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Monthly Market Snapshot

Monthly Overview

May 2024

Equity markets on both sides of the border experienced a slowdown in April, pausing an aggressive run-up that kicked off in November. Escalating tensions in the Middle East, a reconsideration of the Fed's approach to its policy rate and stubborn inflation all contributed to the slowdown. The month ended on a high note as corporate earnings came in stronger than expected, with tech stocks showing solid earnings, reinforcing the growth theme in AI.

Canada's benchmark S&P/TSX Composite Index was 2.0% lower in April, as nine of the benchmark's underlying sectors were negative during the month. The decline was led by real estate and industrials, with losses of 7.1% and 6.1%, respectively. Only materials and energy managed to be in the green with returns of 5.9% and 1.1%, respectively. Small-cap stocks, as measured by the S&P/TSX SmallCap Index, were flat in April.

The U.S. dollar appreciated by 1.8% versus the loonie during the month, boosting the returns of foreign markets from a Canadian investor's standpoint. Note that all returns in this paragraph are in CAD terms. U.S.-based stocks, as measured by the S&P 500 Index, declined 2.6% in April. The real estate and information technology sectors saw the month's largest declines, falling 7.1% and 3.9%, respectively. Utilities, energy, and consumer staples were the only sectors to manage gains, rising 3.2%, 0.7%, and 0.5%, respectively. International stocks, as measured by the FTSE Developed ex US Index, lost 1.6% during the period, while emerging market stocks rose 2.9%.

The investment grade fixed income indices we follow were in the red in April. Canadian investment grade bonds, as measured by the FTSE Canada Universe Bond Index, lost 2.0% for the month, while the key global investment grade bond benchmark fell by 2.5%. Global high-yield issues lost 1.0%.

Turning to commodities, natural gas rallied 12.9% during the month, while the price of a barrel of crude oil fell 1.5%. Copper, silver, and gold, on the other hand, were in the green, with respective gains of 13.9%, 5.9%, and 3.9%.

Inflation in Canada moved higher in March to 2.9% year-over-year, matching expectations. Higher prices at the pump contributed the most to the acceleration in headline inflation in March. The Canadian economy shed 2,200 jobs in March, as the nation's unemployment rate rose to 6.1%. The Bank of Canada held interest rates steady in April, marking the sixth straight decision to remain at 5.0%. Central bank officials acknowledged that a rate cut in June is "within the realm of possibilities."

U.S. nonfarm payrolls grew by 303,000 in March, as the unemployment rate fell to 3.8%. The consumer price index increased 3.5% year-over-year in March, higher than expectations. Shelter and energy costs were the major contributors to the inflation gain. The U.S. economy slowed to an annualized rate of 1.6% quarter-over-quarter in Q1, below expectations. The Fed is widely expected to leave rates steady at the FOMC meeting in May.

Content sourced from Bloomberg; data as at April 30, 2024.

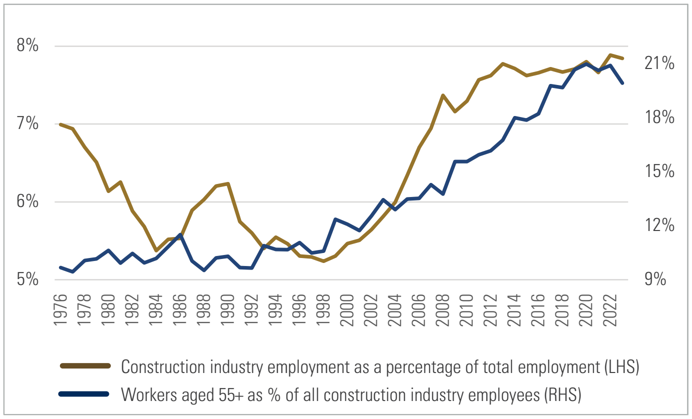
Chart of the Month: A Tall Order for Homebuilders

The Trudeau government unveiled a plan in April for the construction of 3.9 million new homes by 2031 as part of an effort to rectify the massive supply/demand imbalance in the housing market. That amounts to an average of 550,000 housing starts per year, more than double the average over the past five years.

