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CHARTBOOK
Market Comment

Prepared by OceanFront Investment Counsel Inc.

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Chartbook Market Comment: July 2024

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Market Comment

The last mile on the road of declining inflation continues to be a rocky one with bumps and obstacles along the way. It was a rapid decline from peak inflation, but the remainder of the journey to 2% inflation has been rather challenging. Canadian inflation data for May came in significantly higher than expected at 2.9% year-over-year and 0.6% month-over-month. Expectations were for 2.6% year-over-year and 0.3% month-over-month. Nonetheless, markets and central bank officials generally remain confident that both inflation and interest rates will continue to decline from the levels we see today. Should that expectation materialize, it should make for a favourable investment environment.

In terms of volatility, stock markets in 2024 have been markedly less bumpy and rocky than the historical average. Investors that rode out the volatile market environment of 2022 have been rewarded with a relatively smooth period stretching back to 2023 where returns have been strong with very little volatility. Experienced investors have learned that volatility is the price of admission to stock markets and bumps along the road are to be expected, but for now let's enjoy a calm period while it lasts.

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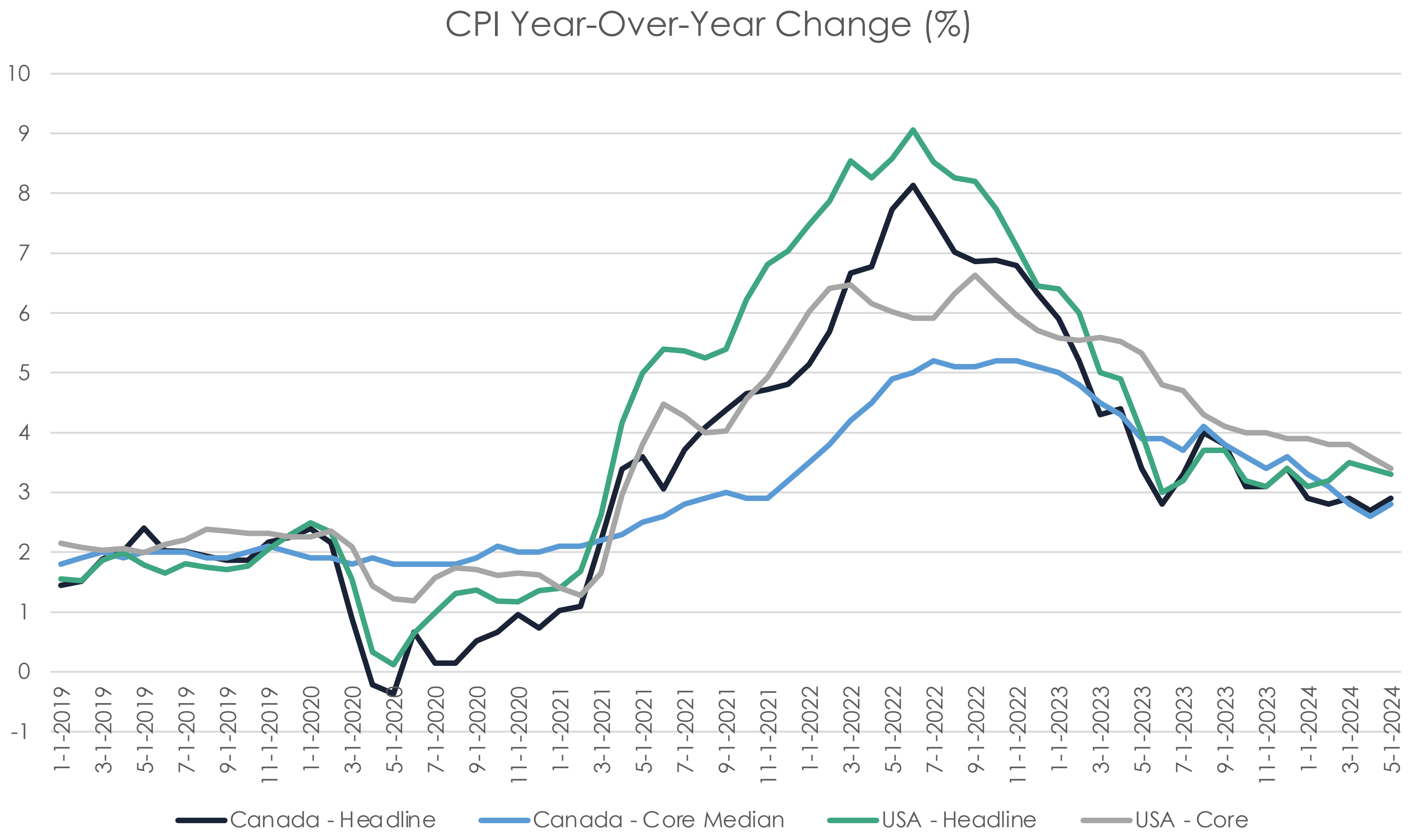
Inflation



