Monthly Market Monitor

NEI

April 2024

Robust earnings helped mitigate fear of persistent inflation

Market sentiment turned bearish in early April for both equity and fixed income markets as sticky U.S. inflation data fuelled market fears that central banks will not ease monetary policy as quickly as previously hoped. Both stock and bond markets pulled back in the first half April, only dampened by the sharp rebound in the second half when strong earnings results and robust growth expectations buoyed markets. Both equities and fixed income markets ended the month in negative territory with global bonds falling 1.68% over the month while developed market equities fell 2.25%.

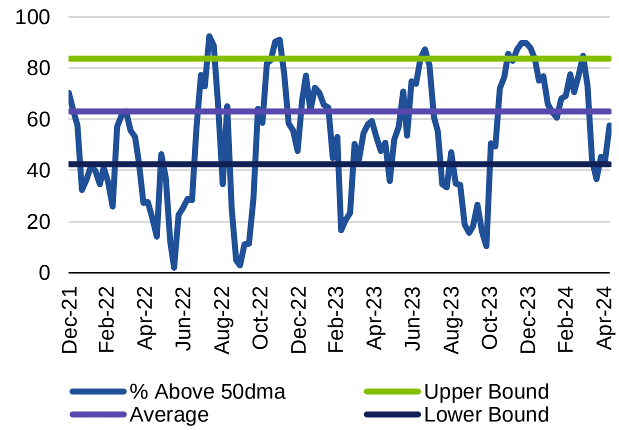
A combination of rising energy prices, and lower interest rate sensitivity supported the cyclical value segment of the equity market, which outperformed the growth segment on a relative basis.

After making record highs in March, the rally in Japanese and U.S. equities tapered off as they led the way lower for global equity markets in April. At the same time, higher commodity exposure and increased investor interest in cheaper Chinese equities helped emerging market equities deliver positive returns of 0.5% over the month.

Bearish sentiment from delayed rate cuts

April saw risk aversion rise as the market narrative changed from assumptions of ‘soft landing’ or ‘no landing’ scenario to a much more concerning ‘stagflation’ environment. Uptick in the most recent inflation data, higher energy prices, and geopolitical tensions stoke concerns that inflation may re-surface, leaving little room for rate cuts despite economic slowdown. The U.S. equity markets dropped by 5% in mid-month from the close of the first quarter at historical high.

Investor sentiment turned bearish in April

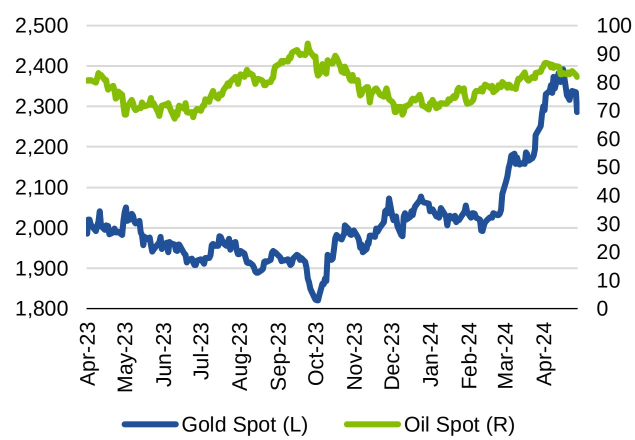


Source: Bloomberg LP.

Surge in commodities

As the conflict in the Middle East intensified with Iran’s involvement, oil and gold spiked as a part of the broader risk-off move, making commodities the best performing assets during April.

Gold and oil surged amidst geopolitical tensions



Source: Bloomberg LP.

Volatile month for Magnificent 7

Tesla has been retreating year-to-date from lower demand on EVs, but a near 40% rebound into month end caught everyone off guard. Also notable was the heightening AI frenzy in April as some semiconductor companies reported strong results. Nvidia, which has yet to report earnings, saw one of the largest single-day drops in market cap in history only to recover it fully in the following four trading days. Upon a strong earnings report, Google's parent Alphabet had the largest one-day gain in market capitalization in history. These moves helped lift the S&P 500 Index back above 5000 following a brief dip below in April.