There are certain structural issues within the trades, however, that will make this ambitious target a challenge. First, nearly 8% of the Canadian workforce is in construction, the highest figure on record. A significant number of new construction workers will need to come from other industries or straight out of school into training for the trades in fairly short order. It's not impossible, but training takes time, and given the high percentage of workers already in construction, there would need to be strong incentives to lure workers from other industries to construction.

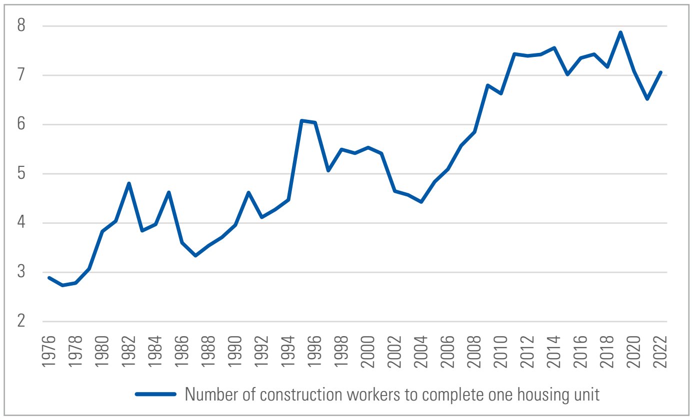
Another challenge is that one in five construction workers will reach retirement age in the next 10 years, so a lot of training will be needed just to keep breakeven on the number. Finally, according to research from RBC Economics, the number of workers needed to construct a home has steadily been rising over the past 20 years. That could be a function of lower productivity or other factors, but it would need to reversed at the very least if there is to be any hope of the government's targets being met.

Record high employment and aging workforce in construction



Source: StatCan, NBF Economics

It takes more workers to build a home than 20 years ago



Source: StatCan, RBC Economics

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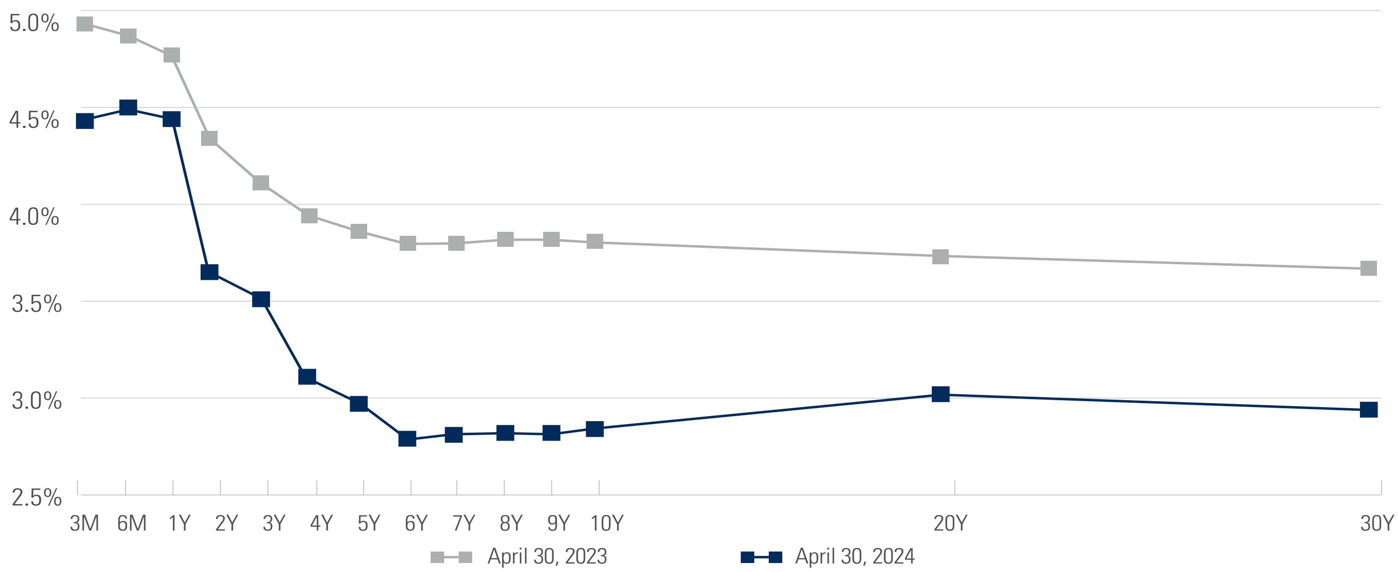
Canadian Sovereign Yield Curve



Source: Bloomberg.