Disinflation has slowed to a crawl, making little progress towards the 2% target rate over the past year or so. Until we see further significant progress towards 2% inflation, we will most likely see only moderate changes to the policy interest rates from the Federal Reserve and Bank of Canada.

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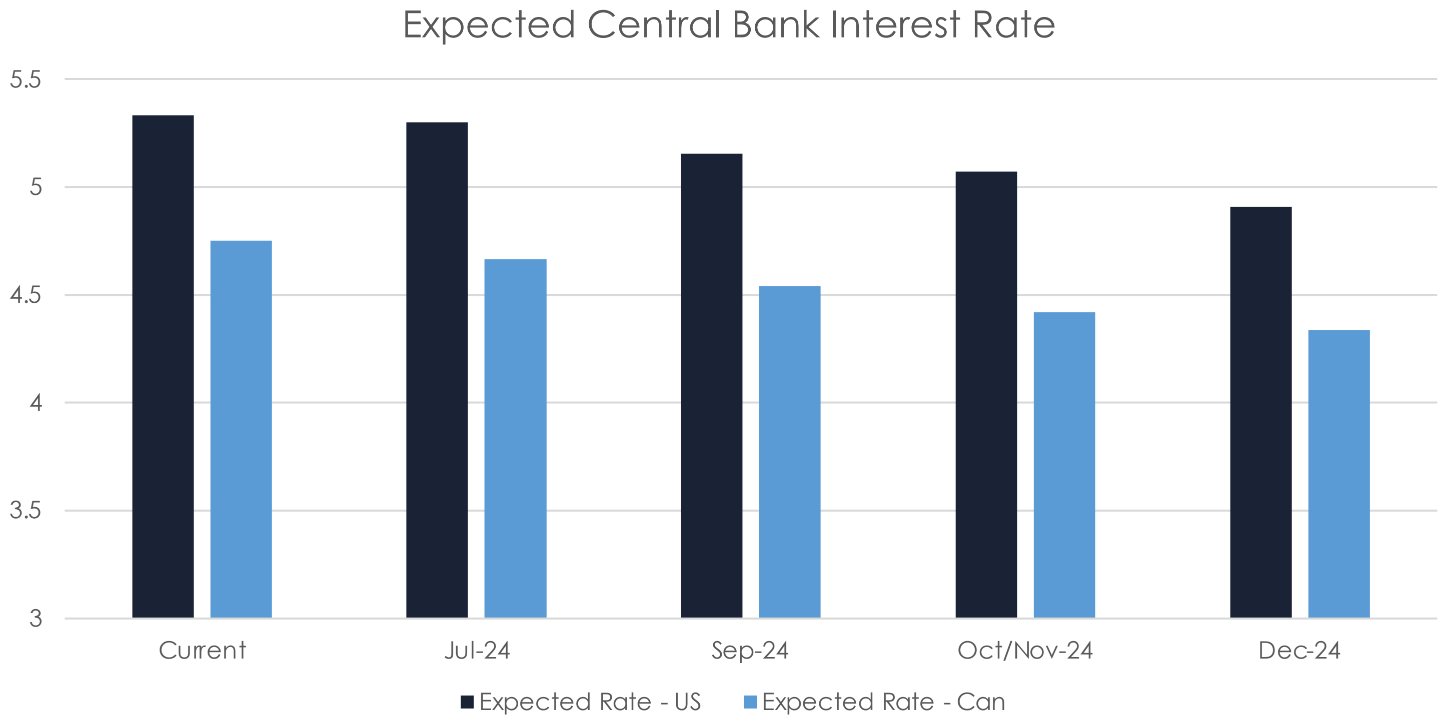
Interest Rate Expectations