Strong earnings growth prospects drove prices

Name	Earnings surprise beat/(miss) % vs consensus	Y/Y EPS Growth	YTD performance
Meta	9.40%	114%	31.8%
Amazon	41.80%	227%	22.3%
Alphabet	23.60%	62%	18.7%
Microsoft	3.90%	20%	10.1%
Apple	1.90%	1%	-3.4%
Tesla	-13.30%	-38%	-30.4%
Nvidia	To be announced	To be announced	82.1%

Source: Bloomberg LP.

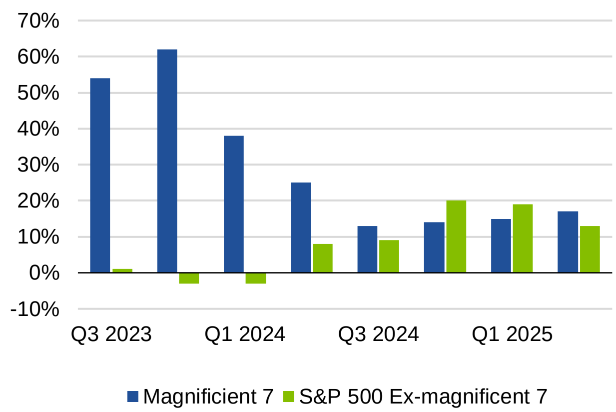
Bottomline: Uptick in inflation and geopolitical tensions caused a change in investor sentiment and led to a pullback in April, which sent the equity markets to more attractive levels. The earnings season demonstrated continued strength in corporate fundamentals, providing support for richer valuations. The sentiment may have been too pessimistic and after the pullback, current levels still present a good entry point for long term investors, as we expect the rally to resume and broaden based on strong earnings growth and economic momentum.

Earnings lift stocks out of slump

First-quarter earnings season for the S&P 500 Index is hitting its stride, and companies continue to perform well compared to expectations and contribute to earnings surprises in multiple sectors. Both the percentage of S&P 500 companies reporting positive earnings surprises and the magnitude of earnings surprises are above their 10-year averages. Overall, 80% of companies in S&P 500 reported results for the first quarter. Of those companies, 77% exceeded expectations on earnings by 7.5% on average. Following the Q1 results, analysts also increased their earnings estimates for the second quarter, which is unlike the typical trend. Analysts typically revise estimates down in the first month of the quarter. This is the first time that the bottom-up earnings estimates were increased since Q4 2021.

Strong earnings results helped lift some of the mega-cap stocks out of their mid-April slump, after a pullback in the S&P 500 of more than 5% through the first three weeks of April. Rally in the world's largest technology companies, particularly Microsoft and Alphabet, provided relief to investors concerned about the strength of the economy threatening the trajectory of rates. The massive capital investment on artificial intelligence and cloud computing announced by big technology companies excited the market and reinforced investor confidence, offsetting worries about the macroeconomic backdrop.

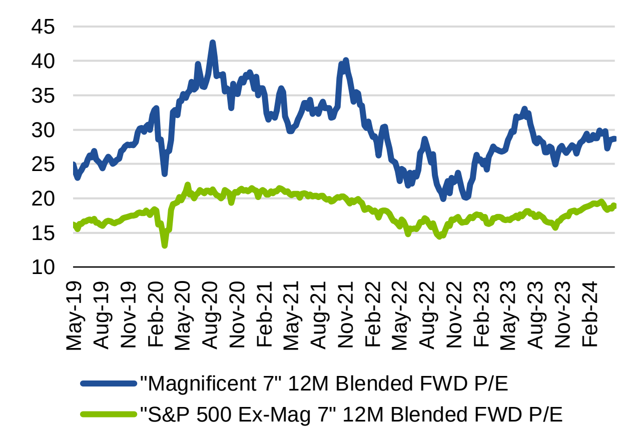
S&P500 ex Mag 7 to eclipse Mag 7 earnings in Q4



Source: Bloomberg LP.

While earnings growth in recent quarters has been dominated by the mega-cap technology companies, the extraordinary level of growth is expected to normalize over the next few quarters. Meanwhile, the level of earnings growth in the remainder of the index is expected to accelerate, eclipsing the enormously profitable magnificent 7 companies in Q4 2024. This creates an attractive investment opportunity especially given the much more reasonable valuation multiples.

