



2024 THIRD QUARTER MARKET REVIEW

# Markets rallied with expanding breadth

IG Investment Strategy Team



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# Catching our breath as equities grew beyond the magnificent seven

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Investor sentiment shifted to a “risk-on” attitude in the third quarter, in response to changes in central bank monetary policy across key economies. Rate cuts began with the Bank of Canada (BoC) and the European Central Bank (ECB) in the second quarter and extended into the third. The BoC was particularly active, making two additional cuts of 25 basis points (0.25 percentage points) to its overnight rate this quarter. The U.S. Federal Reserve (the Fed) started its own policy easing with a surprise 50 basis-point (0.5-percentage-point) cut in mid-September, the result of which launched rallies in both bond and equity markets.

While the Fed may have surprised investors with a larger-than-expected cut, a closer look at the U.S. economy suggests that the need for interest rate cuts, at that point in time, was justified. The Fed noted an increase in the unemployment rate that is becoming a concern, while the battle against inflation is no longer a primary reason to maintain a restrictive monetary policy. Fed chair Jerome Powell stated, “If the labour market were to weaken unexpectedly or inflation were to fall more quickly than anticipated, we are prepared to respond.”

Canadian equities, as measured by the S&P/TSX Composite Index, were the best-performing among the major indices this quarter, rising 9.7% with support from the real estate and financial sectors. In Canadian dollar terms, the U.S.-based S&P 500 Index gained 4.2% for the quarter and 23.6% for the year-to-date.

Toward the end of the quarter, the Chinese government announced a stimulus package (which was larger than anticipated) aimed to renew growth in China while supporting its equity markets. The measures are intended to counteract deflationary pressures, increase consumer demand and reverse a significant downturn in the property market. While the short-term outlook appears promising, the long-term impact remains to be seen.

“Let’s call it: inflation has been beaten. The Bank of Canada has succeeded in its effort to bring pandemic-era inflation back to within its target range.”

- Philip Petursson

# Index returns

## 2024 equity price returns and fixed income total returns

Table 1 - 2024 equity price returns

EQUITY BENCHMARK PRICE RETURNS	CURRENCY	Q3	YTD	1-YEAR
S&P/TSX Composite	CAD	9.7%	14.5%	22.8%
S&P 500	USD	5.5%	20.8%	34.4%
	CAD	4.2%	23.6%	34.0%
MSCI EAFE	USD	6.7%	10.4%	21.5%
	CAD	5.3%	12.9%	21.2%
MSCI Europe	EUR	2.0%	9.0%	15.7%
	CAD	4.8%	12.4%	21.6%
MSCI Emerging Markets	USD	7.8%	14.4%	22.9%
	CAD	6.5%	17.0%	22.5%

Table 2 - 2024 fixed income total returns

FIXED INCOME BENCHMARK PRICE RETURNS	CURRENCY	Q3	YTD	1-YEAR
FTSE Canadian All Government Bond	CAD	4.7%	3.7%	12.5%
FTSE Canada Universe Bond	CAD	4.7%	4.3%	12.9%
ICE BofA US Corporate Bond	USD	5.7%	5.8%	14.1%
	CAD	4.4%	8.4%	14.0%
ICE BofA US High Yield Composite	USD	5.3%	8.1%	15.7%
	CAD	3.9%	10.7%	15.6%
Bloomberg Global Aggregate Bond	USD	7.0%	3.6%	12.0%

Source: IG Wealth Management, Bloomberg; 1 year, September 29, 2023 - September 30, 2024.  
Equity benchmark returns are quoted as price returns, excluding dividends.

# Drivers of market performance: Q3 2024

## Canadian equities

The S&P/TSX Composite Index rose 9.7% in the quarter, its best performance since the second quarter of 2020.

All sectors were up during the quarter, most notably the real estate sector, which gained 21.9%. It benefited from a lower interest rate environment, as real estate investment trusts tend to be more rate sensitive, moving inversely with interest rates.

The financial sector also benefited from the changing interest rate environment, especially a normalizing yield curve, which drove the banks higher.

The price of gold was up 13.2% in U.S. dollar terms for the quarter, contributing to gains in the materials sector.

## U.S. equities

The S&P 500 Index concluded the quarter up 5.5%, led by the interest-sensitive sectors, including utilities and real estate. The S&P 500 rallied at the end of the quarter, following the 0.5-percentage-point rate cut by the Federal Reserve in September.

Similar to what we saw in the S&P/TSX Composite Index, the interest rate-sensitive sectors benefited from a falling interest rate environment.

Energy was the only sector to deliver a negative return for the quarter, as the price of oil — as measured by the West Texas Intermediate price — fell 13% over the period.

## International equities

International equities gained in the third quarter in Canadian dollar terms: the MSCI Emerging Markets Index advanced 6.5%.

During the quarter, the People's Bank of China (PBoC) announced unprecedented stimulus measures, including interest rate cuts and support for the real estate sector. In addition, the PBoC introduced a special re-lending facility encouraging buybacks: these were direct, targeted measures aimed squarely at the stock market. The MSCI China Index gained 23.6% in Canadian dollar terms for the month of September.