Markets are expecting up to 2 interest rate cuts from both the Federal Reserve and the Bank of Canada by the end of the year, which would bring the Bank of Canada policy interest rate to 4.25%.



Data: Overnight Index Swap markets as of June 27, 2024

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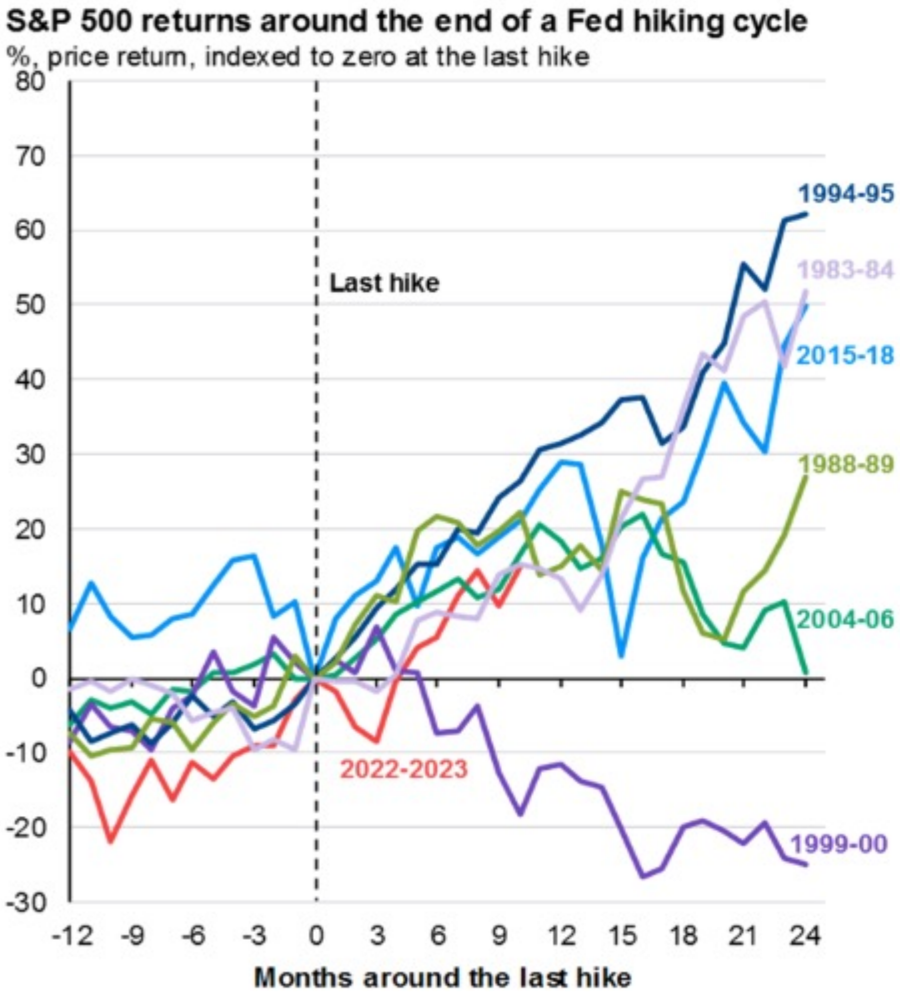
Returns and Hiking Cycles



With the Bank of Canada recently cutting its interest rate and the Federal Reserve expected to cut in the fall, we have likely reached the end of this interest rate hiking cycle. So, how do stocks tend to perform in such an environment? The chart shows 5 such environments from the past. With one exception, stocks performed quite well in the months following the last hike.

