Johnstone Wealth Management
Market Commentary

March 31, 2024

The upbeat sentiment that marked the end of last year continued in the markets in the first quarter of 2024, with the S&P 500surpassing its record high set in January 2022, thanks in part to the outperformance of tech giants at the forefront of advancesin artificial intelligence. Global economic growth stabilized during the quarter with the United States remaining the outlier in terms of its continued strength. The Eurozone appears to have absorbed most of the energy cost increases related to the war in Ukraine and growth is expected to improve in anticipation of a recovery in China. In Canada, the Bank of Canada (BoC) continues to be more cautious in conveying its plans for interest rate reductions. Although recent inflation news has been positive, the BoC is wary of encouraging consumption growth and a housing market resurgence as the Canadian economy remains particularly unbalanced with high consumption spending and weak investment spending.

Bond markets gave back some of their late 2023 gains as investors reassessed the extent of future reductions in interest rates by central banks. In North American markets, expectations for central bank interest rate cuts in 2024 were tempered since the beginning of the year from approximately seven cuts of 0.25% each (1.75% total) to just three cuts (total 0.75%). Stronger economic momentum, particularly in the US, and stickier inflation were the main reasons for the change in sentiment. The increase in market interest rates led to negative bond market returns while equity markets surged ahead. The backdrop also benefitted corporate bonds, which continued their outperformance over government bonds.

Equities in general powered to new highs against a backdrop of good corporate earnings and supportive economic data, along with the US Federal Reserve and European Central Bank's (ECB) hints of interest rate reductions to come this year. Japanese markets were strongest of major markets globally, as exporters and financials rallied strongly. US markets were also robust, led by a broad group of cyclicals and, in particular, AI-relatedequities. European markets were also firm, with broad strength in both technology and financials. Canadian and emerging market equity indices were positive, although lagged other markets.

From a sector standpoint, it was Technology that once again led the way globally. Semiconductor stocks notably rallied on continued optimism surrounding the use of AI-related technologies and the chips that will be required to power these applications. The Financials sector was also a leader in many geographies, due to expanding profitability coupled with expected relief for customers on interest rates moving forward. Conversely, more defensive sectors such as Consumer Staples, Utilities and Real Estate were amongst the lagging sectors in a strong market.

Contact our team of experts today!

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