

October 2024

Macro Tear Sheet: The Fed Cuts 50, China's Stimulus Package

Conclusion

We caution against concentrated sources of investment returns and we remain focused on portfolio diversification. First, the Federal Reserve's 0.5% cut and subsequent economic data increased the probability of a soft-landing scenario, which is pushing investors toward economically sensitive names beyond AI-chip producers. Second, within the AI ecosystem, we note that investors are looking for opportunities beyond chip manufacturers, such as nuclear energy providers. And finally, Chinese stimulus is bringing life back to metals and luxury goods sectors, benefiting Canadian and European equities.

Recent Returns*

	Jan 1 - 10-Jul	Since 10-Jul	Year-to- Date
Stock Markets			
S&P 500	19%	3%	22%
Nasdaq 100	23%	-3%	20%
Dow Jones Industrial Average	6%	7%	14%
Magnificent 7	51%	-4%	44%
EAFE	9%	4%	13%
S&P/TSX Composite	8%	8%	17%
Fixed Income			
Canada Aggregate Bonds	0%	4%	4%
US Aggregate Bonds	0%	4%	5%

*Returns are calculated using representative ETFs, rounded to the nearest percent

Summary of Events

- Calm Returns to the Market (August 8 – September 17)** – Market nervousness surrounding an economic hard-landing began to ease with inflation metrics showing signs of further cooling while employment data stabilized.
 - Outcome:** after the initial economic growth scare in early August, stabilizing data improved optimism and pulled investors back into the market.
- The Fed Cuts Rates (September 18)** – The Federal Reserve started its easing cycle assertively, electing to cut interest rates by 0.5%. Chairman Powell highlighted the U.S. economic strength and justified the larger than expected move as a pre-emptive cut to maintain stability in the labour market.
 - Outcome:** the Fed's move was largely inline with market expectations. Market reactions were initially muted. After digesting the announcement, a large number of stocks participated in the market rally.
- Soft Landing in Sight (September 19 – September 27)** – Recent economic data has continued to progress inline with market consensus, supporting prospects of a soft-

landing. In particular, the core personal consumption expenditures index, the Fed’s preferred inflation metric, increased 2.7% year-over-year, meeting market expectations. Furthermore, labour markets have stabilized.

- **Outcome:** fading inflation and a stable labour market has pushed a large number of economically sensitive stocks to an all time high.
- **More Than Just Chips (September 20)** – Vistra Corp – a power generation company – has overtaken Nvidia as the best performing S&P 500 stock this year as power demand for AI data centers surged. Similarly, Constellation Energy jolted over 30% higher in September following an agreement with Microsoft to bring a segment of nuclear energy back online.
 - **Outcome:** the impact of the AI boom is broadening with investors looking for attractive opportunities outside the AI chip manufacturers.
- **Japanese Political Surprise (September 27)** – Japanese politician Shigeru Ishiba was elected president of Japan’s ruling political party, the Liberal Democratic Party (LDP). He is set to become Prime Minister after a parliamentary vote.
 - **Outcome:** Ishiba had previously indicated his support of the Bank of Japan’s (BOJ) intention to gradually raise rates and will respect the BoJ’s independence. As a result, the Japanese yen rallied sharply while the Japanese stock market fell.
- **China’s Bazooka (September 24 – September 27)** – Chinese officials stepped up support to revitalize growth with policies aimed at helping consumers.
 - **Outcome:** as a result, the local market posted rallies not seen since 2008 while more economically interconnected regions like Europe also jolted higher. Furthermore, base materials benefitted following the news, helping the Canadian materials sector rally to its highest levels since 2011.
- **Geopolitical Conflict Escalates (October 1)** – Following the news of Israel launching a ground offensive in Lebanon, White House officials indicated that a Iranian ballistic missile attack on Israel is now imminent.
 - **Outcome:** market participants have rotated into safer areas of the market, while the energy sector is jolting higher on surging oil prices.

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