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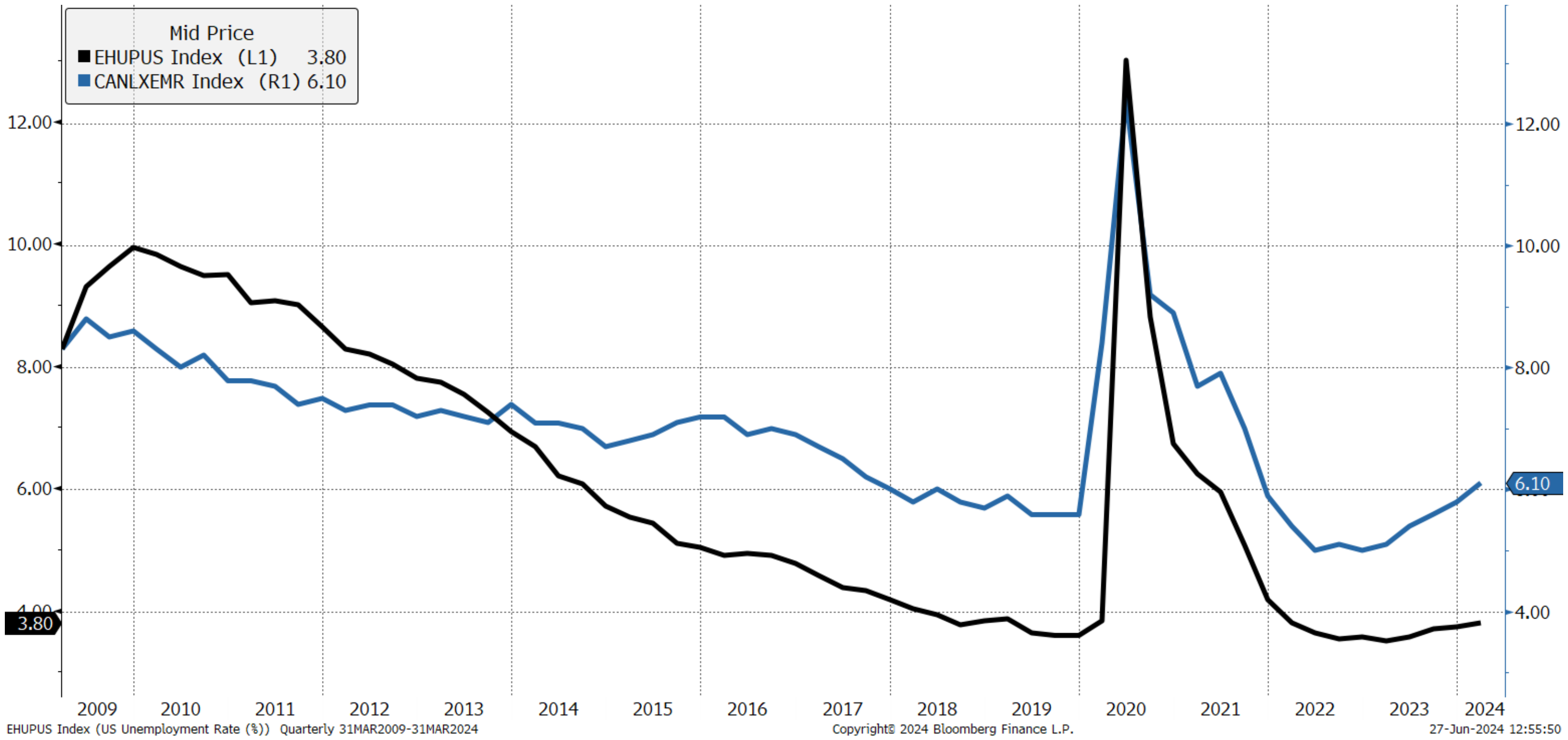
Employment

The chart shows the unemployment rate in Canada (blue) and the USA (black). The US economy has been significantly stronger than Canada's economy, and this is reflected in the much lower rate of unemployment. Unemployment is up to 6.1% in Canada, having steadily increased over the past 18 months or so.



