



CHARTBOOK Market Comment

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Market Comment

The Bank of Canada delivered a 50 basis point cut in October, bringing the rate down to 3.75%. As inflation has cooled to just 1.6% and growth has slowed substantially, the bank expects cuts to continue. Even with the rate being cut by 50 basis points it is still considered restrictive to the economy rather than stimulative. The rate is expected to decline to about 2.75%, which is roughly equivalent to estimates of the neutral rate of interest, where it is neither stimulative nor restrictive. Should it reach 2.75% without a rebound in economic growth, we would likely see a further decline in rates.




There is a substantial disparity between the US and Canadian economies in terms of economic strength and interest rates. Growth in the US has been much stronger and interest rates are considerably higher, with the Fed Funds rate about 1% higher than the Bank of Canada policy rate. This has led to weakness in the Canadian Dollar relative to the US Dollar, with the CAD/USD exchange rate recently reaching its lowest level since early 2020.


United States Election Results

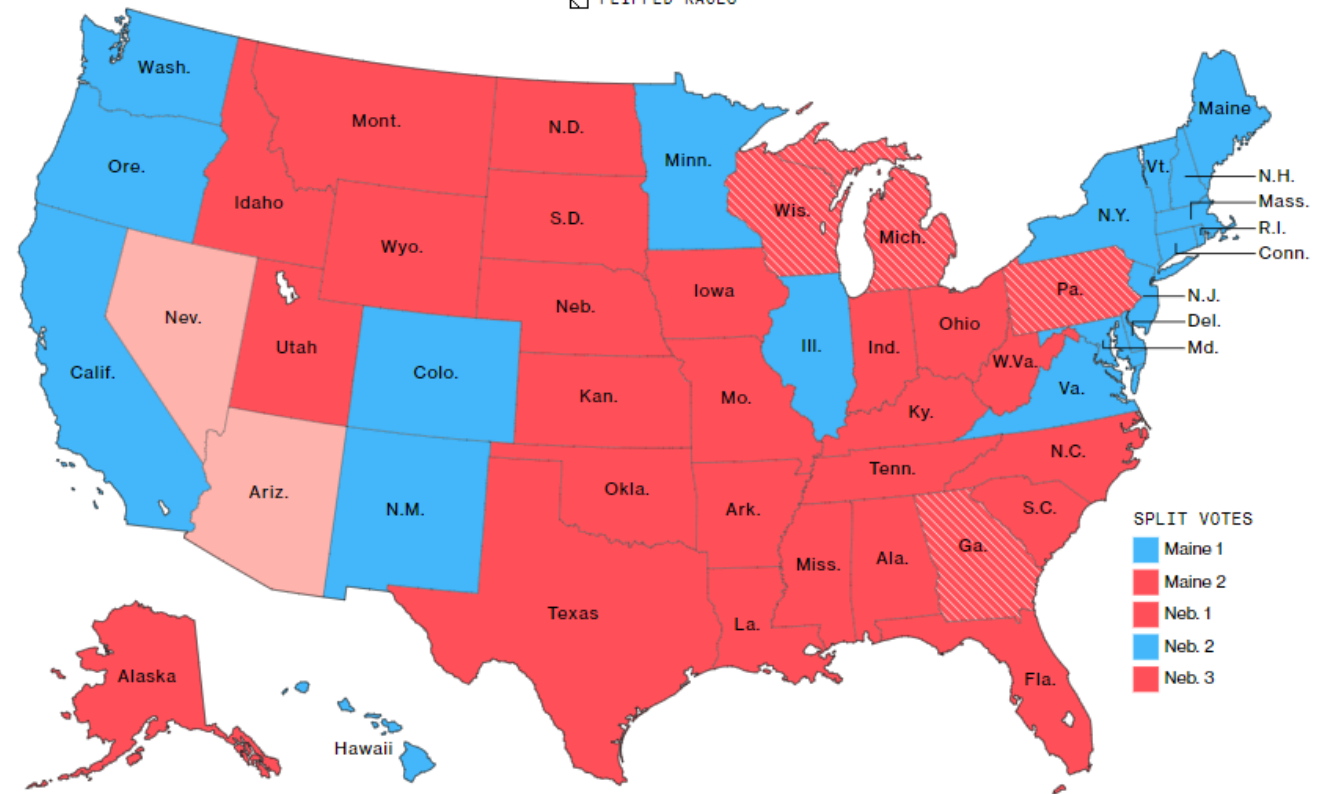
PRESIDENT
Dem **226** | **295** Rep ✓

SENATE
Dem **45** | **53** Rep ✓

HOUSE
Dem **197** | **209** Rep

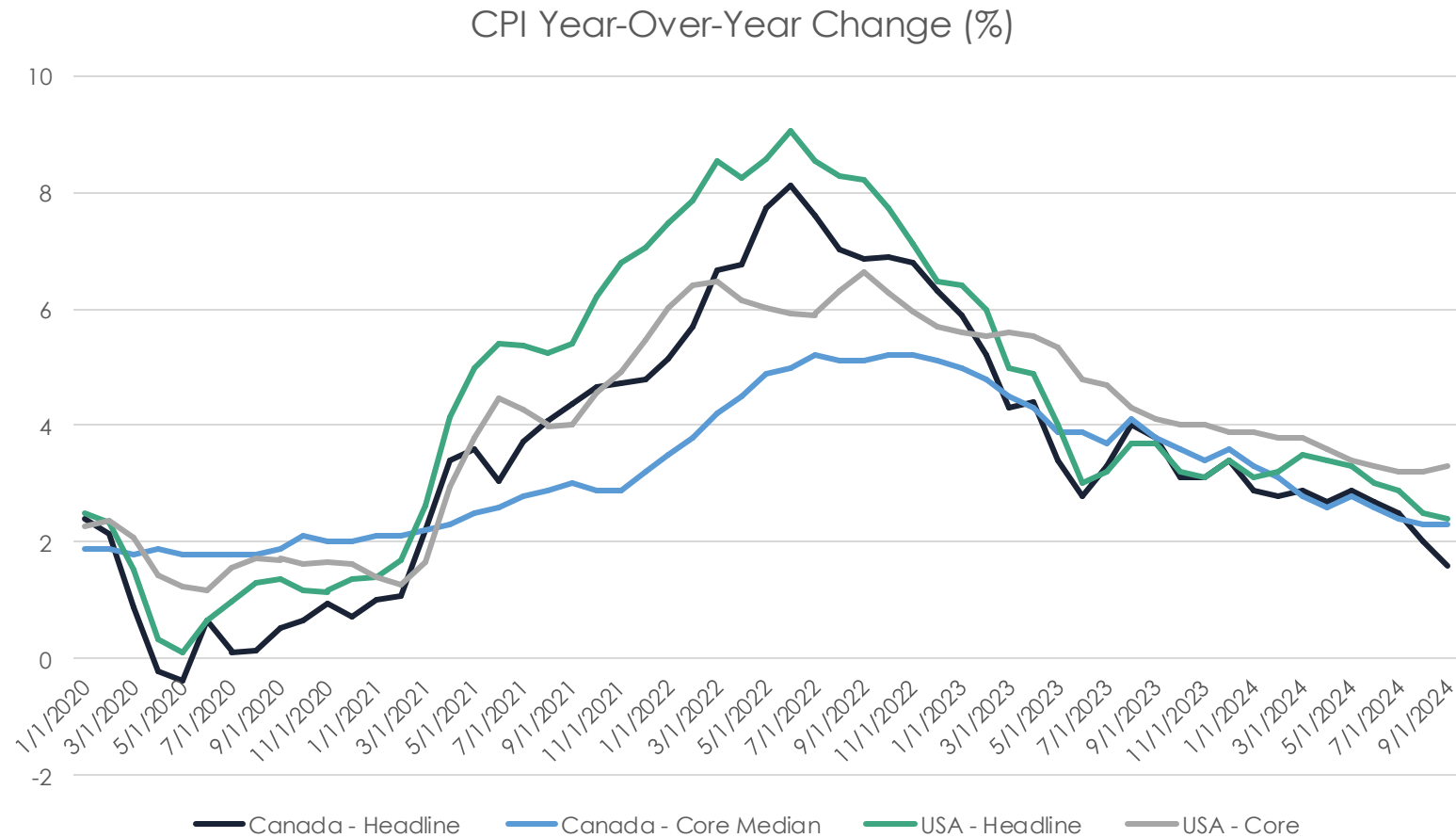
LEAD WIN
HARRIS  TRUMP  OTHER 

FLIPPED RACES 



U.S. election results indicate a complete victory for Donald Trump's Republican Party in the General Election, House, and Senate.

