Quarterly Commentary

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	Currency	3 Mo %	YTD %
Fixed Income			
FTSE Canada Universe Bonds	CAD	4.7%	4.3%
Canada			
S&P/TSX Composite	CAD	10.5%	17.2%
United States			
S&P 500 Composite	USD	5.9%	22.1%
Dow Jones Ind Avg	USD	8.7%	13.9%
NASDAQ Composite	USD	2.8%	21.8%
International			
MSCI EAFE	CAD	6.0%	16.3%
MSCI Emerging Market	CAD	7.5%	20.1%
Currency			
CAD/USD		1.3%	-2.4%

Source: Factset, Morningstar, Raymond James Ltd. All returns are quoted as of Sep 30 2024

The global economy is slowing down due to lagging effects of high interest rates, which continue to put pressure on the economy. However, there is good news. As inflation decreases, central banks are starting to lower interest rates. The effects of lower rates may not be felt for months to come, but the narrative has shifted from high inflation to lower rates. Despite a slowing economy, equity markets have reached new highs and client portfolios have benefitted. Many economists believe a recession will be avoided. However, high valuations especially in mega-cap technology stocks could limit returns. Uncertainty from ongoing conflicts in the Middle East, Ukraine and China, along with the upcoming U.S. elections, could also lead to ongoing volatility in portfolios.

Interest Rates

Inflation, a key focus for policymakers, is now closer to 2%, which is becoming less of a concern for policymakers. Many central banks, including those in Europe and Canada have begun to cut interest rates. The U.S. has also lowered its rates by 0.5%, indicating that the economy is slowing down. Future rate cuts will depend on how each economy performs; if it grows faster than expected, inflation might become a bigger issue. Geopolitical tensions could also drive up oil prices, complicating inflation further.

Fixed Income

With interest rates falling, bond markets are up 4.7% this past quarter as central bankers continue their rate cut trajectory. With more rate cuts likely ahead, yields are likely to come down, further increasing bond returns. A slowing economy could also increase demand for fixed income as investors seek safety during period of uncertainty.

Canada

The S&P/TSX reached record highs, fueled by hopes that lower interest rates will avoid a severe recession. However, Canada's economy is struggling with high levels of consumer debt and rising unemployment. Housing affordability is a significant issue due to high immigration and higher mortgage rates. Additional rate cuts are likely necessary for the stock market to continue rising and the economy to avoid a recession.

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United States

U.S. stocks have underperformed compared to other developed markets, as international stocks and Canadian stocks have caught up after the U.S. hit new highs. U.S. stocks have benefitted from better-than-expected earnings, slowing inflation, and optimism about productivity gains from artificial intelligence. For stocks to keep climbing, the economy needs a soft landing. High valuations add risk, and market expectations are very high -investors should consider diversifying away from high priced growth stocks.

International

International stocks saw strong growth despite France's economic woes and political uncertainty. Until a government is formed, we think French stocks are likely to remain a drag on international performances. The United Kingdom, on the other hand, has performed better than many investors expected. Rising wages, robust employment statistics, and lower interest rates have pushed U.K. stocks higher. Although many economic indicators show weakness, the U.K.'s performance stands out.

In Europe, employment trends are improving, and consumer confidence is rising, which should bode well for European stocks. Europeans are also more sensitive to falling interest rates, and the current trend of falling rates and inflation should benefit European investments especially given stocks trade at a discount to the United States.

Chinese stocks posted strong gains despite a struggling economy, thanks to new stimulus package aimed at boosting the housing market. However, there are doubts about whether these measures will be enough to improve the economy. Additionally, a potential Trump presidency could bring more tariffs on Chinese goods.

Key Themes

In conclusion, while a mild recession is possible due to a weak labour market, a soft landing with slow growth and lower inflation seems more likely. This combination should support lower interest rates. However, significant uncertainties remain, particularly geopolitical tensions and the upcoming U.S. election.

In the coming months, we will keep an eye on asset allocation and make adjustments as needed. We will also explore tax loss harvesting opportunities as the year-end approaches.