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MARKET COMMENTARY

Summer 2024

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Mandeville Market Commentary – Summer 2024

Global equity markets continued to climb the wall of worry and were generally positive for the quarter. The MSCI World Index returned almost 4% for the quarter. In most countries, the Technology sector was the leading driver of performance. This was particularly true for those more exposed to semi-conductors, such as the US. This theme was a reason for renewed strength in the emerging markets, driving positive returns in Taiwan, China and India. The MSCI Emerging Markets Index returned over 6.3% for the quarter. While lagging the US, Europe equity returns were also positive. This however, excluded France where a left-wing's surprise election win drove equity markets there lower.

In the US, the Nasdaq 100 reclaimed its position as the top-performing developed market index, rising over 8% in the quarter. Strong earnings reports drove mega-cap technology stocks higher, with Nvidia becoming the third company ever to exceed a \$3 trillion market cap, temporarily surpassing Apple and Microsoft as the world's largest publicly traded company. After a terrible first quarter, Apple rebounded 23% in Q2. Nvidia returned an incredible 37%.

The Canadian equity market fell by over 0.5% during the quarter, a direct result of the lack of companies linked to the technology theme. Canadian stock performance was exacerbated by the lack of interest by foreign investors. In the past 12 months, it has been estimated that there has been \$37 billion of foreign investor outflow. It was also an unusual quarter from a sector specific perspective. Commodity-driven sectors like Materials and Energy were strong in Canada but weak in the US. The Information Technology and Communication Services sectors had significant gains in the US but declined in Canada. One commonality between the countries was the outperformance of defensive sectors versus cyclical sectors. This was a result of economic growth deceleration in both countries.

One concern investors should be aware of is the concentration of returns in a few stocks in a few sectors observed in equity markets. This is a global phenomenon, but most pronounced in the US. As mentioned, the Technology sector has been the leader in performance. Just seven technology stocks contributed 98% of the S&P 500 return in the 2nd quarter. In fact, if you disregard market capitalization and calculate returns on a "equal weighted basis", the index actually declined in the quarter. Market observers believe that an equally weighted index is more representative of a typical investor. The return on three stocks alone

June 2024	3 months (%)	1 Year (%)
Canadian Equities		
S&P/TSX Composite Index	-0.53	12.13
S&P/TSX Small Cap Index	0.85	14.42
S&P/TSX 60 Index	-1.34	11.18
Canadian Fixed Income		
S&P Canada Agg Bond Index	-0.09	0.32

	3 months (%)	1 Year (%)
US Equities		
S&P 500 Index	4.28	24.56
Nasdaq Composite Index	8.47	29.61
US Fixed Income		
BBg US Aggregate Bond Index	0.07	2.63

	3 months (%)	1 Year (%)
Global Equities		
MSCI World Index	3.71	24.24
MSCI EAFE Index	0.70	15.30
MSCI Emerging Markets Index	6.36	16.34
Global Fixed Income		
FTSE WGBI Index	-0.59	2.72

	3 months (%)	1 Year (%)
Global Equity Sectors		
Energy	-0.31	19.46
Materials	-2.45	11.64
Industrials	-1.13	19.61
Consumer Discretionary	-1.27	13.12
Consumer Staples	1.12	5.39
Health Care	1.50	14.92
Financials	0.66	27.89
Information Technology	12.55	42.71
Communication Services	9.16	41.86
Utilities	4.30	8.35
Real Estate	-0.54	8.68

Source: Bloomberg

All in Canadian Dollars except US indices which are in USDollars.

(Nvidia, Apple and Microsoft) have accounted for more of the gain in the S&P 500 this year than the other 497 stocks combined. The weight of the top 10 stocks in the S&P 500 reached 37% this quarter. This is significantly more concentrated than it was at the peak of the technology bubble in early 2000 (it reached 27%). Increasing concentration in these stocks with stretched valuations could be problematic if momentum stalls and reverses course.