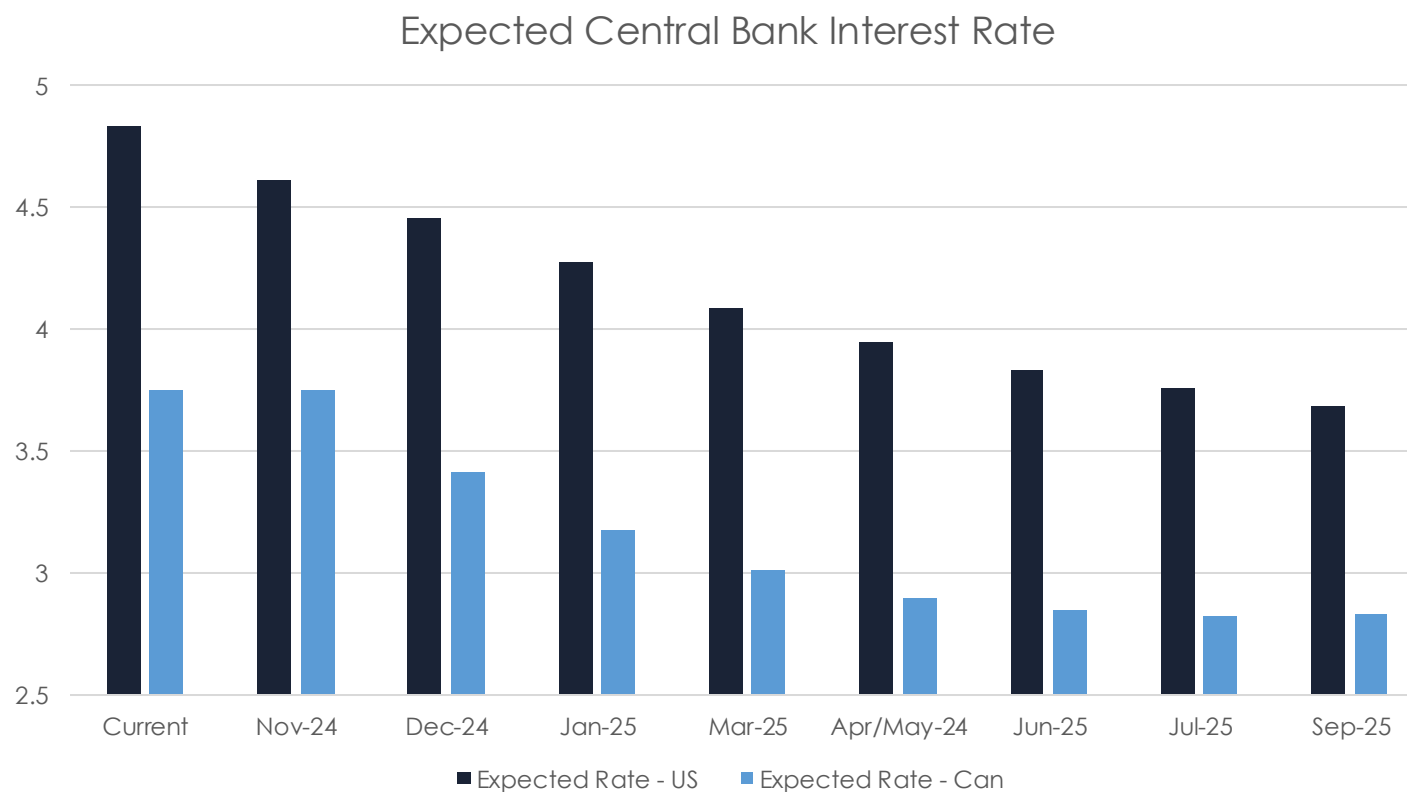
Inflation



CPI inflation continues to decline. In Canada, headline inflation is now below 2%.