S&P 500 ex Mag 7 at more reasonable valuation



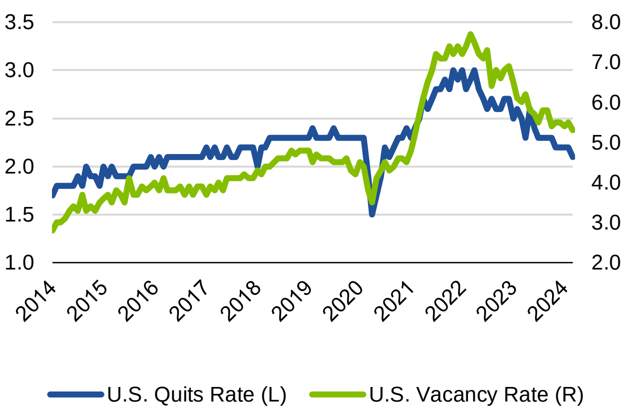
Source: Bloomberg LP.

Bottomline: Bottom-up consensus on year-over-year earnings growth is expected to accelerate further to 10% next quarter and 17% by Q4, providing tremendous support for continued upside in the equity markets despite the upcoming election and geopolitical tensions. With a wide dispersion in valuation levels between sectors, the sectors that have lagged on valuations may catch up, supporting the broadening of the upside participation.

Job market continues to ease

One of the key drivers in the continued strength of the U.S. economy has been the labour market, which has been remarkably robust and the weakening of which would also be an early indicator of economic weakness as it has been in numerous recessions in the past. The most recent jobs report in March suggest that the U.S. labor market remains robust but is beginning to cool. The number of U.S. job openings decreased, with the quits rate also declining to the lowest level since August 2020.

U.S. labour markets softening



Source: Bloomberg LP.

Other indicators also corroborate the softening in labor market conditions. The job openings rate fell to 5.1% in March, after three consecutive months at 5.3%, meaning the upward trend in hires appears to be levelling off. Along with softer labour demand, the quits rate has also continued to fall, amounting to an easing of labour market slack. The vacancy-to-unemployment rate, is yet to return to the pre-pandemic level, but remains on a path to come into balance.

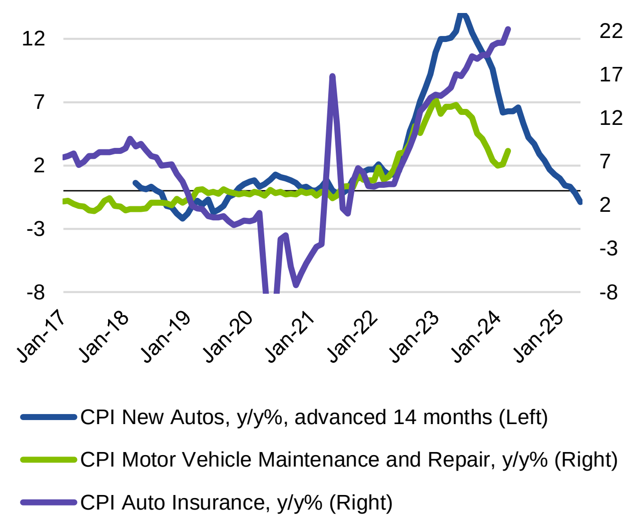
Bottomline: We expect the labour market to continue to ease along with wage growth, alleviating inflationary pressures later in the year.

Potential policy divergence yields opportunities outside of U.S.

Delayed rate cuts in the U.S.

The persistent strength in headline and core inflation in the U.S. has dampened expectations for an imminent Federal Reserve rate cut. The rate of disinflation stalled as core inflation remained at 3.8% year-over-year, matching previous months. One of the key drivers, however, continues to be motor vehicle insurance, which tends to be a lagging indicator of inflation.

Auto insurance won't continue to surge



Source: Bloomberg LP.

There was also some relief, as the Federal Reserve's favored inflation gauge, the personal consumption expenditures index (PCE), came in only slightly ahead of estimates at 2.8% year-over-year. The component contributing to the stickiness in PCE inflation was owners' equivalent rent. However, similar to auto insurance, leading indicators continue to suggest that the next few readings should be lower, supporting the view that inflation will continue to moderate in the U.S.