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Initial Unemployment Claims

Initial unemployment claims are often a leading indicator of economic downturns and recessions. While they have increased from the ultra low levels of earlier this year, they remain quite low relative to their historic levels.

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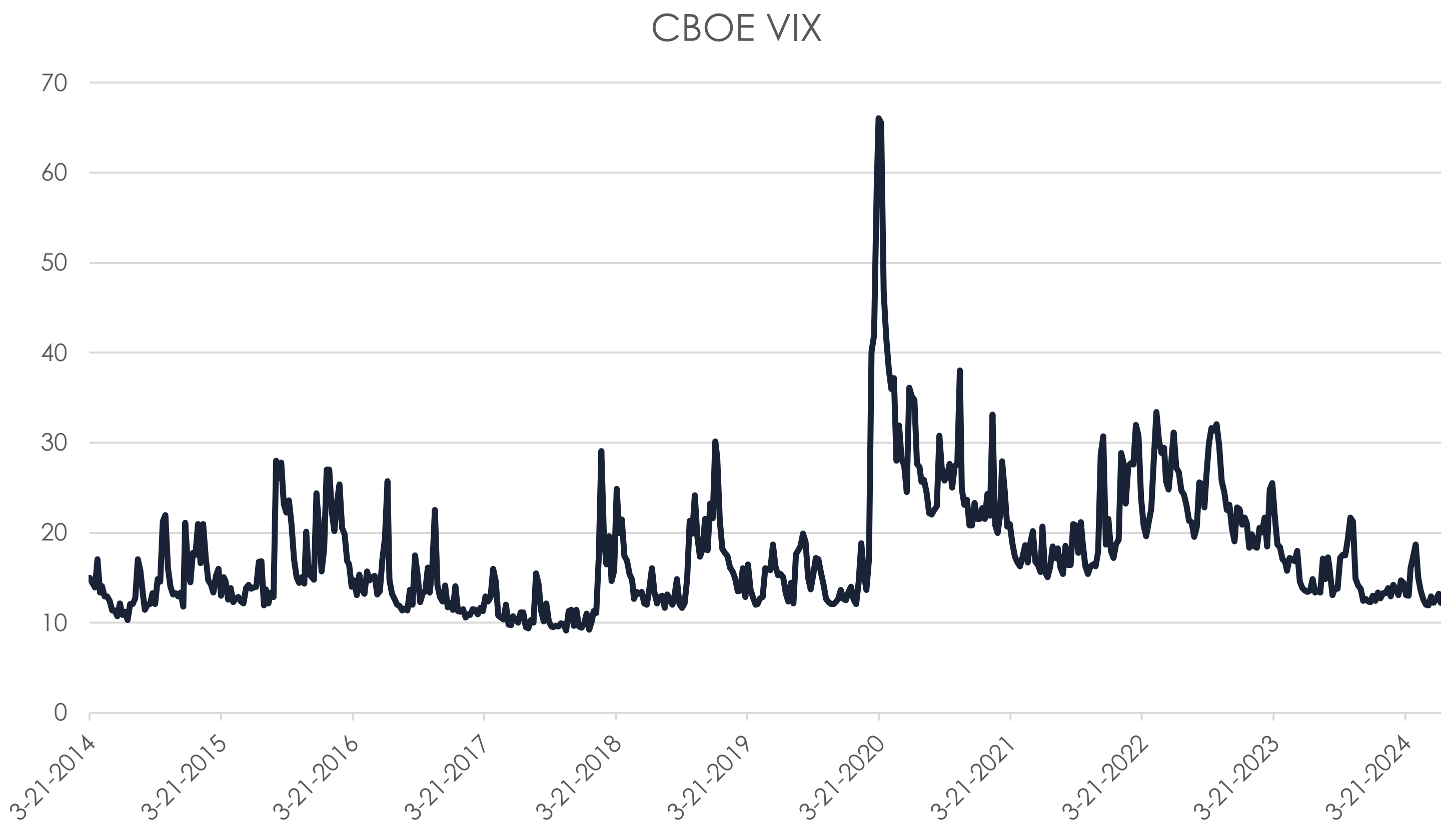
Volatility Index

Stock market volatility has been remarkably low of late, approaching the historic lows of the extreme calm of 2017. Calm markets are certainly much more enjoyable than volatile ones, but this chart is a reminder that investors can't avoid volatility indefinitely.



