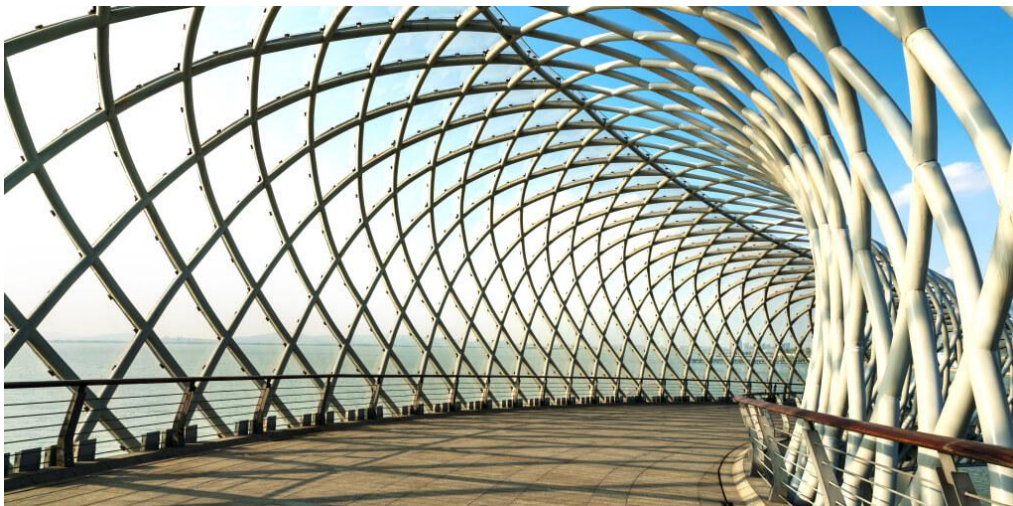


December 2024 market update

Looking to understand what drove the markets in December? Dive into the monthly market update for all the highlights.

Jan. 7, 2025



Introduction

Global equity markets moved lower over the month of December. The U.S. Federal Reserve Board (“Fed”) lowered its expectations for rate cuts in 2025. Global inflation rates edged higher, largely in response to low base-year prices of energy products. Services sector activity continued to drive growth, while manufacturing activity remained soft. The Fed, Bank of Canada (“BoC”) and European Central Bank (“ECB”) all lowered rates in December, while the Bank of England (“BoE”) and Bank of Japan (“BoJ”) held steady.

In Canada, the S&P/TSX Composite Index dropped over the month. The Communication Services sector was the worst performer. U.S. equities also declined. Oil prices moved higher, while the price of gold declined. Yields on 10-year government bonds in Canada and the U.S. increased over the month.

Canadian Finance Minister resigns

Canadian politics saw quite a bit of drama leading up to the federal government's Fall Economic Statement in December. The day the statement was to be announced, Canada's federal Finance Minister, Chrystia Freeland, resigned from her position. She cited differences of opinion between herself and Prime Minister Justin Trudeau on the path forward for Canadians, and how to respond to potential U.S. tariffs, as a reason for her departure. Canada's Housing Minister, Sean Fraser, also resigned that same day. Canadians were left to wonder what was next for Prime Minister Trudeau. Despite the departures, the Fall Economic Statement was still delivered. It shows a likely deficit of \$21 billion higher in the 2023–24 fiscal year than the original budget. The Canadian federal government has much on its plate. There are calls by the opposition parties to have an election. Additionally, the government is contending with a new U.S. Presidential administration, which is looking to impose tariffs on Canadian exports to the U.S.

Canada's federal government is also dealing with slower economic conditions. Consumer and business activity, along with the real estate market, softened in 2024, prompting the BoC to begin lowering interest rates. At its December meeting, the BoC lowered its benchmark overnight interest rate by 50 basis points ("bps") to 3.25%. This was the BoC's second straight 50-bps rate cut and fifth consecutive overall. More rate cuts are likely on the way, but the BoC cautioned against expecting more 50-bps rate cuts, suggesting upcoming ones will be at 25 bps.