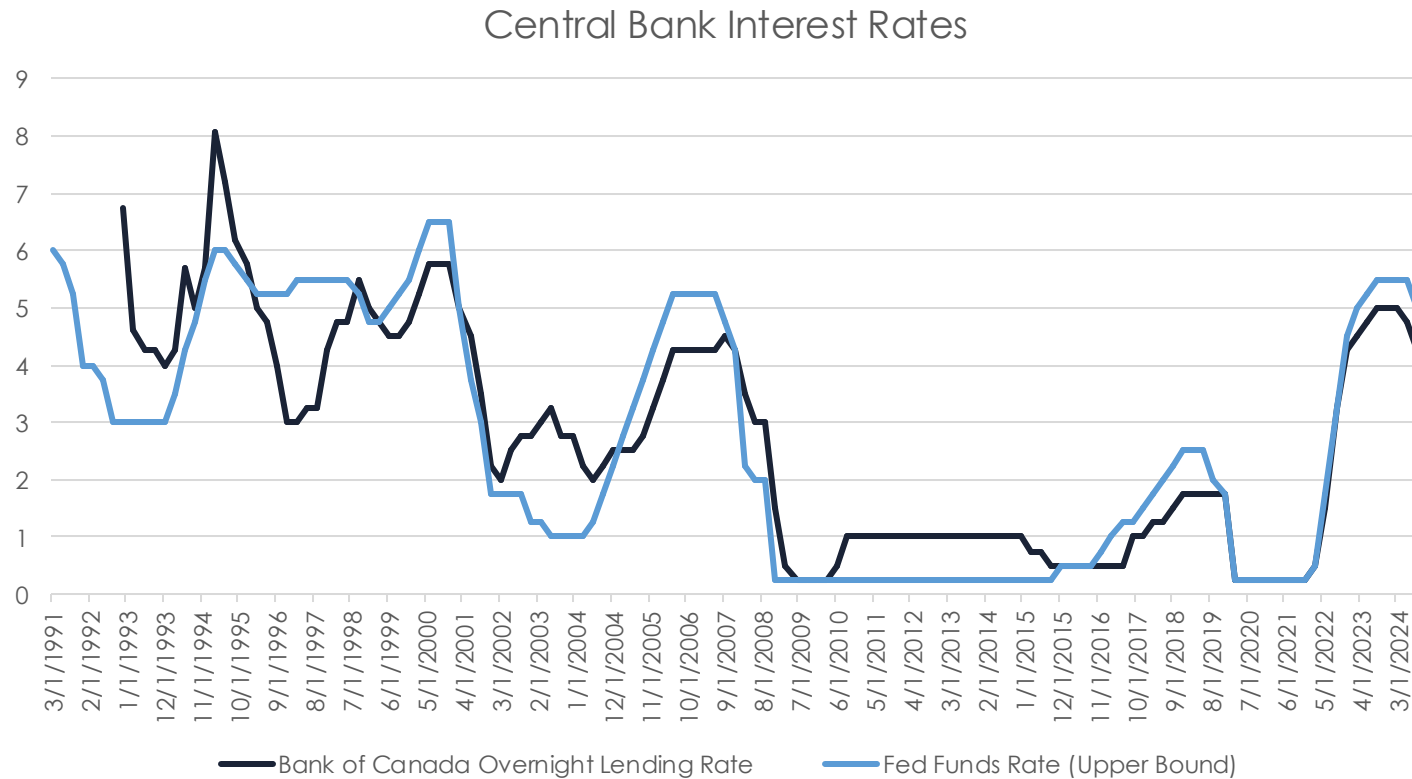
By July 2025, central bank policy interest rates are expected to fall to about 2.75% in Canada and 3.5% in the US.