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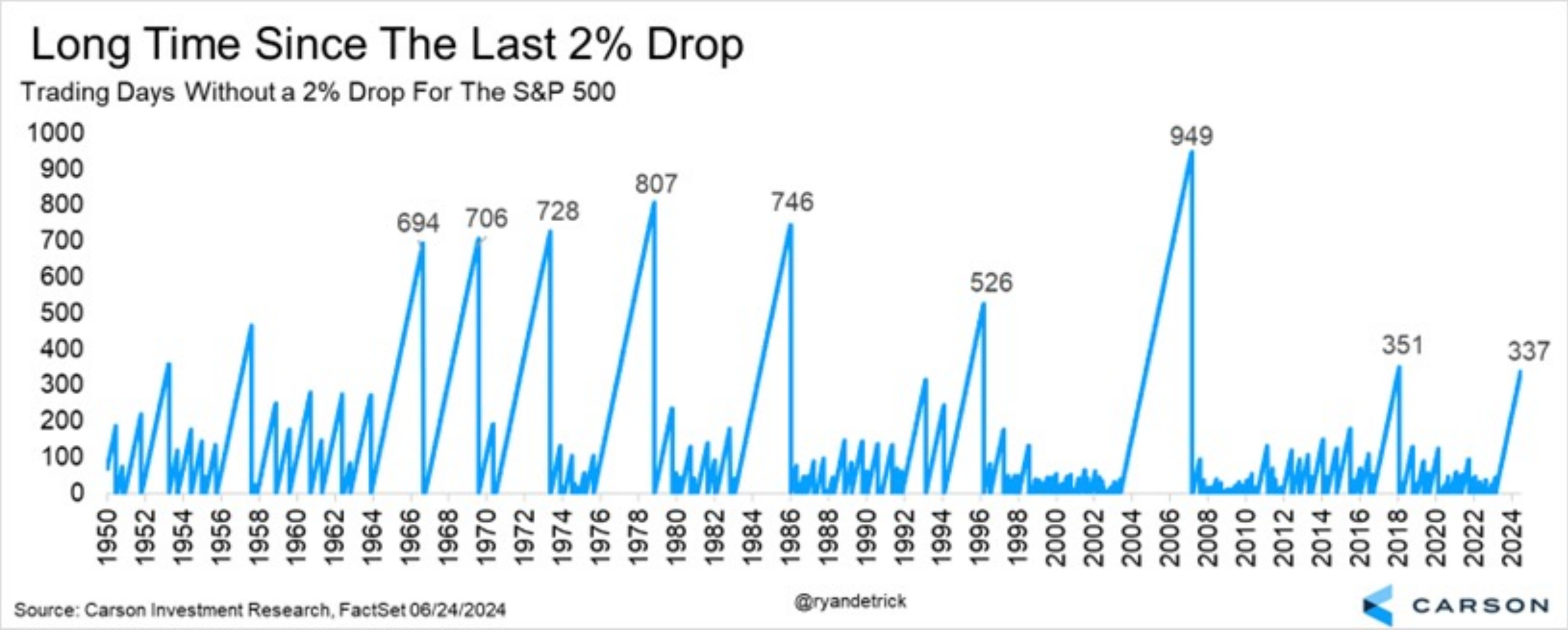
Calm Stock Markets

Further to the previous slide, the low recent market volatility is also evident in the number of trading days where there has not been a daily drop of more than 2% in the S&P500 Index. As of June 24, it had been 337 days without a 2% drop, the longest streak in over 15 years.



