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MARKET COMMENTARY

Fall 2024

Kevin McMahon, CFA

Director - Product and Portfolio Management

Mandeville Market Commentary – Fall 2024

The quarter began on a troubling note, with volatility at levels well above what we've seen in recent periods. The VIX volatility index reached as high as it did during the peak of the pandemic. This was driven by a multitude of issues including concerns over a slump in US labour data, an unexpected hawkish stance from the Bank of Japan (BoJ), mounting geopolitical tensions and developments in the US election.

Investors were rewarded however with strong positive returns across most major asset classes, including both equity and fixed income. Investor sentiment improved, driven primarily by the start of a global interest rate cutting cycle. The Bank of Canada (BoC) and the European Central Bank (ECB) kicked things off with rate cuts starting in the second quarter that continued into the third quarter. The U.S. Federal Reserve (Fed) joined in shortly thereafter making a surprising 50 basis point cut in mid-September. Canada's overnight rate dropped from 5% to 4.25% while the U.S. fed funds rate dropped from 5.5% to 5%. Global campaigns to tame inflation have seemingly been successful. With price pressures contained for now, central banks have shifted their focus to the labour markets in an effort to engineer a soft landing.

Canadian equities, as measured by the S&P/TSX Composite Index, were the best performers among the major indices this quarter. The S&P/TSX Composite Index rose over 10.5%, its best quarter since Q2-2020. All sectors of the index were up, with the largest gains being in those that benefit from interest rate cuts. Real Estate and Financials were the top two sectors, followed closely by Utilities and Communication Services. These last two sectors attracted investors due to their high dividend yields as interest rates declined. The Energy sector was the weakest performer in the quarter as energy prices fell (the S&P GSCI Energy Commodity Index fell 15% in Q3).

In the US, equity markets were positive but not as strong as their neighbors to the north. The S&P 500 returned 5.89% in Q3. Narrow leadership was the theme in Q2, however this reversed in Q3 as a broadening of leadership emerged. Changing expectations for the path of US interest rates shaped the quarter and contributed to divergent performances. Similar to what we saw in the S&P/TSX Composite Index, the interest sensitive sectors, such as Utilities and Real Estate benefitted from a falling interest rate environment. The leaders in the first half of the year took a pause in the third quarter.

September 2024	3 months (%)	1 Year (%)
Canadian Equities		
S&P/TSX Composite Index	10.54	26.74
S&P/TSX 60 Index	11.16	26.83
S&P/TSX Small Cap Index	8.44	25.07
Canadian Fixed Income		
S&P Canada Agg Bond Index	4.34	12.11

	3 months (%)	1 Year (%)
US Equities		
S&P 500 Index	5.89	36.35
Nasdaq Composite Index	2.76	38.64
US Fixed Income		
BBg US Aggregate Bond Index	5.20	11.57

	3 months (%)	1 Year (%)
Global Equities		
MSCI World Index	5.11	32.93
MSCI EAFE Index	5.97	25.28
MSCI Emerging Markets Index	7.49	26.44
Global Fixed Income		
FTSE WGBI Index	5.59	10.93

	3 months (%)	1 Year (%)
Global Equity Sectors		
Utilities	16.31	36.90
Real Estate	15.13	33.46
Financials	9.40	38.68
Materials	9.25	24.69
Industrials	9.08	35.23
Consumer Staples	7.99	19.74
Consumer Discretionary	5.92	24.61
Health Care	4.45	21.32
Communication Services	1.59	39.31
Information Technology	0.28	49.44
Energy	-3.43	2.23

Source: Morningstar

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

Worries with respect to valuations and the sustainability of momentum caused significant volatility in some technology names. Nvidia, the posterchild for the AI revolution was essentially flat for the quarter.

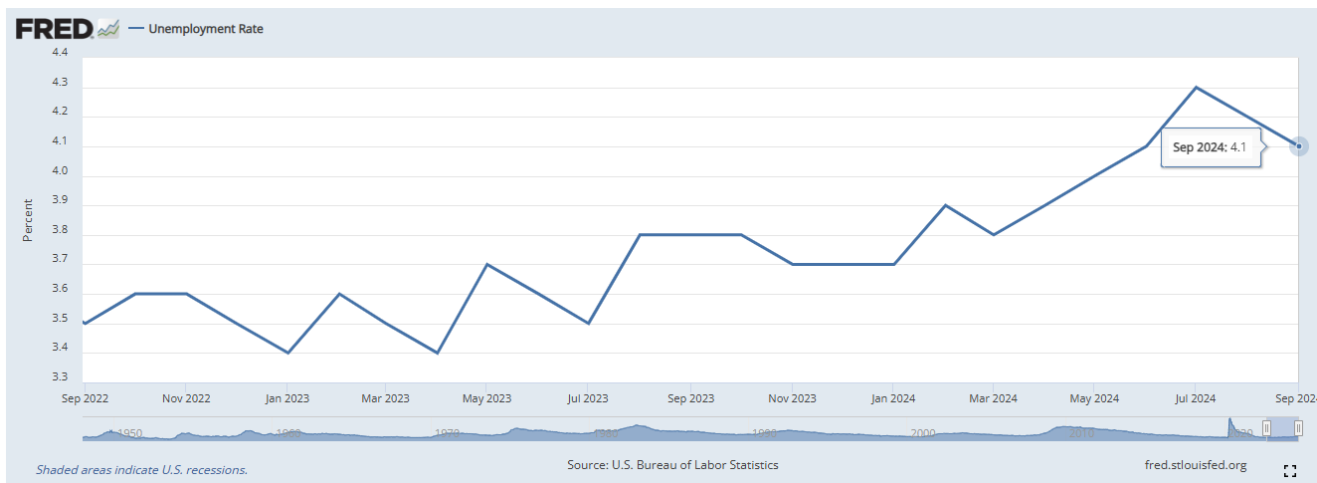
Outside of North America, markets were generally positive. Both European and UK equities advanced, albeit more modestly. China, in an effort to stimulate consumption and stabilize the property sector, introduced the most significant economic stimulus measures since the pandemic. Chinese equities had their best quarterly performance since 2009. Japanese equities were an outlier this quarter as a sudden appreciation of the Japanese Yen and the BoJ termination of its negative interest rate policy sparked a huge sell off.

