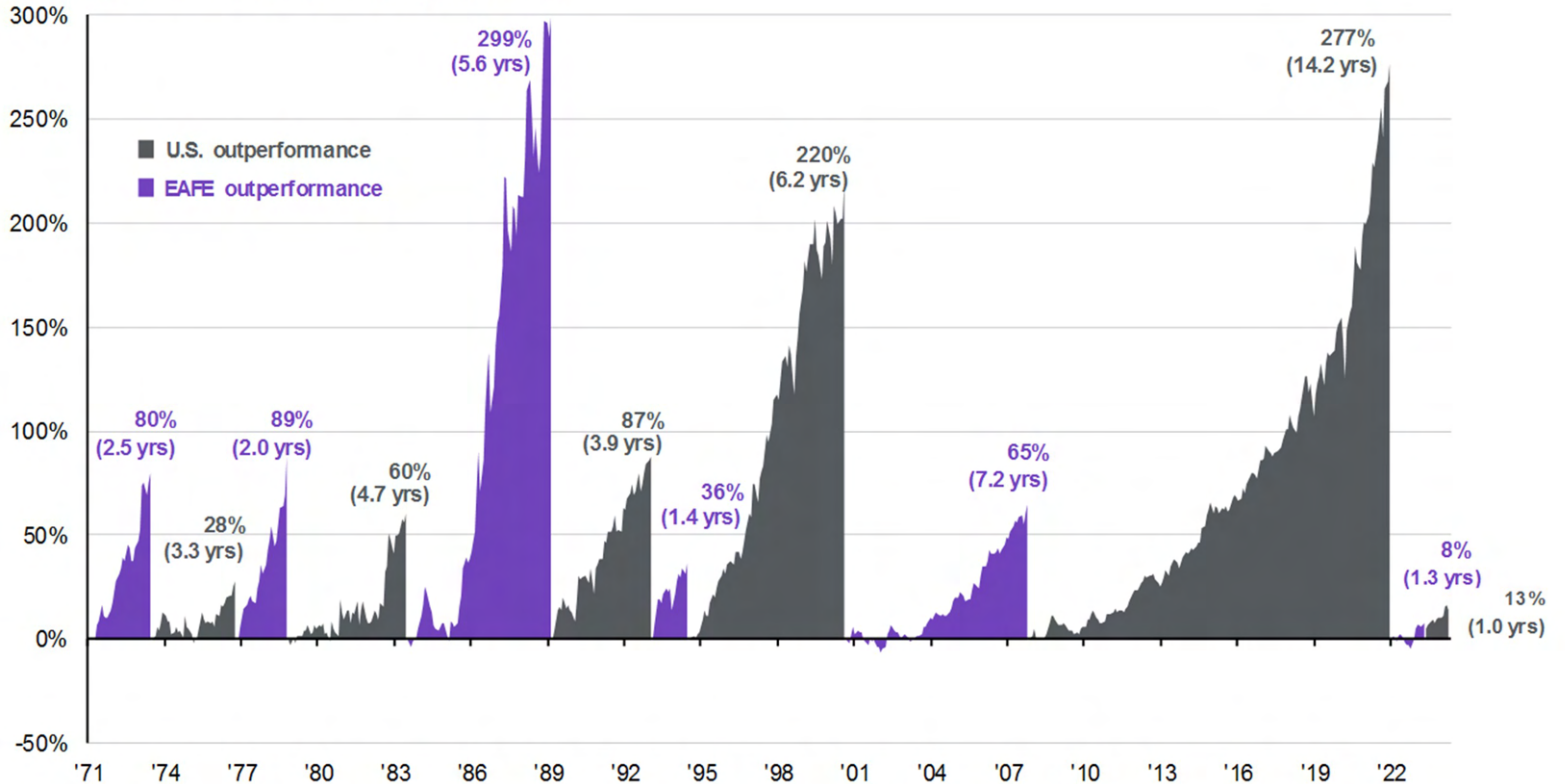
# USA versus International Stocks

US stocks have been dominant over other regions around the world since 2009. JP Morgan Asset Management's model tracks cycles of performance between the MSCI USA and MSCI EAFE (Europe, Australasia, Far East). After a brief period where MSCI EAFE was the leader, USA has regained the lead after outperforming MSCI EAFE by 13% over the past year.

At some point, MSCI EAFE should have a period of sustained outperformance just as it has in the past. For now, US stocks remain dominant.