The MSCI EAFE Index (Europe, Australasia and the Far East) rose 5.3% during the quarter, followed closely by the MSCI Europe Index at 4.8% (each measured in Canadian dollars).

## Fixed income

Fixed income markets performed well during the quarter, with central banks in Europe, Canada and the U.S. cutting policy rates.

Each of these rate cuts helped push yields lower, which pushed bond valuations higher.

The Bloomberg Global Aggregate Index was up 7% in U.S. dollar terms, and the Canadian Universe Bond Index gained 4.7% for the quarter.

Corporate bonds also performed well during the quarter. The ICE US High Yield Index, which tracks U.S. high-yield bonds delivered returns of 3.9% for the quarter, and twelve-month increase of 15.6%, both in Canadian dollars terms.

# Canadian equities

Chart 1 – S&P/TSX Composite Index performance

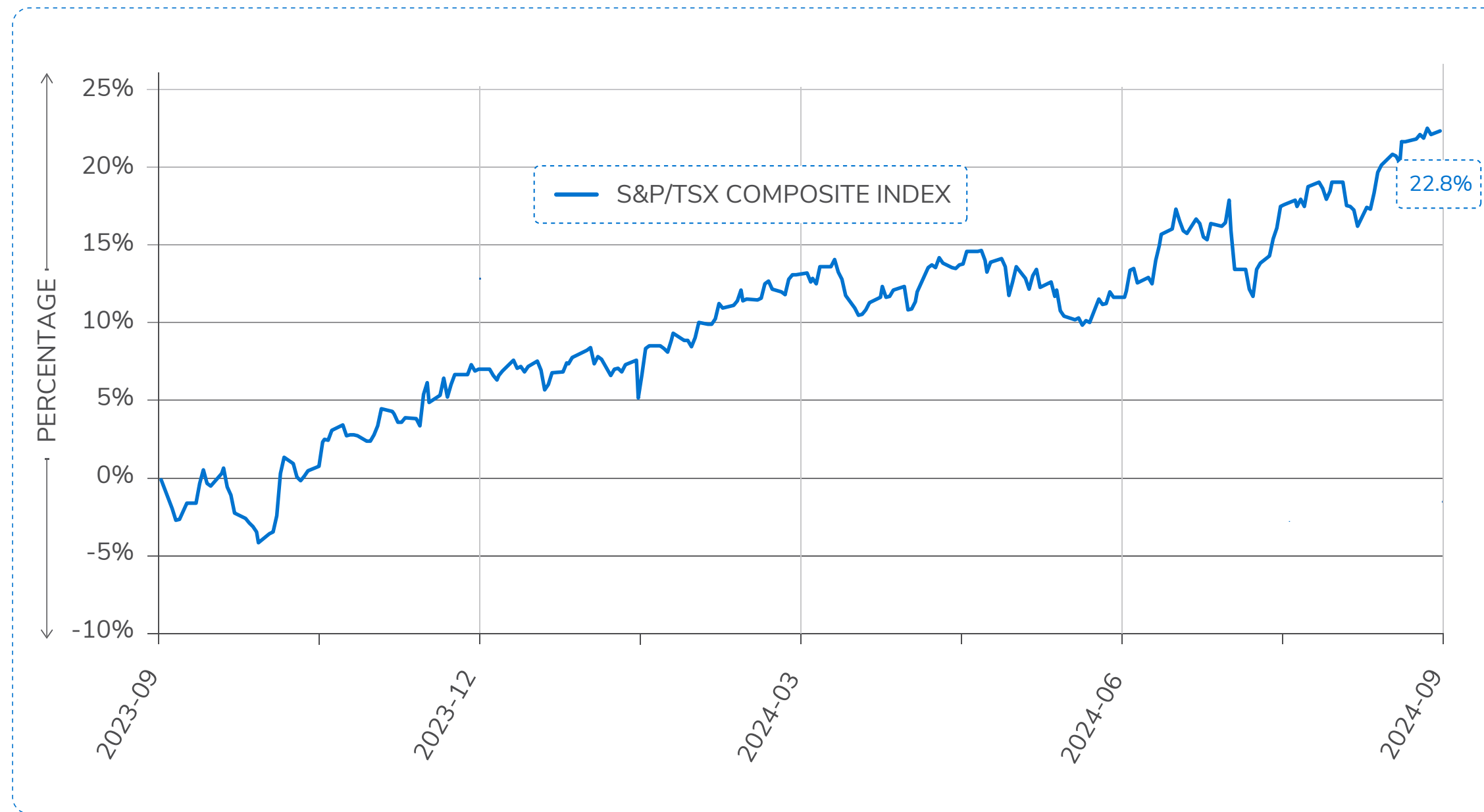
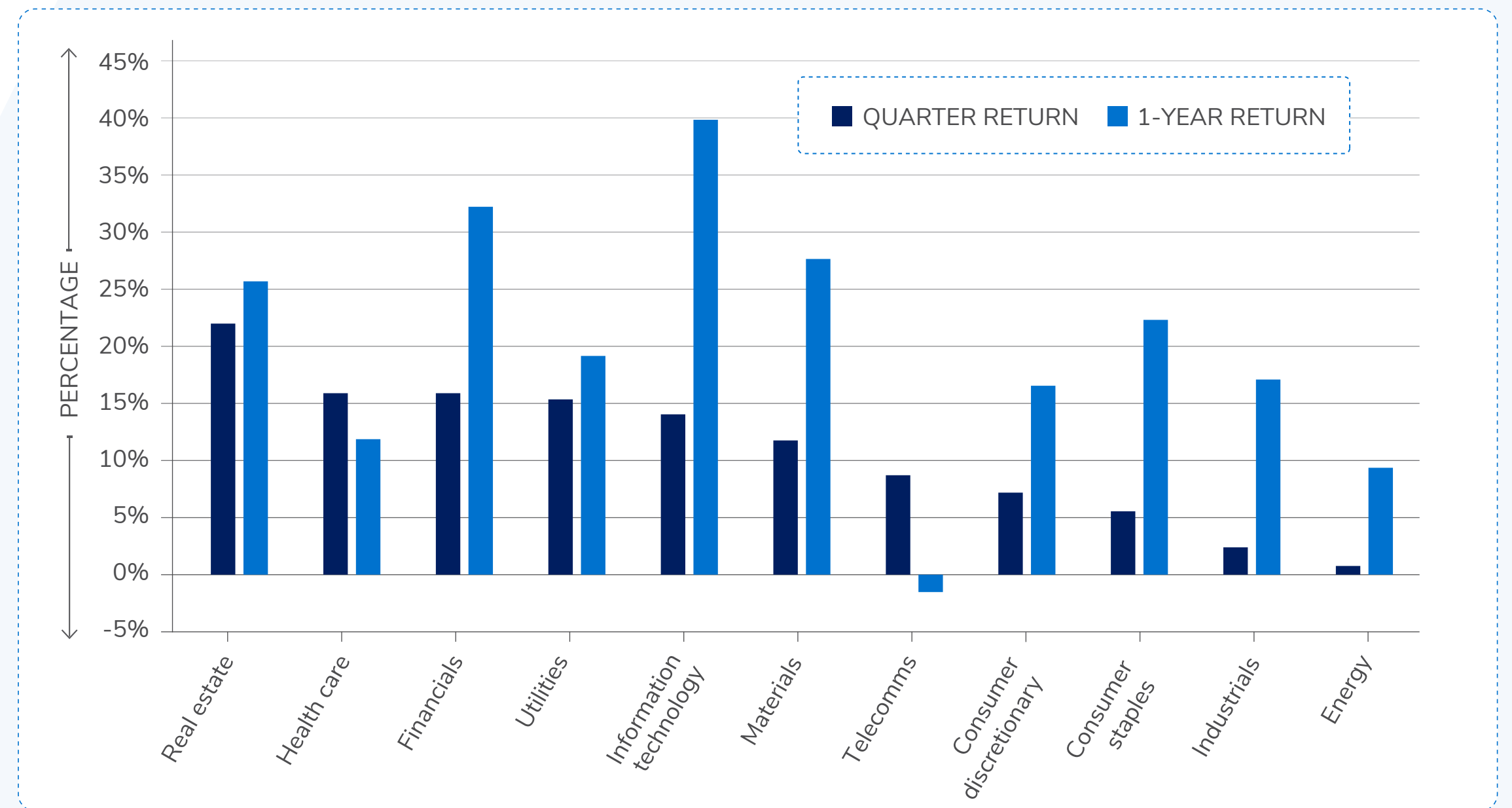