Interest Rate Expectations



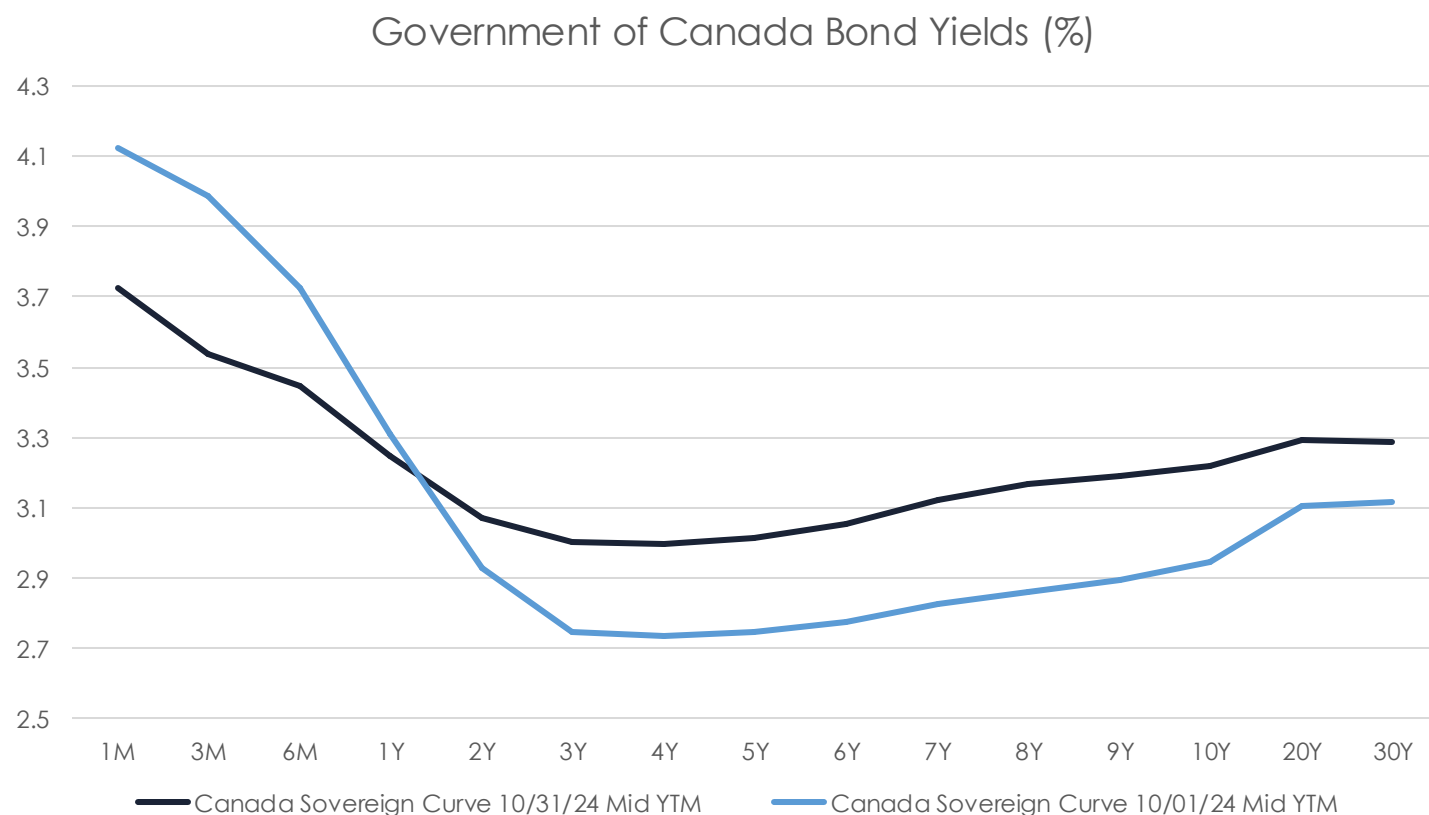
Data: Overnight Index Swap markets as of October 28, 2024

Historical Central Bank Rates



It's been a relatively rapid decline from the high since the Bank of Canada began cutting its interest rate, while the Federal Reserve has just begun. Markets expect a gradual pace of cuts from here on out, but that will depend on economic performance.

