WEEKLY MARKET UPDATE | JULY 12, 2024

# Disinflation rotation.

**The economy**

- The U.S. stock market gained ground during the week ending July 12. Investors took a positive view of comments from Federal Reserve (Fed) Chair Jerome Powell and continued signs of slowing inflation, which reignited hopes that the central bank will begin to reduce interest rates as soon as September. However, the softening inflation data prompted a market rotation out of the mega-cap technology stocks that have led the U.S. equity market rally thus far in 2024, into shares of small-cap companies, which typically outperform large caps in declining interest-rate environments. The Russell 2000 Index, a small-cap market benchmark, rose nearly 4% following the release of the consumer-price index (CPI) report on Thursday.
- In prepared remarks delivered to the U.S. House of Representatives Committee on Financial Services at the beginning of the Fed's Semiannual Monetary Policy Report on Tuesday, Powell hinted that the Fed has discussed a pivot to a rate-cutting regime, but there is no definitive timeline for monetary easing. He said, "Over the past two years, the economy has made considerable progress toward the Federal Reserve's 2 percent inflation goal, and labor market conditions have cooled while remaining strong. Reflecting these developments, the risks to achieving our employment and inflation goals are coming into better balance." Nevertheless, Powell emphasized that the Federal Open Market Committee (FOMC) makes monetary policy decisions "meeting by meeting." He commented that "reducing policy restraint too soon or too much could stall or even reverse the progress we have seen on inflation."
- During his testimony before the Senate Committee on Banking, Housing, and Urban Affairs on Wednesday, Powell acknowledged that, while he has confidence that inflation is slowing, he does not think that it will reach the Fed's 2% target in the near future. "Are we sufficiently confident that it is moving sustainably down to 2%?...I'm not prepared to say that yet," he said. He also cautioned that inflation is not the only current risk to the economy. "The latest data show that labor-market conditions have now cooled considerably from where they were two years ago—and I wouldn't have said that until the last couple of readings," he noted. However, Powell again did not commit to a timetable for interest-rate cuts. Additionally, Powell expressed confidence that inflation can fall to the Fed's 2% annual rate target without an upturn in unemployment or a recession. "There is a path to getting back to full price stability while keeping the unemployment rate low," he stated. "We're very focused on staying on that path."
- According to the Department of Labor, the CPI dipped 0.1% in June, following a flat reading in May. The 3.0% year-over-year advance in the index, down from the 3.3% annual rise in May, was below expectations. Gasoline prices fell 3.8% in June and 2.5% year-over-year, respectively. Housing costs rose 0.2% for the month and posted an increase of 5.2% versus the same period in 2023. The 3.3% rolling 12-month rise in core inflation in June, as measured by the CPI for all items less food and energy, was down 0.1 percentage point from the annual rise for the previous month, and represented the smallest year-over-year increase since April 2021.
- Regarding inflation at the wholesale level, the Department of Labor announced that the producer-price index (PPI), which tracks the average change over time in selling prices received by domestic producers of goods and services, increased 0.2% in June, following a flat reading in May. The PPI's 2.6% advance over the previous 12-month period was modestly higher than the 2.4% annual rise in May. Core wholesale inflation, as measured by the PPI less food, energy, and trade services, was unchanged in June, down slightly from the 0.2% upturn in May. The index rose 3.1% over the previous 12-month period, down from the 3.3% increase in May.

**Stocks**

- Global equities ended the week in positive territory. Emerging markets outperformed developed markets.
- U.S. stocks posted gains for the week. Real estate and utilities were the top-performing sectors, while communication services and consumer staples lagged. Value stocks led growth, while small caps outperformed large caps.

**Bonds**

- The 10-year U.S. Treasury note yield fell to 4.18% during the week.
- Global bond markets advanced during the week.
- Government bonds led the markets, followed by high-yield bonds and corporate bonds.

| The Numbers as of July 12, 2024 | 1 Week | YTD | 1 Year | Friday's Close |
|---|---|---|---|---|
| **Global Equity Indexes** | | | | |
| MSCI ACWI ($) | 0.8% | 13.4% | 18.4% | 824.3 |
| MSCI EAFE ($) | 1.6% | 7.4% | 9.9% | 2402.6 |
| MSCI Emerging Mkts ($) | 1.8% | 9.9% | 10.2% | 1124.9 |
| **US & Canadian Equities** | | | | |
| Dow Jones Industrials ($) | 1.6% | 6.1% | 16.3% | 40000.9 |
| S&P 500 ($) | 0.9% | 17.7% | 24.5% | 5615.4 |
| NASDAQ ($) | 0.2% | 22.6% | 30.1% | 18398.5 |
| S&P/ TSX Composite (C$) | 2.8% | 8.2% | 11.8% | 22673.5 |
| **UK & European Equities** | | | | |
| FTSE All-Share (£) | 0.8% | 6.9% | 11.4% | 4522.8 |
| MSCI Europe ex UK (€) | 0.5% | 9.4% | 12.8% | 1842.2 |
| **Asian Equities** | | | | |
| Topix (¥) | 0.4% | 22.3% | 29.0% | 2894.6 |
| Hong Kong Hang Seng ($) | 2.8% | 7.3% | -5.5% | 18293.4 |
| MSCI Asia Pac. Ex-Japan ($) | 1.7% | 10.9% | 10.6% | 586.4 |
| **Latin American Equities** | | | | |
| MSCI EMF Latin America ($) | 3.8% | -13.1% | -7.0% | 2312.9 |
| Mexican Bolsa (peso) | 5.0% | -4.3% | 1.3% | 54934.1 |
| Brazilian Bovespa (real) | 2.1% | -3.9% | 8.1% | 128897.4 |
| **Commodities ($)** | | | | |
| West Texas Intermediate Spot | -1.5% | 15.3% | 7.5% | 82.6 |
| Gold Spot Price | 1.2% | 16.9% | 23.3% | 2416.0 |
| **Global Bond Indices ($)** | | | | |
| Bloomberg Global Aggregate ($) | 0.8% | -1.7% | 0.7% | 463.3 |
| JPMorgan Emerging Mkt Bond | 0.9% | 3.4% | 8.9% | 877.2 |
| **10-Year Yield Change (basis points*)** | | | | |
| US Treasury | -9 | 30 | 42 | 4.18% |
| UK Gilt | -2 | 58 | -31 | 4.11% |
| German Bund | -6 | 47 | 2 | 2.49% |
| Japan Govt Bond | -1 | 45 | 59 | 1.07% |
| Canada Govt Bond | -9 | 30 | 6 | 3.41% |
| **Currency Returns**** | | | | |
| US$ per euro | 0.6% | -1.2% | -2.8% | 1.091 |
| Yen per US$ | -1.8% | 11.9% | 14.3% | 157.80 |
| US$ per £ | 1.3% | 2.0% | -1.1% | 1.299 |
| C$ per US$ | 0.0% | 3.0% | 4.0% | 1.364 |

Source: Bloomberg. Equity-index returns are price only, others are total returns.

*100 basis points = 1 percentage point.

**Increases in U.S. dollars (USD) per euro or pound indicate a decline in the value of the USD; increases in yen or Canadian dollars per USD indicate an increase in the value of the USD.

# Important information

Index returns are for illustrative purposes only and do not represent actual investment performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

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