Chart 2 – S&P/TSX Composite sector level returns: quarter vs 1-year



Source: IG Wealth Management, Bloomberg, as of September 30, 2024.

# U.S. equities

Chart 3 – S&P 500 Index performance (USD)

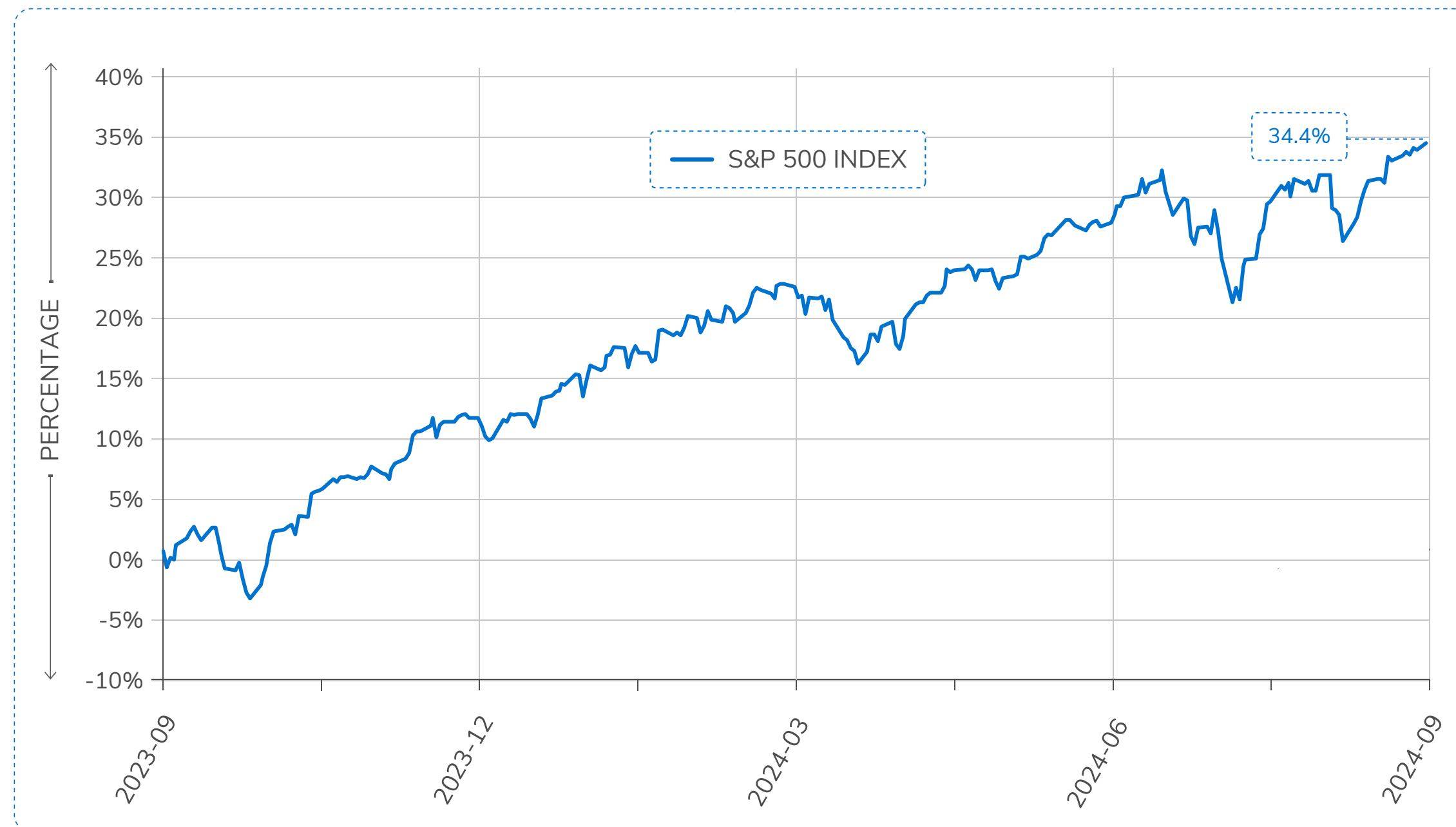
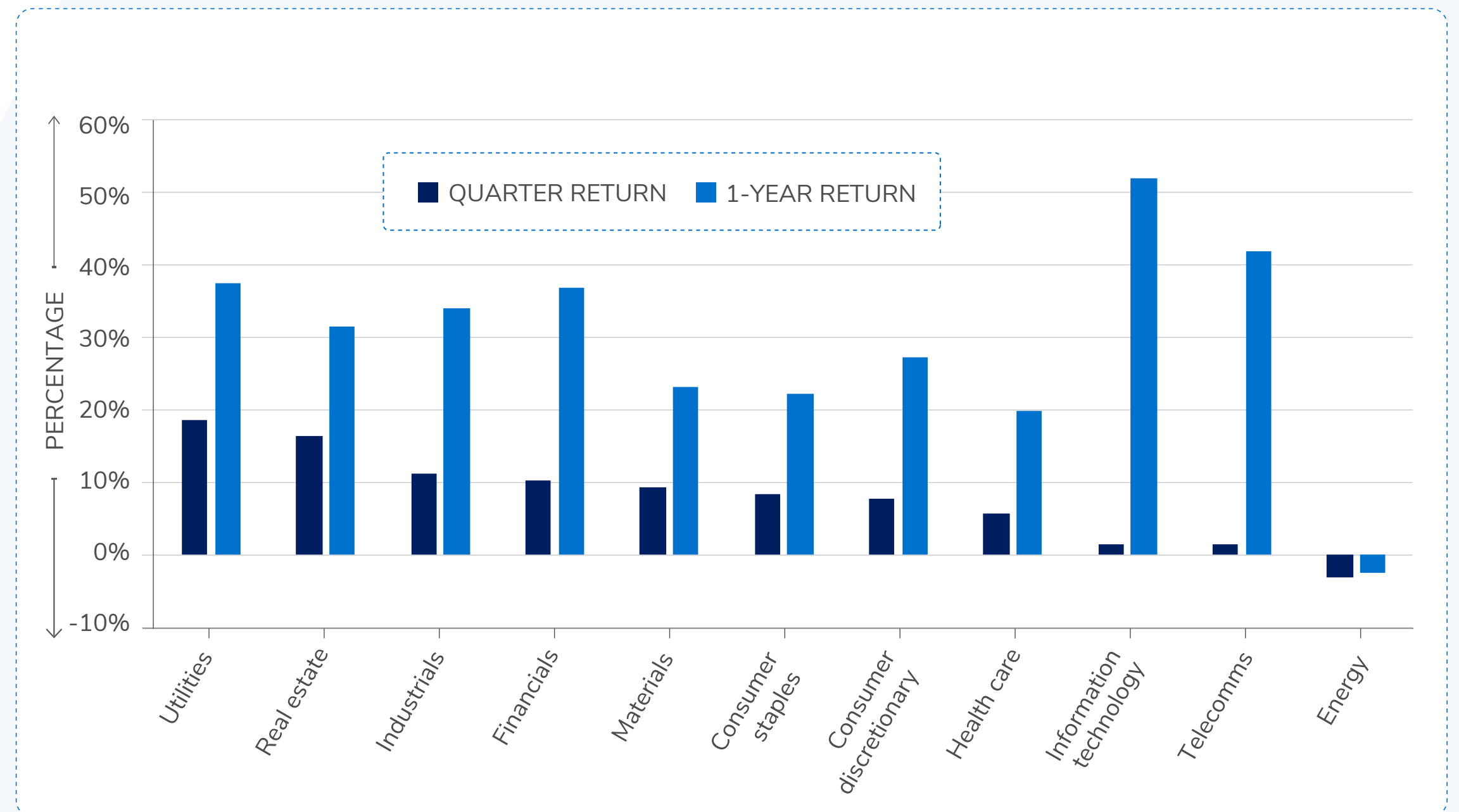