Bond Yields



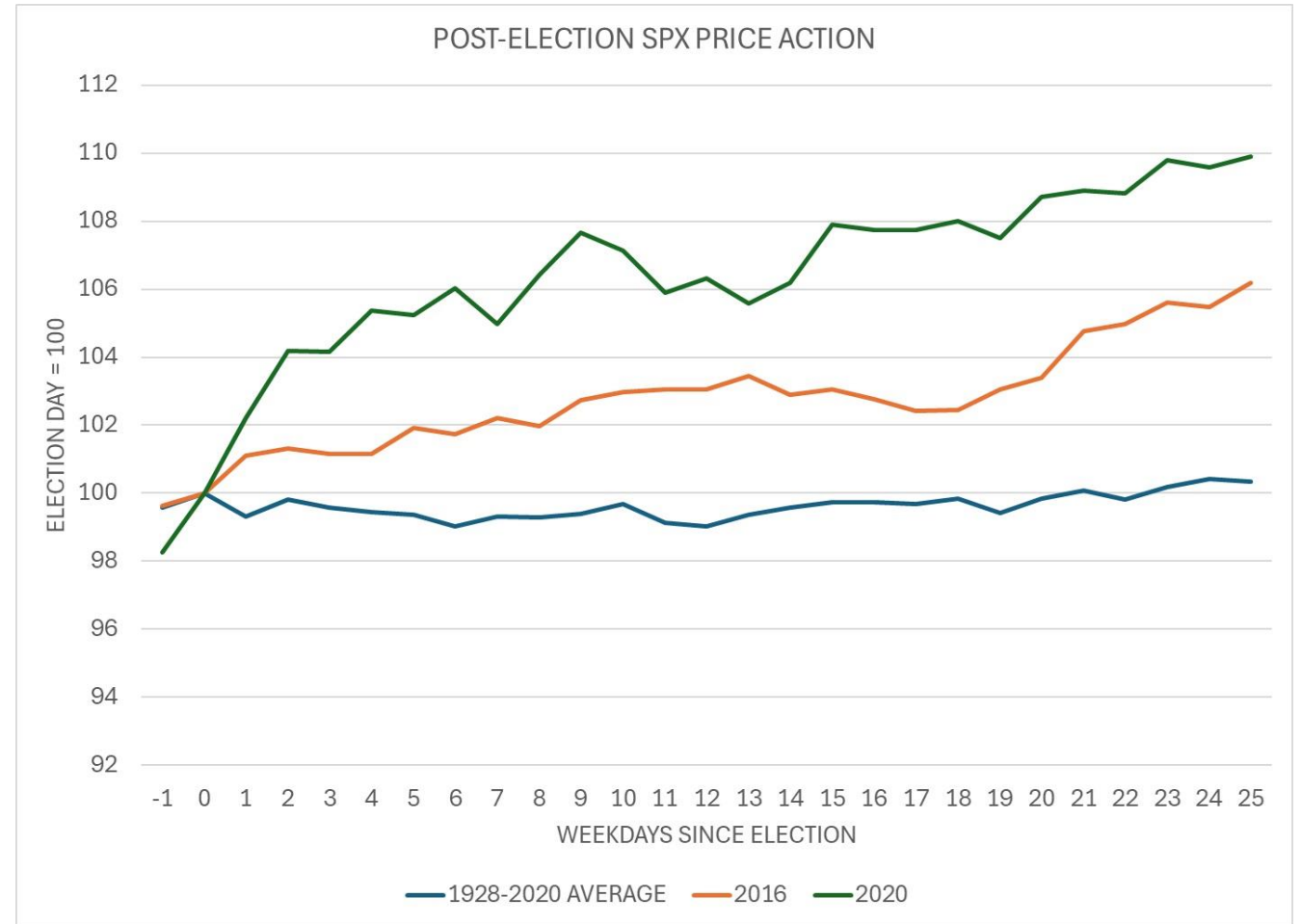
While most of the focus has been on the Central Bank policy rates being cut, longer term bond yields have been rising. The chart shows the yield curve of Government of Canada bonds as of the beginning and end of October. Prior to the Bank of Canada's rate cut, short term yields were around 4.1%, declining to about 3.7% after the cut.

Meanwhile, longer term yields actually increased. Take the 5 year yield for example, which increased from about 2.7% to 3% over the month. While we can expect short term yields to fall as the Bank of Canada cuts its interest rate, there are no guarantees that longer term bond yields will follow.

