

Johnstone Wealth Management Market Commentary

September 30, 2024



Economic Review

In the third quarter of 2024, the global macroeconomic environment experienced a significant downward trend in both headline and core inflation. This shift prompted many central banks to adopt a more explicit monetary-easing stance. The U.S. Federal Reserve led this change with a notable rate reduction in September, following discussions at Jackson Hole. The decline in goods-based inflation was further supported by a reduction in services-based inflation, contributing to the overall decrease in global inflation from its peak. While services inflation remains elevated in many developed economies, particularly in the shelter component, a moderation in labor market conditions and mixed consumer demand have helped to curb the price impulse in some key services sectors.

Bond Markets

Fixed-income markets delivered strong absolute performance in the third quarter. The Bank of Canada's successive quarter-point overnight interest rate reductions, along with the continued downward momentum in headline and core inflation, resulted in a nearly 4.7% return for Canada's domestic bond market. In the U.S., a significant rally in real and nominal yields, combined with a large overnight interest rate reduction by the Federal Reserve in September, propelled the bond market to healthy positive returns.

The European Central Bank also lowered its deposit rate by 0.25% to 3.5%, which, along with reduced inflationary pressure and economic growth weakness in the eurozone, supported positive quarterly returns for eurozone bond markets. Corporate bond returns were bolstered by monetary stimulus and expectations for additional economic growth support, leading to a modest narrowing of corporate spreads quarter over quarter.

Equity Markets

Global equity markets performed strongly in the third quarter, with key central banks reinforcing the trajectory for easing monetary conditions. Canadian equity markets were among the strongest, driven by rallies in the financials and gold-linked equity sectors. In emerging markets, China's incremental measures to stimulate consumption and stabilize the property sector led to strong performance. International developed markets also benefited from easing monetary conditions and policy support in China. Japan, however, was an outlier, with an 11% rise in the yen resulting in meager local currency equity returns. The U.S. market, while positive, saw a slight pullback from record levels for index heavyweights like NVIDIA. Nevertheless, U.S. indexes continue to outpace most others year to date. Sectors offering attractive yield characteristics, such as real estate, financials, and utilities, were top performers, while energy and technology lagged behind.


Investment Outlook

Looking ahead, the prospects for medium-term growth appear to have tilted towards higher growth conditions, with central banks fully engaged in supporting economic growth through accommodative policies. The U.S. and China, the two largest economies, are providing significant policy action to support growth. For fixed-income markets, the focus has shifted to the impact on longer-term inflation expectations and term premiums due to the decisive policy response. The combination of policy actions and heightened global conflicts presents a wider range of potential outcomes for economic growth, commodity markets, and inflation. Despite the positive outlook, we maintain a cautious stance as valuations remain elevated. Our focus continues to be on identifying businesses with a reasonable margin of safety and positive long-term fundamentals, adhering to our stringent criteria for quality investments.

Contact our team of experts

Jeffrey Johnstone

Senior Wealth Advisor


 416-507-9137

 jeffrey.johnstone@nbc.ca


 [Jeffrey Johnstone](#)

Kimberly Wood, CFP®, CIM®

Wealth Advisor


 416-869-8210

 kimberly.wood@nbc.ca

 [Kimberly Wood](#)

Kevin Diep CIM®


Wealth Associate

 416-869-8092

 kevin.diep@nbc.ca

Ini Nadar

Wealth Associate

 416-869-7686

 ini.nadar@nbc.ca



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