Chart 4 – S&P 500 Composite sector level returns: quarter vs. 1-year



Source: IG Wealth Management, Bloomberg, as of September 30, 2024.

# International equities

Chart 5 – MSCI Emerging Markets (USD), MSCI Europe (EUR) and MSCI EAFE (USD) indices performance



Source: IG Wealth Management, Bloomberg, as of September 30, 2024.

# Fixed income

Chart 6 - Global central bank policy rates

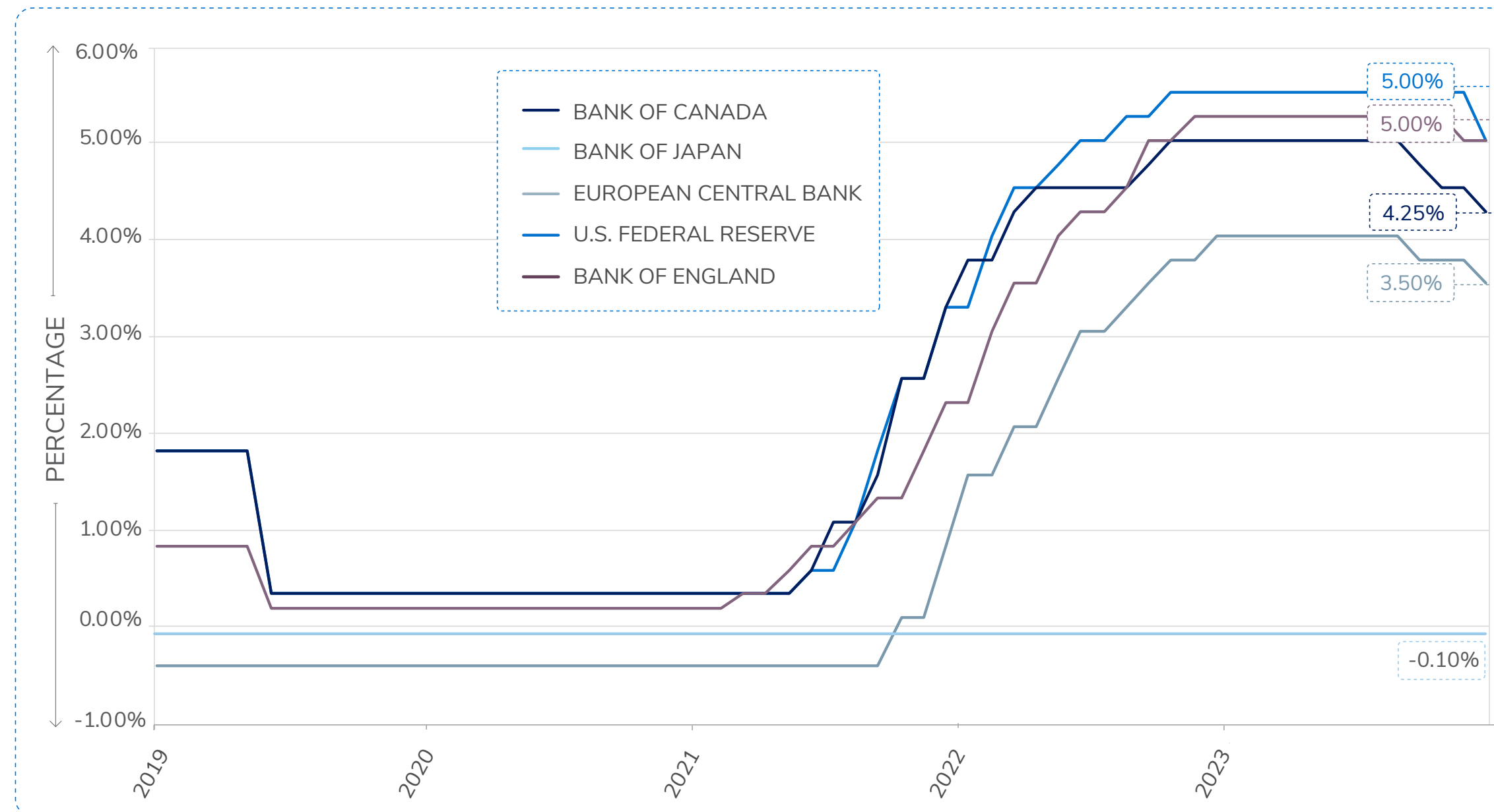
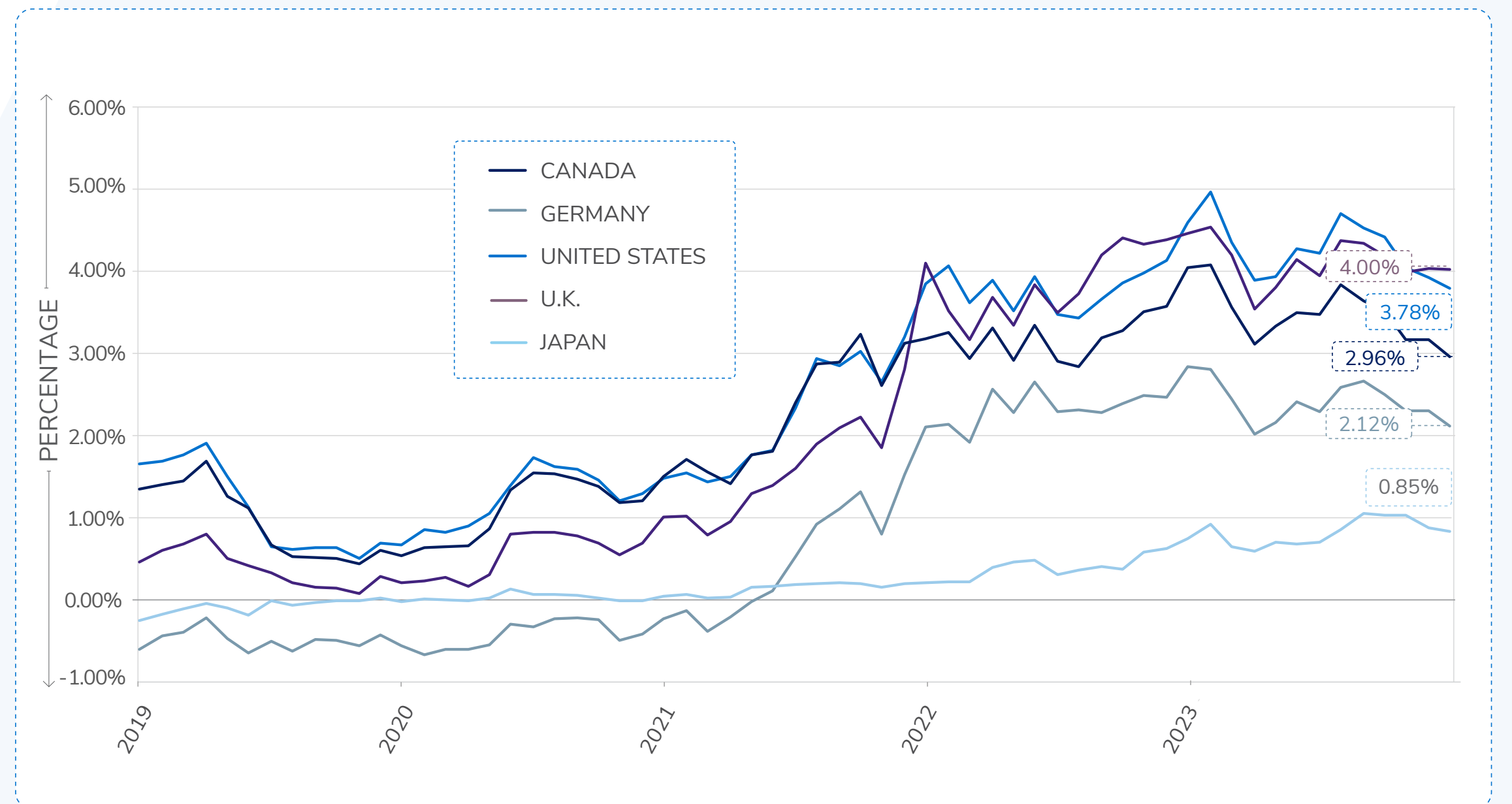


Chart 7 – Sovereign bond 10-year maturity yields



Source: IG Wealth Management, Bloomberg, as of September 30, 2024.