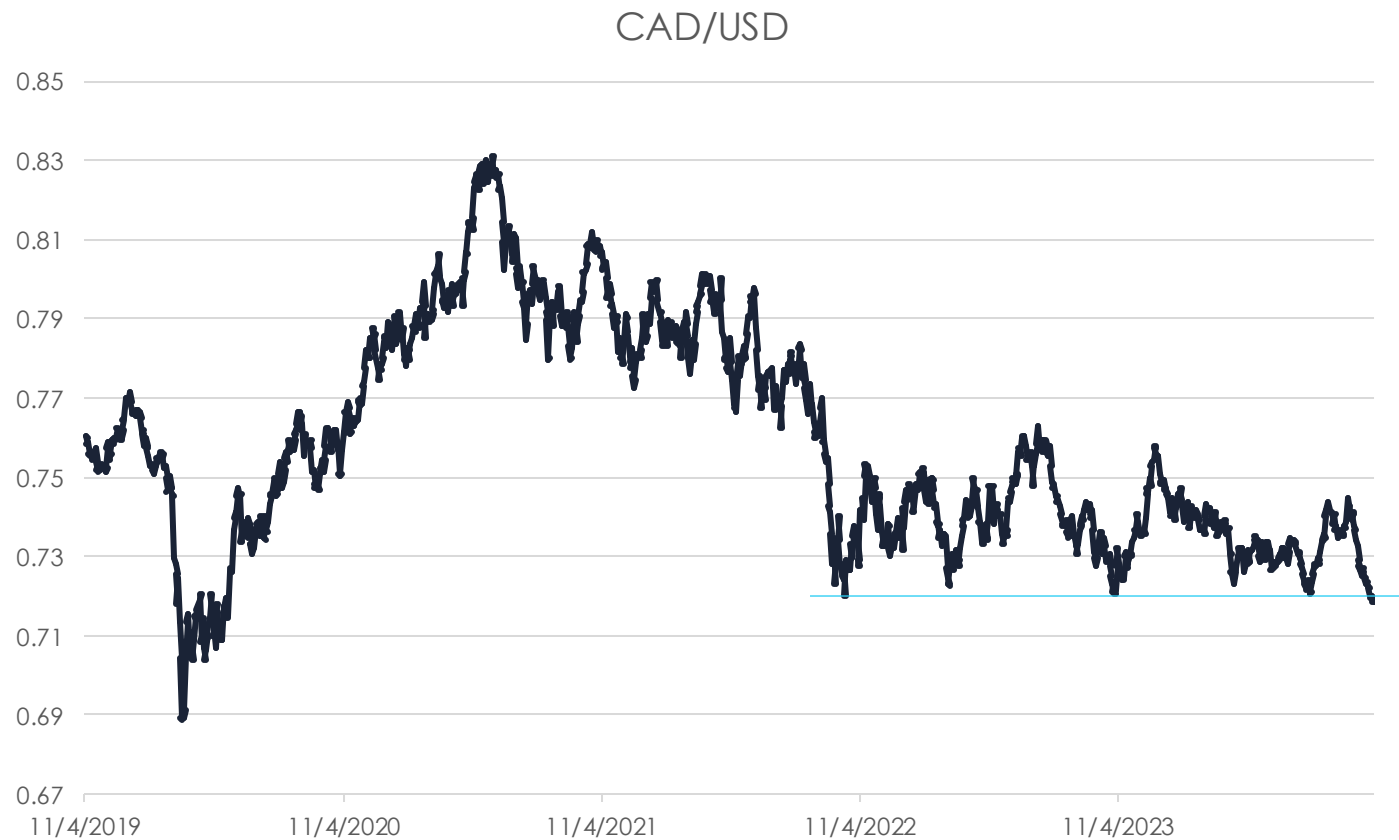
Markets Post-Election

This chart shows the performance of the S&P500 in the days following a US election. The blue line is the long-term average performance, and the orange and green lines represent the performance following the 2016 and 2020 elections respectively.

Of course there are many factors that impact the performance of stock markets, but elections can be an event that drives some volatility and angst among investors. In both 2020 and 2016 the market performed quite well in the days following the election.



Canadian Dollar



Data as of Oct. 31, 2024

The Canadian dollar has been quite weak compared to its US counterpart, recently breaking through the long term support area around US\$0.72.

The trend seems to be headed lower here, at least in the short term.

Gold

Price of Gold/Ounce (USD)



Data as of Oct. 30, 2024.

Gold has been among the best performing assets of 2024, rising from about US\$2000/oz to almost US\$2800/oz today.

Bitcoin



Data as of Oct. 30, 2024.