Monthly Market Statistics

Data to April 30, 2024, unless otherwise indicated

Table 1: Equity Index Returns (% in CAD)

Index	1 Mo	3 Mo	6 Mo	YTD	1 Yr	3 Yr	5 Yr	3 Yr Std Dev
S&P/TSX Composite	-2.0	3.3	15.1	3.6	5.2	4.4	5.5	13.1
S&P/TSX 60	-2.4	2.6	14.9	2.9	4.5	4.5	5.5	13.0
S&P/TSX Small Cap	0.0	7.8	16.1	7.3	6.8	0.4	5.4	18.8
S&P 500	-2.6	6.7	19.0	10.0	22.6	10.5	11.9	16.5
FTSE Developed ex US	-1.6	4.3	15.9	5.5	8.1	3.4	4.2	15.5
FTSE Developed	-2.4	5.8	18.1	8.4	17.9	7.6	9.0	15.5
FTSE Developed Small Cap	-4.0	5.3	18.5	3.9	13.0	1.3	5.7	18.8
FTSE Developed Europe	-0.9	5.0	16.6	6.2	6.5	5.0	4.7	17.8
FTSE Emerging	2.9	10.1	12.9	7.5	9.4	-3.1	0.5	15.3
FTSE All World Asia Pacific	0.1	7.3	14.6	7.1	10.8	-1.2	2.4	15.1

Source: Bloomberg.

Table 2: Fixed-Income Returns

Index	1 Mo	3 Mo	6 Mo	YTD	1 Yr	3 Yr	5 Yr	3 Yr Std Dev
FTSE TMX Canada Universe Bond	-2.0	-1.9	4.4	-3.2	-0.9	-2.2	-0.1	7.1
Barclays Global Agg	-2.5	-3.2	4.4	-4.6	-2.5	-5.9	-1.6	6.9
Barclays High Yield Very Liquid Index	-1.0	0.5	9.2	0.3	8.9	1.1	3.1	7.6

Source: Bloomberg.

Table 3: Commodity Prices (Prices and Returns in USD)

Commodity	Price ($)	MoM Change (%)	YoY Change (%)	3 Mo (%)
WTI Crude Oil/BBL	81.93	-1.5	6.7	8.0
Natural Gas/mmBTU	1.99	12.9	-17.4	-5.2
Copper/pound	4.56	13.9	17.9	16.9
Silver/oz	26.39	5.9	5.6	13.9
Gold/oz	2302.90	3.9	15.2	12.4

Source: Bloomberg.

Table 4: Economic Data

Canada	
Real GDP – Q4 (q/q ann. % change)	1.0
Consumer Prices, 03/2024 (y/y % change)	2.9
Unemployment Rate, 03/2024	6.1
United States	
Real GDP – Q1 (q/q ann. % change)	1.6
Consumer Prices, 03/2024 (y/y % change)	3.5
Unemployment Rate, 03/2024	3.8

Source: Bloomberg, Stats Canada.

Table 5: One-Month Sector Returns (% in CAD)

Sector	S&P/TSX returns	S&P 500 returns
Consumer Discretionary	1.7	6.7
Consumer Staples	0.9	7.1
Energy	11.1	15.3
Financials	1.8	6.9
Health Care	16.0	2.6
Industrials	1.9	10.5
Info Tech	-7.5	5.1
Materials	19.0	10.6
Real Estate	-6.5	-2.8
Telecom Services	-14.1	10.7
Utilites	-4.4	11.5

Source: Bloomberg.

Table 6: Exchange Rates

Cross	04/30/2024	6 Mos Ago	1 Yr Ago
USD/CAD	1.38	1.34	1.36
EUR/CAD	1.47	1.47	1.49
GBP/CAD	1.72	1.69	1.70
CAD/JPY	114.54	109.33	100.58

Source: Bloomberg.

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