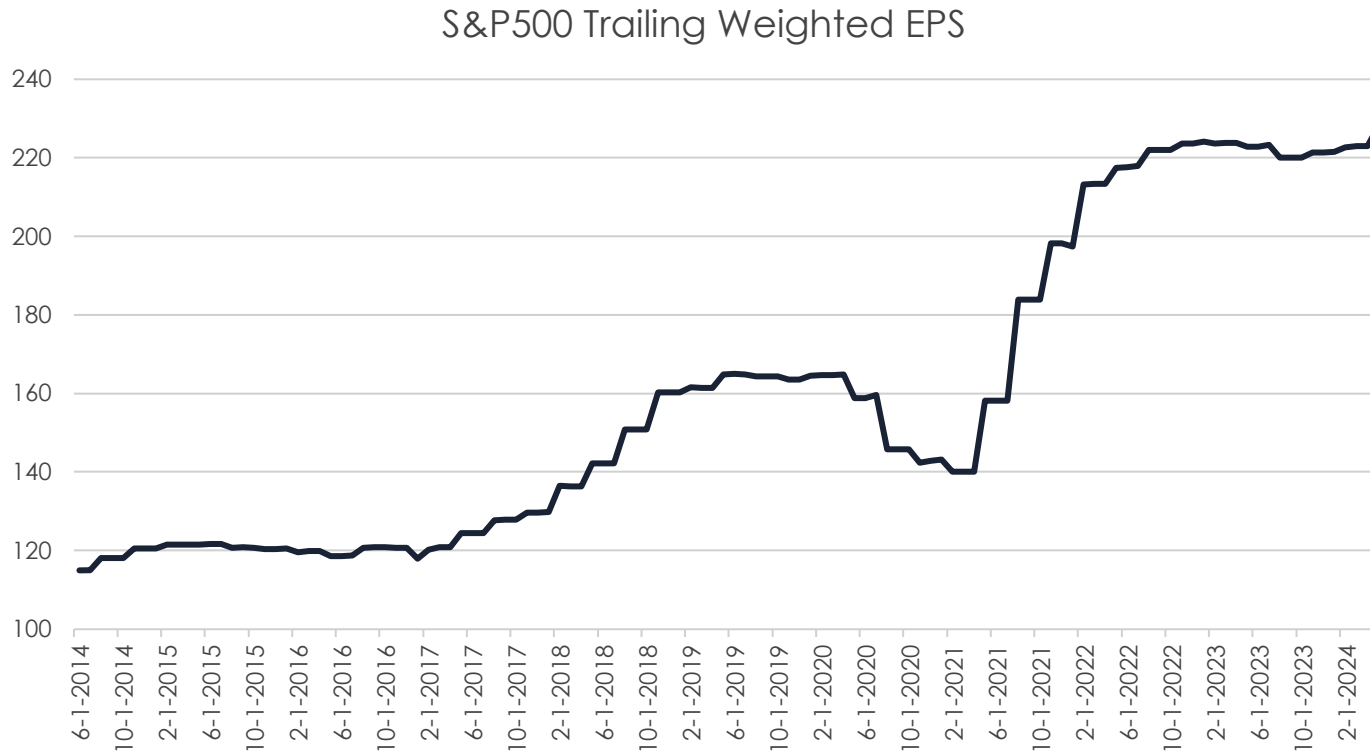
## MSCI EAFE and MSCI USA relative performance

U.S. dollar, total return, cumulative outperformance





# S&P500 Earnings



No signs of significant weakness in the recent earnings data from S&P500 companies, as the aggregate, weighted trailing earnings-per-share made a new high.

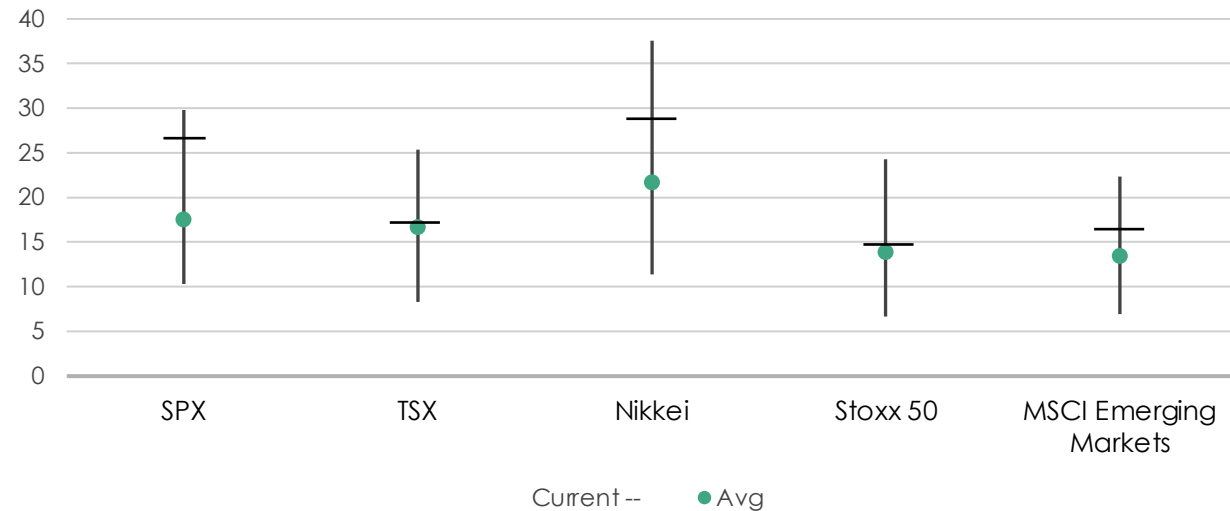
After a period of stagnation from mid-2022 to early-2024, earnings growth has resumed.



