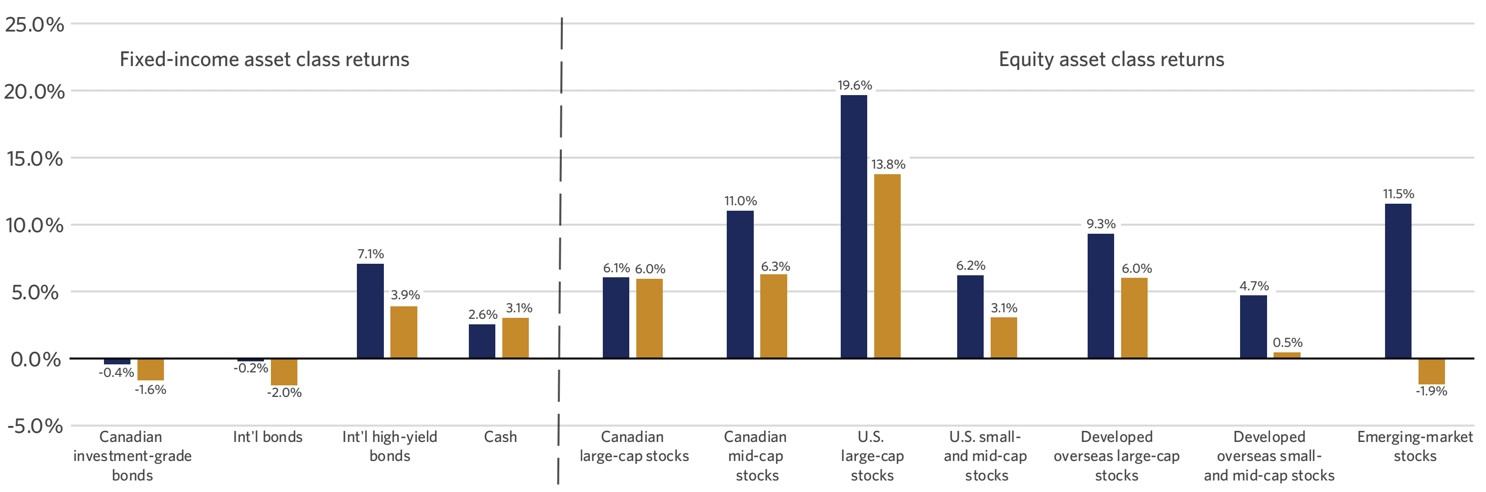
Quarterly market outlook: **Third quarter 2024**

Asset Class Performance



Source: Morningstar Direct, 1/1/2024 - 6/30/2024. Total returns in CAD. Canada Large-cap Stocks represented by the S&P/TSX Composite Index. U.S. small- and mid-cap Stocks represented by the Russell 2500 Index. International Bonds represented by the Bloomberg Global Aggregate Bond CAD Hedged Index. International high-yield represented by the Bloomberg Global High Yield Index. Canadian investment-grade bonds represented by the Bloomberg Canada Aggregate Bond Index. U.S. Large-cap stocks represented by the S&P 500 Index. Emerging Market Stocks represented by the MSCI EM Index. Overseas Large-cap Stocks represented by the MSCI EAFE Index. Canadian Mid-cap stocks represented by the S&P/TSX Completion Index. Overseas small- and mid-cap stocks represented by the MSCI EAFE SMID Index. Cash represented by the FTSE Canada 91 Day Treasury Bill Index. Past performance does not guarantee future results. An index is unmanaged and is not available for direct investment.

Looking back at the first half

Stocks rallied in the first half of 2024, led by ongoing strength in mega-cap U.S. tech stocks. But investment-grade bond returns have been muted in the face of higher yields.

U.S. tech stocks lead markets higher while bonds lag - Equity markets rose in the first half of the year, led by a 19.6% gain in U.S. large-cap stocks. The usual suspects drove the gains for U.S. large-cap stocks, with the information technology and communication services sectors of the S&P 500 each higher by over 26% year to date. Enthusiasm around the growth potential of artificial intelligence (AI), along with robust profit growth, has lifted these sectors higher. Canadian large-cap and mid-cap stocks saw healthy gains as well, rising by 6.1% and 11% respectively.

Bond yields rose modestly in the first half of 2024, pressuring investment-grade bond returns. Steady global economic growth supported lower-quality issuers, with global high yield bonds higher by 7.1% year to date.

Bank of Canada kicks off central bank easing cycle; Fed likely to follow - After aggressively raising interest rates over the past two years to combat inflation, the Bank of Canada (BoC) became the first G7 central bank to lower interest rates this year, cutting its policy rate 0.25% at its June meeting. One day after the June BoC meeting, the European Central Bank followed suit, cutting rates by 0.25% as well. Economic growth in Canada and Europe has been sluggish. This, combined with lower inflation, provided policymakers with the confidence needed to begin cutting rates.

In the U.S., the Federal Reserve has maintained its policy rate target range at 5.25%–5.5% since July 2023. After several months of higher-than-expected U.S. inflation to begin 2024, inflation resumed its trend lower in Q2. If sustained in the months ahead, this could lead the Fed to cut interest rates once or twice later this year.

Overseas stock markets rise - Overseas stocks gained in the first half of 2024, with emerging-market stocks rising 11.5% and developed overseas large-cap stocks higher by 9.3%. The rally in emerging market stocks was aided by support from Chinese policy makers which included measures to support the nation's struggling property market. Improving economic growth in Europe, albeit from low rates, and strong corporate profit growth in Japan helped lift developed overseas large-cap stocks higher in the first half.

▶ Action for investors

Broad market leadership across multiple regions in the first half of the year reinforces the value of diversification. We recommend resisting the urge to chase performance and instead maintain a diversified portfolio aligned to your long-term goals.