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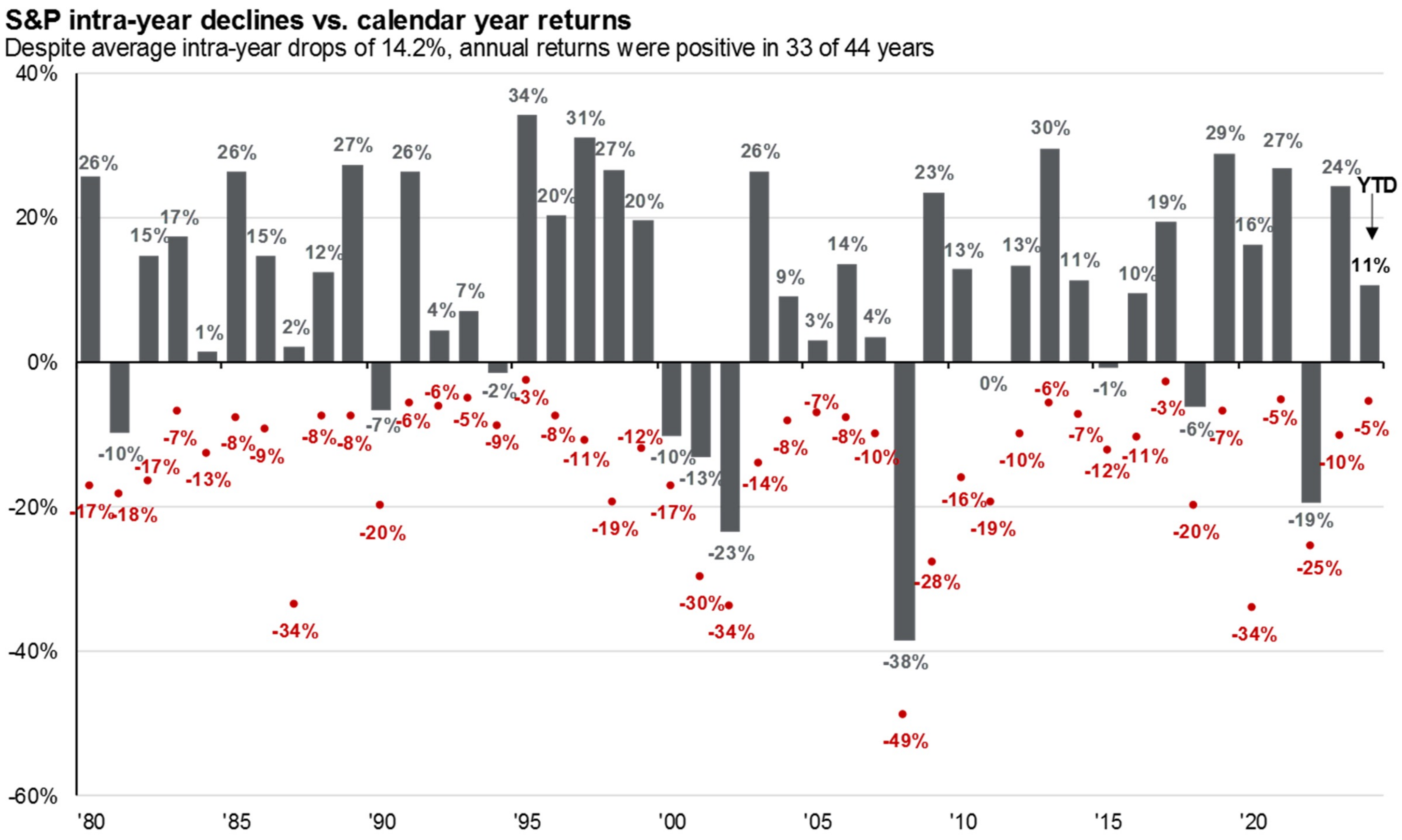
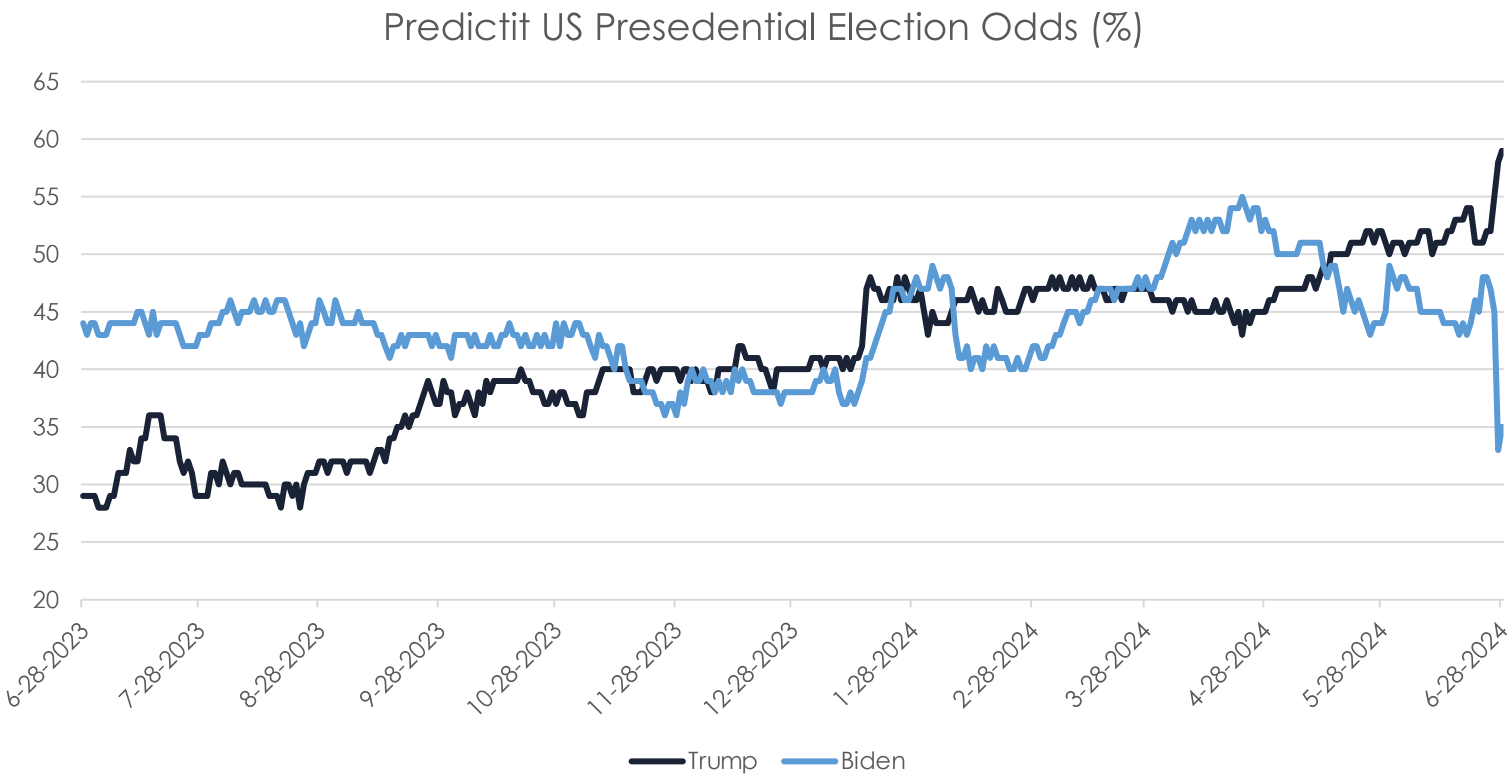
Calendar Year Returns and Declines

To date, 2024 has been a good year for stock investors, with an 11% return year-to-date with just a 5% intra-year decline on the S&P500.



US Election

Volatility in stocks has been low, but not in the betting markets on the upcoming US Presidential Election. Following the debate from last week, Donald Trump has seen a big surge up to 60% odds of winning the election against Joe Biden.



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