# Valuations

Valuations show how much an investor has to pay for the earnings of a stock or group of stocks. The chart shows current valuations compared to the range and average of the past 20 years. You can see that the US (SPX) and Japan (Nikkei) are relatively expensive compared to their averages, while Canada (TSX) and Europe (Stoxx 50) are relatively cheap.

GLOBAL P/E RATIOS – 20 YEAR  
AVERAGE

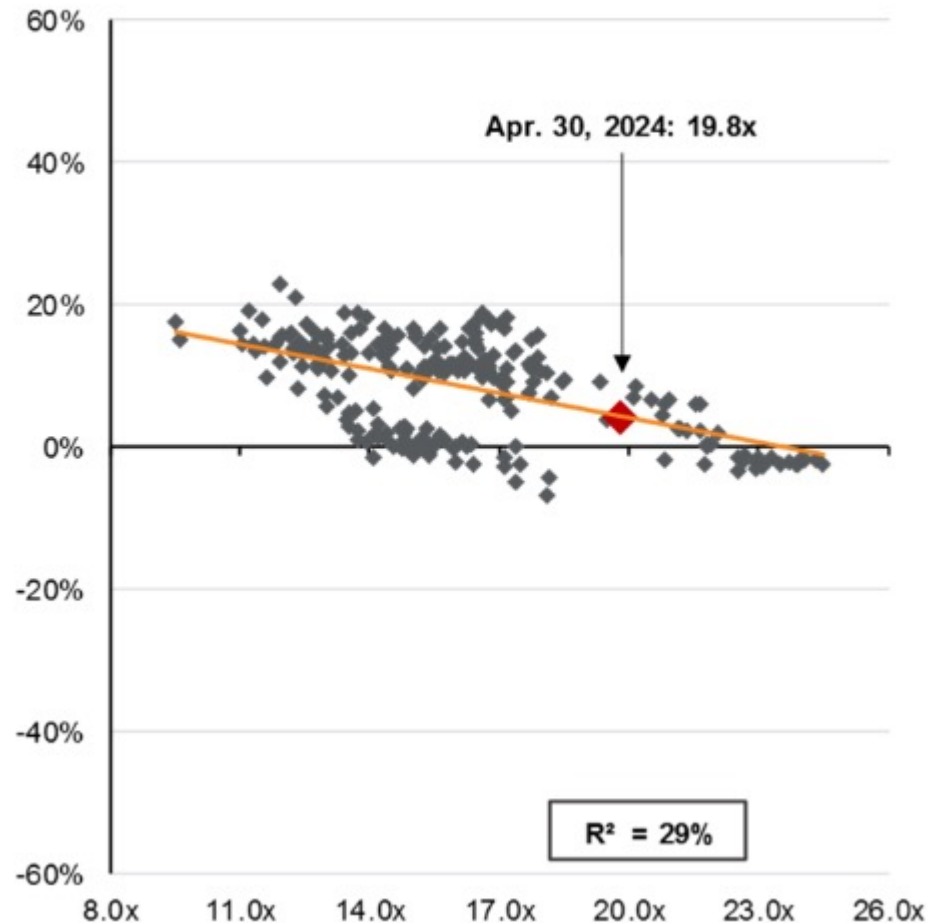


Data as of May 30, 2024

# P/E and Forward Returns

The relationship between valuation (shown as the P/E ratio in this case) and forward returns is a negative one. This means that the higher the valuation, the lower the future return tends to be. Regions and markets with lower valuations, like we saw in the previous slide, could outperform more expensive markets over the medium to long-term.

**Forward P/E and subsequent 5-yr. annualized returns**  
S&P 500 Total Return Index



Data as of April 30, 2024

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