Fed officials expect only two rate cuts in 2025

At its final meeting of 2024 in December, the Fed lowered the target range of its federal funds rate by 25 bps to 4.25%–4.50%. This was the Fed's third rate cut of 2024 amid slower inflationary pressures and a rising unemployment rate. After its first rate cut of 50 bps in September, the Fed elected to go with two smaller 25-bps rate cuts given relatively strong economic conditions. Going forward, the Fed may take a relatively gradual approach to lowering interest rates. The Fed projects stronger U.S. economic growth and inflation remaining above its 2% target. In response, Fed officials now only expect two rate cuts in 2025. Immediately after the announcement, equity markets dropped sharply before recovering to close out the month. Economic conditions in the world's largest economy are still calling for relatively restrictive interest rates. The U.S. economy expanded by 3.1%, annualized, in the third quarter of 2024, while the inflation rate climbed higher to 2.7% in November. Markets expect the Fed to keep cutting rates in 2025, but the central bank is facing an economic environment that may call for a gradual approach.

Inflationary risks in the U.K. persist

U.K. inflationary pressures remain elevated, which kept the BoE on the sidelines from lowering interest rates at its December meeting. The annual inflation rate in the U.K. rose to 2.6% in November from 2.3% in October, which was the fastest pace of inflation since March 2024. The price growth for food, housing and recreation picked up over the month. The core inflation rate also pushed higher, reaching 3.5% year-over-year in November. The data suggests inflationary risks in the U.K. persist, raising concerns among BoE officials as they seek to get inflation back to the central bank's 2% target. At its December meeting, the BoE held its policy interest rate steady at 4.75%. The BoE is attempting to carefully navigate the economy through any softness while bringing down inflationary pressures, which are persisting. There was no change in U.K. gross domestic product in the third quarter of 2024. This was the slowest pace of growth since contracting in the fourth quarter of 2023. Meanwhile, the ECB lowered its three policy interest rates by 25 bps each. This was the ECB's fourth rate cut in 2024 amid lacklustre economic growth and slowing inflationary pressures. Both central banks are expected to keep lowering interest rates as we enter 2025.

OPEC+ delays production cuts

At its December meeting, the Organization of the Petroleum Exporting Countries and allies ("OPEC+") announced it would delay its production increases by another three months, to April 2025. OPEC+ had earlier announced plans to scale back its production cuts on expectations of higher demand and to help balance the market. However, OPEC+ said a supply glut has formed as demand for oil remains relatively muted, particularly given weak economic activity in China, the world's second-largest economy. Several members of the oil organization will deliver another voluntary production cut. The entire oil organization will extend its production restrictions until the end of 2026 rather than the end of 2025. Soft growth in China and Europe, geopolitical tensions, and the potential actions of the new U.S. Presidential administration cloud the organization's supply-demand outlook for the oil market. The price of oil ticked higher over December. However, oil prices have fallen by 12% since the end of June 2024, due in part to concerns over demand.

Market performance - as at Dec. 31, 2024

Equity Markets	Level	Month to date	Month to date (C\$)	Year to date	Year to date (C\$)	1 year	1 year (C\$)
S&P/TSX Composite Index C\$	24,727.94	-3.59%	-3.59%	17.99%	17.99%	17.99%	17.99%
MSCI USA Index US\$	5,617.20	-2.66%	0.06%	23.40%	34.45%	23.40%	34.45%
MSCI EAFE Index US\$	2,261.81	-2.33%	0.40%	1.15%	10.21%	1.15%	10.21%
MSCI Emerging Markets Index US\$	1,075.47	-0.29%	2.50%	5.05%	14.46%	5.05%	14.46%
MSCI Europe Index US\$	2,002.92	-2.48%	0.24%	-0.87%	8.01%	-0.87%	8.01%
MSCI AC Asia Pacific Index US\$	181.63	-0.98%	1.79%	7.23%	16.83%	7.23%	16.83%

Fixed Income Markets	Level	Month to date	Month to date (C\$)	Year to date	Year to date (C\$)	1 year	1 year (C\$)
FTSE Canada Universe Bond Index C\$	1,168.88	-0.69%	-0.69%	4.23%	4.23%	4.23%	4.23%
FTSE World Investment Grade Bond Index US\$	212.05	-2.16%	0.58%	-1.48%	7.35%	-1.48%	7.35%

Currencies	Level	Month to date	Month to date (C\$)	Year to date	Year to date (C\$)	1 year	1 year (C\$)
CAD/USD	0.6954	-2.62%	-	-7.92%	-	-7.92%	-

Commodities	Level	Month to date	Month to date (C\$)	Year to date	Year to date (C\$)	1 year	1 year (C\$)
West Texas Intermediate (US\$/bbl)	71.72	5.69%	-	0.31%	-	0.31%	-
Gold (US\$/oz)	2,624.50	-0.71%	-	27.22%	-	27.22%	-
Silver (US\$/oz)	28.90	-5.63%		21.46%		21.46%	

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