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Weekly Market Snapshot

For the week ending July 19, 2024

Equities

Local currency, price only, % change

	2024-07-19	Week	QTD	YTD	1 Yr
S&P/TSX Composite	22,690	0.1%	3.7%	8.3%	10.7%
S&P/TSX Small Cap	779	-0.9%	3.3%	11.0%	8.9%
S&P 500	5,505	-2.0%	0.8%	15.4%	20.6%
NASDAQ	17,727	-3.6%	0.0%	18.1%	23.5%
Russell 2000	2,184	1.7%	6.7%	7.8%	10.0%
UK FTSE 100	8,156	-1.2%	-0.1%	5.5%	7.5%
Euro Stoxx 50	4,827	-4.3%	-1.4%	6.8%	10.7%
Nikkei 225	40,064	-2.7%	1.2%	19.7%	21.8%
MSCI China (USD)	57	-4.9%	-1.5%	1.9%	-7.0%
MSCI EM (USD)	1,090	-3.0%	0.3%	6.4%	6.9%

Fixed income

Total return, % change

	2024-07-19	Week	QTD	YTD	1 Yr
FTSE Canada Universe Bond Index	1,126	0.0%	0.8%	0.4%	5.0%
FTSE Canada All Corporate Bond Index	1,373	0.1%	0.9%	2.0%	7.5%
Bloomberg Canada High Yield Index	183	0.0%	0.5%	4.0%	10.8%

Interest rates - Canada

Change in bps

	2024-07-19	Week	QTD	YTD	1 Yr
3-month T-bill	4.47	-11	-17	-57	-51
GOC bonds 2 yr	3.72	-10	-27	-16	-91
GOC bonds 10 yr	3.40	-1	-11	29	4
GOC bonds 30 yr	3.38	1	-2	35	17

Currencies and Commodities

In USD, % change

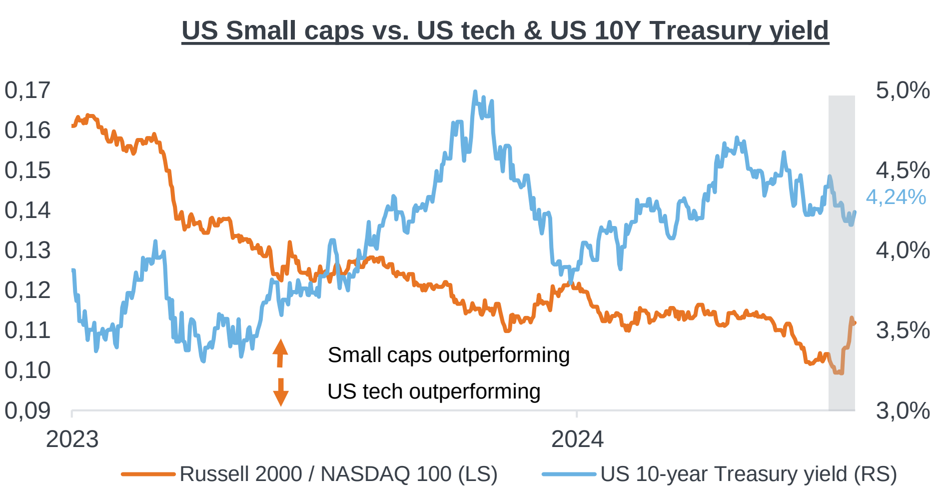
	2024-07-19	Week	QTD	YTD	1 Yr
CDN $	0.728	-0.7%	-0.4%	-3.5%	-4.1%
US Dollar Index	104.40	0.3%	-1.4%	3.0%	4.1%
Oil (West Texas)	80.13	-2.5%	-1.7%	11.8%	6.3%
Natural Gas	2.13	-8.6%	-18.2%	-21.1%	-35.9%
Gold	2,401	-0.4%	3.2%	16.4%	21.5%
Copper	4.24	-7.8%	-3.5%	7.5%	9.9%

Canadian sector performance

Price return, % change

	Week	YTD
Energy	-0.2%	12.7%
Materials	-2.0%	20.1%
Industrials	0.6%	9.8%
Cons. Disc.	-0.5%	5.8%
Info Tech	-0.4%	0.3%
Health Care	0.7%	1.0%
Financials	0.6%	6.7%
Cons. Staples	1.3%	14.2%
Comm. Services	2.6%	-11.6%
Utilities	-1.1%	-0.2%
Real Estate	2.0%	-2.4%