# Key benchmark performance

Chart 8 – Canadian dollar/U.S. dollar cross

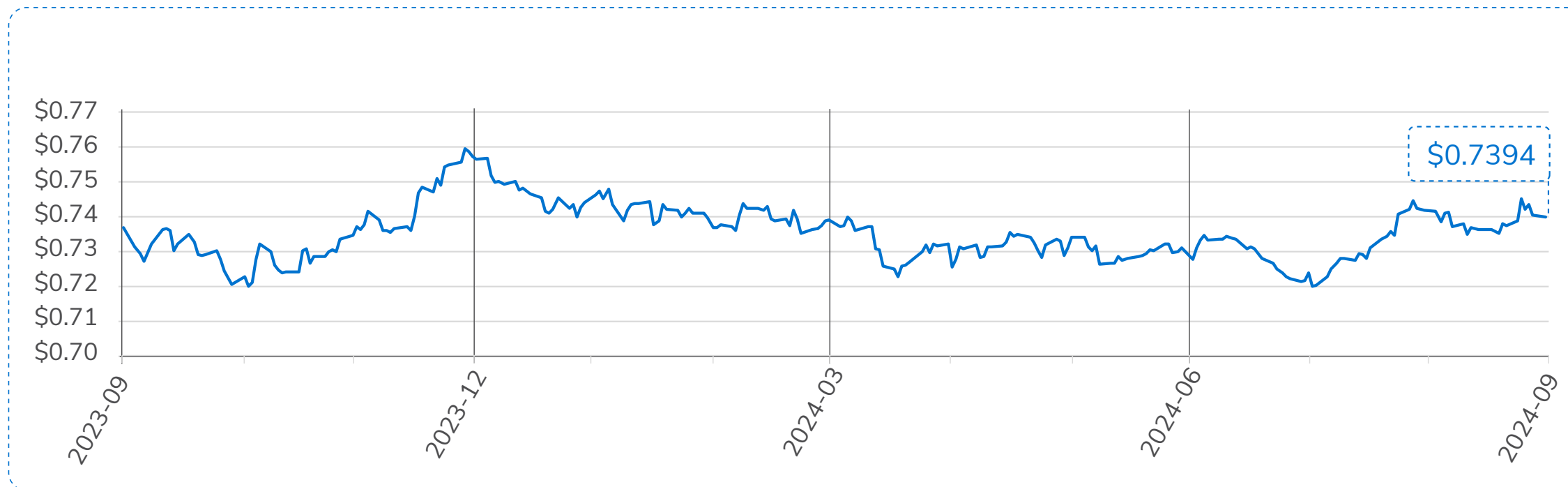


Chart 9 – Crude oil (WTI) US\$/bbl

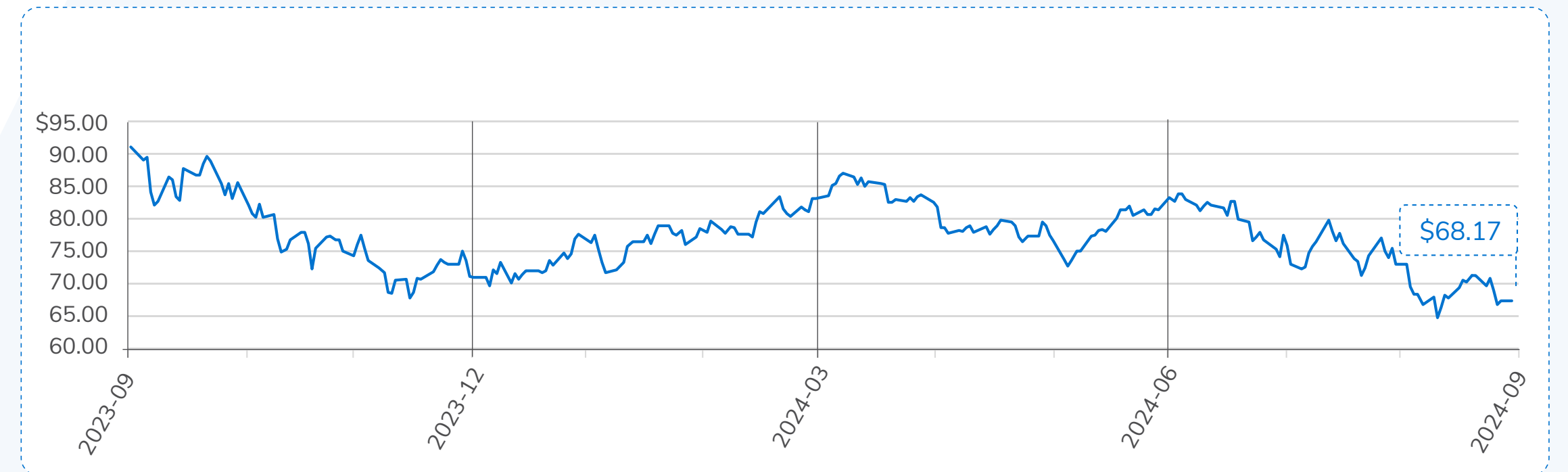


Chart 10 – Gold US\$/oz.