This is not a warning to avoid the technology sector altogether. We are currently at a pivotal moment in history with regards to artificial intelligence (AI) as it relates to the economic future of growth and innovation. It is almost impossible to imagine a sector of the economy or industry that will not be impacted by AI, machine learning and large language models. While difficult to quantify, AI will undoubtedly revolutionize our lives, much like smartphones and the internet did. Many astute investors have taken advantage of the opportunity, investing in leaders like Nvidia. But be aware that there are many other opportunities out there in areas such as hardware, software, services and enabler industries. Investors should proceed with caution because, like any new investment opportunity set, there will be winners and losers.

Global bond markets had mixed performances in the second quarter. The Canadian bond market was basically flat with shorter-term yields declining in response to the widely anticipated interest rate cut of 0.25% by the Bank of Canada. Corporate bonds underperformed their government equivalents after strong performance in recent quarters. The US bond market was also flat as more positive growth prospects forced the market to price out previously expected interest rate cuts from the Federal Reserve. The European Central Bank cut rates like Canada, but still posted negative returns as persistent wage increases kept inflation fears elevated.

2024 Outlook

It is no surprise that the themes expected to drive market performance in the latter half of 2024 will be the same economic inputs that moved markets in the first six months of the year. On June 5th, 2024, the Bank of Canada became the first G7 country whose central bank cut interest rates after a prolonged climb driven by the pandemic. The Bank of Canada lowered its key interest rate by 0.25% to 4.75%. In announcing the rate cut, they indicated Canada could see further reductions in the coming months as long as the economy and inflation continue to perform as expected. High interest rates have seemingly done their job to cool down the economy as there is little doubt the economy is slowing. While economic activity is not declining across the country, the pace of

growth is weakening. Most economists see Canadian economic growth at a rate of 1.5% to 2.0%. This is positive, but lackluster. One concern economists have is that Canada's tepid growth is nowhere near strong enough to support the rapid population growth. In the past 12 months, the population has increased by 1.1 million. Consequently, GDP per capital is declining and the unemployment rate is

High interest rate has paid off in the fight against inflation



Source: Statistics Canada, BDC.

increasing. Unemployment hit a 29-month high of 6.4% in June. Declining productivity and an increasing unemployment rate lead to a lower standard of living.

In the US, the economy is on more solid footing with core personal consumption expenditures (CPE) inflation down to 2.6% from a cycle high of 5.6%. The latest ISM Services PMI (Purchasing Managers Index) exceeded consensus forecasts as business activity and exports accelerated. Meanwhile, the labour market is strong but not at a level that would cause significant inflation. Overall, the data painted a picture of a robust economy with moderating inflation. Many economists expect the Federal Reserve will start cutting interest rates as early as September. There is still no clear answer whether the US economy is headed for a slowdown, whether it is soft or hard, or no landing at all. If there is no landing at all, the inflation rate may not fall to the Fed's 2% target, but the economy would continue to grow.

A unique risk to the overall economy in the latter half of 2024 is the pending US election. Historically, presidential elections increase market volatility in the short-term as political uncertainty rises. This leads some investors to back away until matters settle down. Typically, markets calm down once party candidates are chosen, however given the events that have transpired thus far (Biden's dismal debate performance and subsequent election drop out, Trump's guilty verdict and survival of an assassination attempt), market volatility may remain for longer.

How might the US election affect Canadians? International trade remains crucial for the Canadian economy, with exports accounting for just over 30% of GDP. In April, Canada exported some \$65 billion worth of goods, including nearly \$50 billion to the United States alone.

Year in, year out, Canada exports 75% of its goods and services to the U.S. and is particularly vulnerable to any move by the U.S. towards protectionism. Donald Trump has said he wants to impose a 10% tariff on all U.S. imports, regardless of their country of origin.

With Republicans ahead of Democrats in the latest polls for the November election, the eventual imposition of those tariffs on Canadian imports is a real possibility. After all, Trump brought in stiff tariff hikes on certain Canadian products, notably steel and aluminum, during his first presidential term.

As always, find the time to review your investment portfolio with your Mandeville Advisor. They will work with you to create a plan and help you achieve your investment goals.

The U.S. is Canada's principal trading partner

Import and export values with the U.S.



Source: Statistics Canada, BDC.

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