Chart of the week: The 'Great Rotation' trade



The increasing probability of Trump winning the election in November has sparked a 'Great Rotation' trade, characterized by a widening in market breadth where investors are moving away from the megacap technology and into lagging value stocks—namely small caps, energy and financials. Despite the broader S&P 500 falling 2% this week the Russell 2000 and the KBW US Regional Banking Index have surged 8% and 17% over the past two weeks, respectively. Meanwhile, concerns over a more hawkish stance on China from US politicians sent chip stocks tumbling, dragging the NASDAQ 100 4% lower. ***The key question is whether this broadening trade can continue.*** *As shown in this week's chart, the surge in small caps has so far stemmed from oversold conditions and a drop in bond yields due to Fed cut optimism following the soft June CPI report.* ***However, the durability of this trade's momentum will likely depend on how corporate earnings fare in the next few quarters.*** *While many highlight the lofty valuations of the Magnificent 7, it is notable that their gains were not just driven by AI exuberance. In 2023, Mag 7 earnings surged by ~30****%. Without these seven stocks, S&P 500 earnings growth would have been negative.*** *This trend continued into 1Q24, with Mag 7 earnings rising a towering ~50% y/y, while the rest of the S&P 493 once again saw negative earnings growth. Looking ahead, Mag 7 earnings are expected to slow, while the rest of the index is expected to accelerate. However, this acceleration likely relies on Fed rate cuts materializing without a drop in economic growth.* ***In other words, a soft landing scenario.*** *Admittedly, while our view for a soft landing supports further widening in market breadth,* ***another blowout quarter from the Mag 7 could swiftly shift the tide back into megacap tech's favour.*** *Right on cue, all eyes will be on Alphabet and Tesla earnings this week.*

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Setting the stage for another BoC cut

Global equities recorded their first 2% weekly loss since last October. The losses were primarily concentrated in US mega-cap tech, as value stocks benefitted from increased odds of both a Fed cut in September and a Trump Presidency in November. Meanwhile, commodity prices were down across the board, with WTI (-2.5%), copper (-8.3%), silver (-5.1%) and US natural gas (-8.6%) all declining for the week. Gold briefly hit new all-time highs before falling back to the $2,400/oz level on Friday.

Over the weekend, President Joe Biden announced that he has dropped out of the 2024 US presidential race. After resisting growing calls to end his bid following his poor debate performance in late June, the President said that he would shift his focus solely on fulfilling his duties for the remainder of his term. In a separate communication, he endorsed Vice President Kamala Harris to be the Democratic nominee to face off against Donald Trump. While the replacement for the Democratic nominee has yet to be determined, Harris's unique advantage in tapping the $96 million war chest of funds raised for the Biden/Harris campaign makes her the preemptive front-runner. According to PredictIt, Harris is the betting favourite, with her odds of a November victory surging to 39% on Sunday evening. **For markets, while Trump remains the favourite to win November (61% according to PredictIt), President Biden dropping his reelection bid adds more uncertainty and potentially threatens the "Great Rotation" trade (see chart comments for more) that has bolstered value stocks over the past two weeks.**

A soft June CPI report sets the stage for the Bank of Canada (BoC) to deliver its second consecutive 25 bps cut at this week's meeting. Similar to what we saw in the US a week prior, headline CPI fell -0.1% m/m, bringing the annual pace back down to 2.7% y/y after the unexpected reacceleration in May. Core CPI readings were also encouraging, with the BoC's preferred Trim and Median measures rising a modest 0.2% m/m. The average pace of these two core measures is now tracking at just 2.75% y/y. Notably, the details of the report corroborate increasing evidence of a weakening in the consumer. Discretionary spending categories such as recreation (-1.8%) and clothing (-1.9%) indicate that Canadians are tightening their wallets further. **Alongside declining retail sales in May, a pessimistic Q2 Business Outlook Survey, slumping housing activity, and a surge in the unemployment rate, the BoC should have enough confidence that inflation will continue slowing, justifying another 25 bps cut this Wednesday.**

The week in review

- Canadian CPI inflation (Jun.) fell -0.1% m/m (versus 0.1% expected), lowering the annual pace to 2.7% y/y from 2.9%.The average of the Bank of Canada's two core measures decelerated to 2.75% y/y from 2.8% in the prior month.
- Canadian retail sales (May) fell -0.8% m/m (versus -0.5% expected), after the prior month's downwardly revised 0.6% gain. Sales are still up 1.0% y/y. The preliminary estimate for June calls for a -0.3% decline.
- The European Central Bank (ECB) expectedly held their benchmark interest rates steady.
- The Bank of Canada Business Outlook Survey (Q2) indicated that business sentiment remains pessimistic. The Survey of Consumer Expectations highlighted a decline in inflation expectations and an increased concern over the labour market.
- US retail sales (Jun.) were flat m/m (versus -0.3% expected), following an upwardly revised 0.3% gain in the prior month. Sales have risen 2.3% y/. The control group rose 0.9% m/m.
- US housing starts (Jun.) rose 3.0% m/m (versus 1.8% expected), after the prior month's revised -4.6% decline. Building permits rose 3.4% m/m (versus 0.1% expected), after the prior month's revised -2.8% decline.
- Fed Beige Book
- Chinese real GDP (Q2) rose 0.7% q/q seasonalized-adjusted (versus 0.9% expected), down from 1.6% in the prior month. On an annual basis, real GDP decelerated to 4.7% y/y from 5.3%.
- Chinese retail sales (Jun.) decelerated to 2.0% y/y (versus 3.4% expected), down from 3.7% in the prior month.
- The People's Bank of China (PBoC) held its one-year medium-term lending facility rate at 2.50%.
- Chinese industrial production (Jun.) decelerated to 5.3% y/y from 5.7% in the month prior. Fixed-asset investment decelerated slightly to 3.9% y/y YTD from 4.0%.
- Chinese residential property sales (Jun.) have fallen 26.9% YTD y/y.

The week ahead

- BoC monetary policy report and announcement
- US GDP, housing, durable goods orders, and personal spending and income data
- Global PMIs
- 136 S&P 500 and 24 S&P/TSX companies report earnings