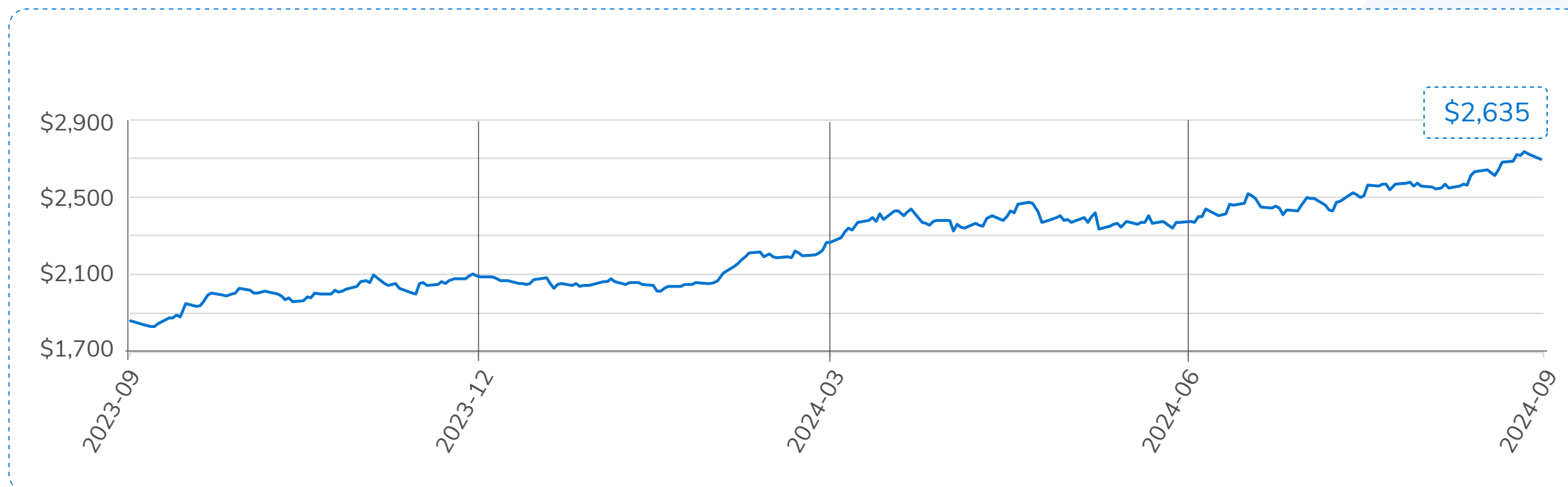
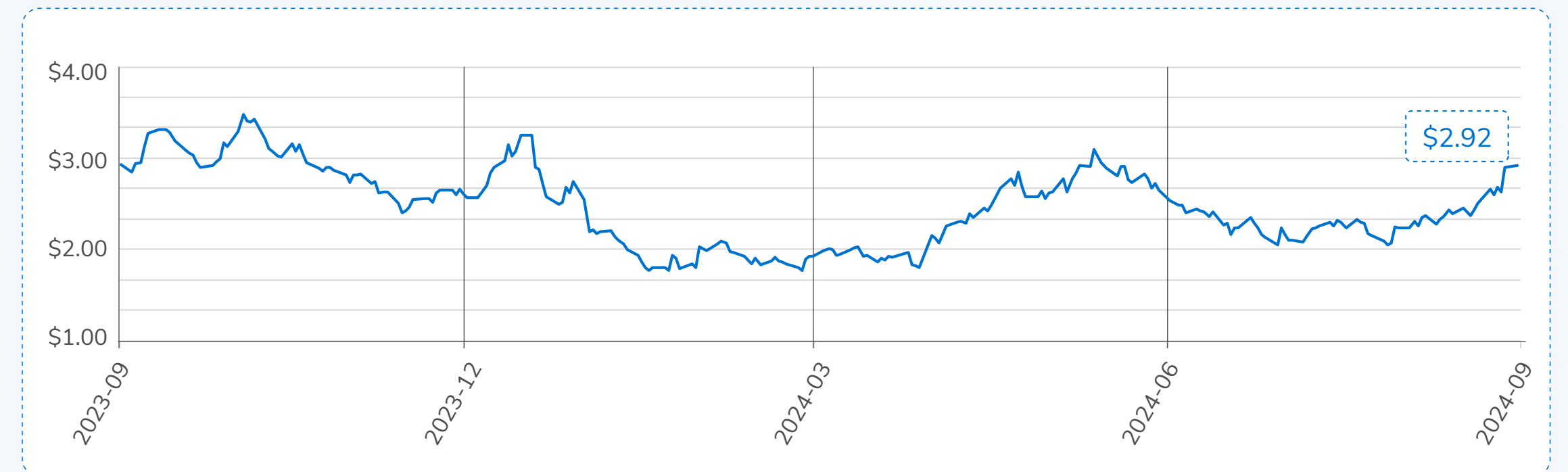


Chart 11 – Natural gas US\$/mmbtu



Source: IG Wealth Management, Bloomberg, as of September 30, 2024.



“Investors would be wise to look beyond the near-term geopolitical events and continue to focus on the long-term fundamentals.”  
- Philip Petursson

## Market outlook

When we reflected on the drivers of performance in the third quarter, we isolated two key macro events: the first being the U.S. Federal Reserve cutting its federal funds rate by half a percentage point. The second, occurring near the end of September, was a significant stimulus announcement coming out of China. The stimulus aims to prop up the Chinese stock market, property market and economy.

Looking ahead through the remainder of 2024 and into 2025, we can confidently say the inflation battle has been won. The focus has now shifted to supporting a weakening labour market in Canada and the United States. Despite some of the geopolitical risk emanating from the ongoing conflict in the Middle East and the upcoming U.S. election, we see the market environment as generally improving, with neither event likely to have a meaningful impact on investment portfolios over the long term. We see a soft-landing scenario emerging in the United States and other areas around the world. This should support equity markets and help bond returns, as interest rates continue to fall from where they are today.

We suggest investors focus on maintaining a diversified portfolio geared to their financial goals and ignore the noise.

IG Investment Strategy Team

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