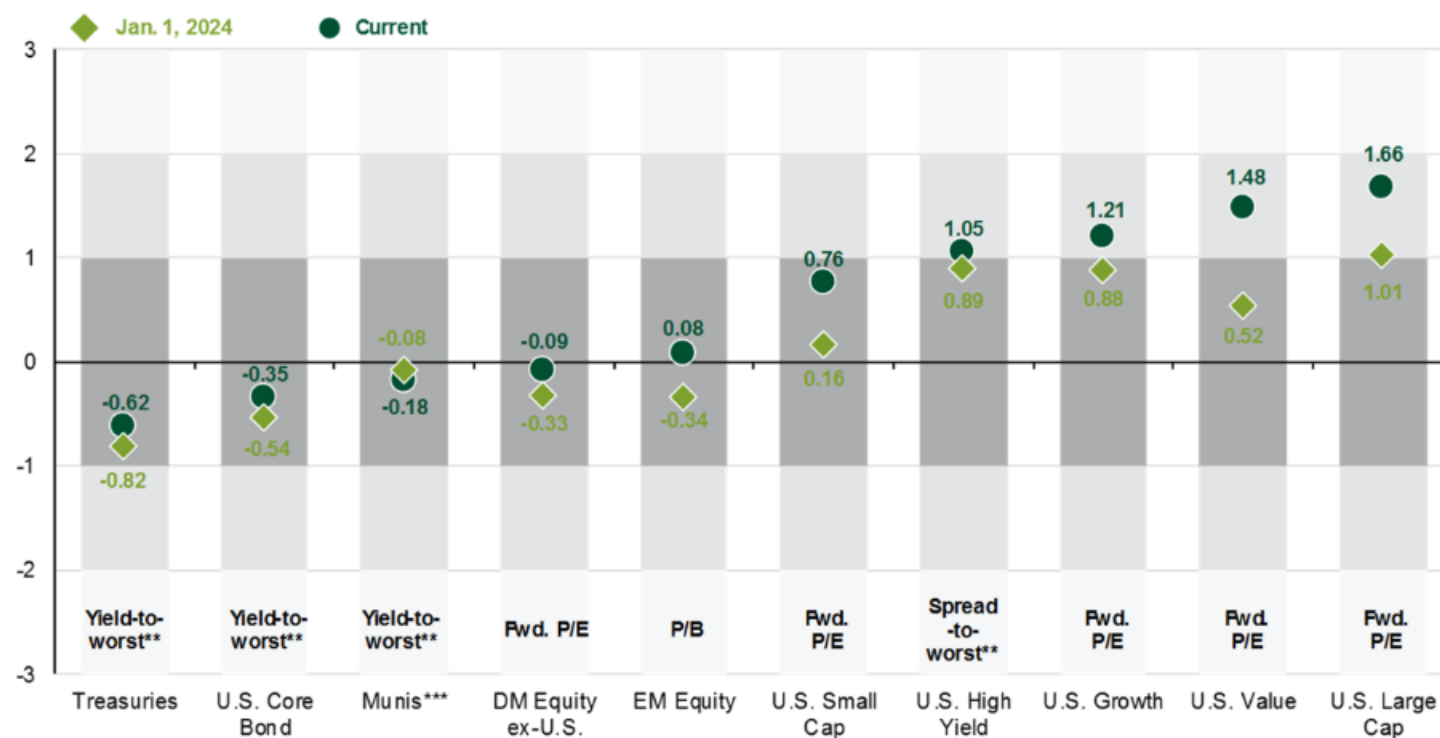
Another of the best performing assets of 2024 is Bitcoin. The volatile cryptocurrency has risen from about US\$42,000 to over US\$70,000 as of October 31.

Bitcoin, like Gold, is sometimes thought of as an alternative currency to global fiat currencies. With high debt levels and inflationary concerns, investors could be seeing gold and bitcoin as good alternative stores of value.

Valuations

Asset class valuations

Z-scores based on 25-year average valuation measures*



Relative to their 25 year averages, US equities have continued to be among the most expensive markets globally. At 1.6 standard deviations above its mean.

Precise timing isn't predictable, but over the long term we should expect valuations to revert towards their means, which would see US stocks underperform their global counterparts.

DISCLAIMER

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