Global fixed income markets performed well in the quarter, also benefiting from interest rate cuts. Risk markets were infused by monetary stimulus and expectations for additional support for economic growth, which helped support corporate bonds returns where corporate spreads narrowed modestly over the quarter.

Digital asset markets had mixed returns during the quarter. Bitcoin was slightly positive in Q3 while Ethereum was down over 20%. Following drawdowns in August, digital asset markets recovered by the end of the quarter, supported by Fed rate cuts mid-month. Activity in the quarter was positive for digital asset markets – several large asset managers launched Ethereum spot ETFs and the SEC approved options to be traded on the Bitcoin ETF. This should lead to market efficiencies, and further connect crypto to traditional markets.

2024 Outlook

The term “soft landing” comes from aviation and refers to a smooth touchdown. From an economic perspective this means that an economy, after a period of raising rates to curb inflation, has returned to growth without a period of severe recession. The general consensus is that both the BoC and Fed are on track to successfully engineer soft landings in their respective economies. However, the probability of success varies for the two countries.



In the US, the economy continues to grow at a moderate pace, supported by the labour market and consumer spending. There has been a slowdown in recent data, but it is too early to tell how this will play out. Real GDP growth is estimated at 2.6% in 2024 and 1.8% in 2025. While the unemployment rate has

been climbing over the past 24 months (currently 4.1%), the measure is far below the 50-year average of 6.2%.

Consumers are still spending money, and they should be as long as the labour market remains steady. The latest Retail Sales figure came in at 2.1% year over year. There are some signs however, that the consumer is becoming stretched, including rising debt levels and diminished savings. Consumer health data is critical as consumption drives approximately 70% of GDP. Now that the Fed is cutting rates, spending should increase through lower interest rates on credit card, mortgage, auto and other types of loans. The US economy remains in decent shape.

In Canada, things are a bit more challenging. Growth has been weak with guidance for Q3 GDP growth to be just over 1.0% quarter over quarter. This is significantly below the BoC's forecast of 2.8%. Canada's unemployment rate crept up to 6.6% in Q3, scaling past a seven-year peak excluding the pandemic years of 2020 and 2021. The economy did add jobs in the quarter, but this was fully driven by part-time employment. Cooling labour market conditions and tight financial conditions may be taking a bite out of consumer strength.

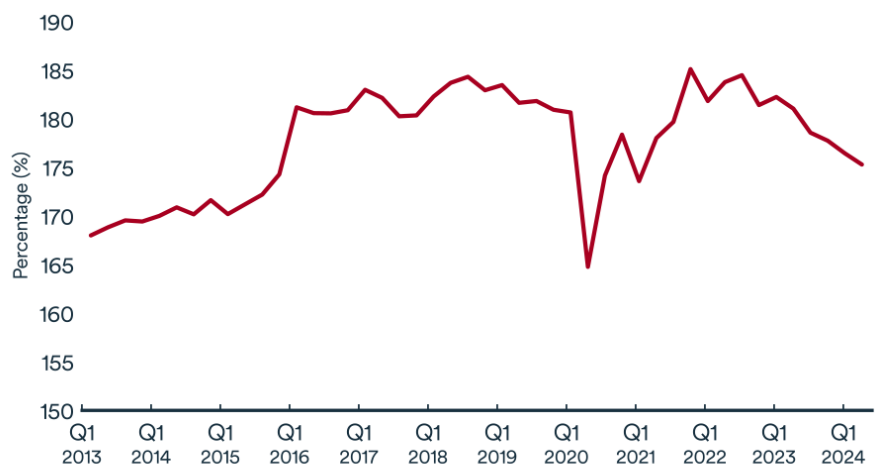
Borrowing costs remain relatively high and consumers continue to be cautious. This is evident in the increase in the savings rate in the second quarter. Household debt as a proportion of disposable income continues to fall, reaching its lowest level since the first quarter of 2021. While reducing debt is always a good thing, it could help explain the reduction in spending and reduced contribution to economic growth.

There are a significant number of risks that could affect the markets – the seemingly never-ending war in the Ukraine, escalating violence in the Middle East and potential fallout of the US election. A broader conflict in the Middle East could lead to higher oil prices, which in turn could lead to higher inflation. Depending on who wins the US election, new tariffs on foreign goods could be problematic for an already struggling Canadian GDP. Despite these risks, there are positives to think about – lower interest rates and continued economic expansion will support corporate profit growth and rising stock prices.

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.

Canadians are curbing out their debt

Credit market debt to disposable income



Source: Statistics Canada, BDC.

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*Mandeville Holdings Inc., 1375 Kerns Road, Suite 200, Burlington, Ontario L7P 4V7 Tel.:1-888-990-9155
• Fax: 1-905-331-4245 • www.mandevilleinc.com*