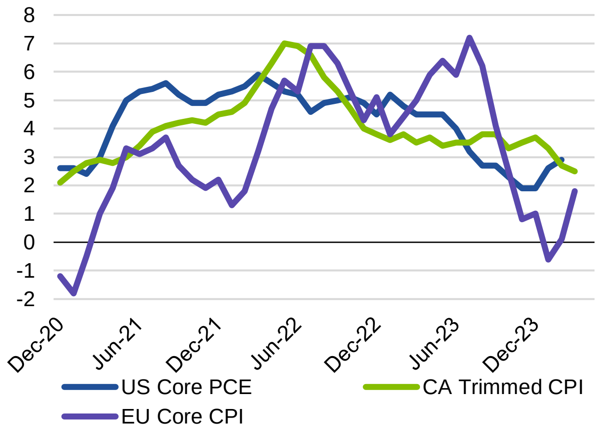
While it triggered fears over the last six months that strength in the U.S. economy could prevent inflation from retreating. The U.S. economy is showing signs of slowdown, as indicated by first quarter GDP growth at 1.6% annualized, as well as the S&P ISM Manufacturing index at 50.0, both below expectations. Leading indicators also indicate softening in the labour market, and wage growth is unlikely to continue to put pressure on inflation. This helps keep rate cuts on the table for 2024, and bond futures are still pricing for the first rate cut in November of this year.

Canada and Europe remain on the path to cuts in the summer

Meanwhile, Canada has seen three consecutive months of below average inflation surprises, amidst economic growth that's below potential and is more negatively impacted by the monetary policy tightening. Consensus estimate now calls for 2.3% growth quarter-over-quarter in Q1, and down to 0.8% in the second quarter of this year.

Europe's GDP experienced a 0.3% growth in the first quarter of the year, reflecting a mild exit from recession. Despite the rebound on growth, disinflation continued, with a decrease in core inflation to 2.7% in April. The market is expecting the European Central Bank (ECB) to start the easing cycle in June.

Inflation in Canada moderating faster (6m ann.)



Source: Bloomberg LP.

Bottomline: With inflation moderating faster in Canada and Europe, the Bank of Canada and the ECB may diverge from the Fed and move towards cuts ahead of the U.S., potentially as early as June. For Canada, however, we don't expect the potential for weaker CAD currency impact to lead to a material level of imported inflation, hence, this should not prevent the Bank from diverging from the Fed.

NEI Investment Management Team

Asset class outlook

Asset class	View	Changes from last month	Rational
Equities	OW	↓	Softening macro data dampens sentiment in equities, broadening of participation provides near term support.
Canada Equity	Neutral	–	Economic growth remains below potential, but better clarity on path of rate cuts may provide relief.
U.S. Equity	Neutral W	↓	Resilient macro data and stubborn inflation delay rate cuts further. Rich valuation gives investors pause and limits upside.
International Equity	OW	–	Macroeconomic data showing signs of recovery, and along with disinflation leading to rising expectations of rate cuts, can provide boost to investment sentiment at attractive valuations.
EM Equity	UW	–	Continue to be structurally bearish, but near-term downside could be overdone and easing policies can lead to short term rebounds.
Fixed Income	UW	–	Yields already reflecting disinflation in soft landing scenario, little catalyst to move lower in the near term, making equities more attractive.
Govt Bonds	OW	↑	Yields to remain relatively steady at current levels, relatively more attractive than corporate credit in the short term.
IG Bonds	UW	↓	Spreads tighter than historical average, may widen moderately. Absolute yield levels remain attractive in high-quality issues.
HY Bonds	UW	↓	Fundamentals remain strong. Spreads may widen from historically tight levels. Keep quality bias for attractive absolute yields.
Cash	UW	↑	Tactically overweight expecting credit spreads to widen moderately from risk-off sentiments.

This table illustrates the short-term outlook of NEI's Asset Allocation Team on various equity and fixed income asset classes as of April 30, 2024. "UW" refers to an Underweight position, "OW" refers to an Overweight position. Symbols indicate the change in outlook from the prior month's outlook. The arrows indicate the change in outlook from last month. An upward arrow indicates a positive change on outlook, a downward arrow indicates a negative change on outlook and a dash indicates unchanged outlook.

Market performance

Returns in Canadian Dollars

Returns less than 1 year are not annualized	1 Mo	3 Mo	6 Mo	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs
Fixed Income								
Bloomberg Canada Aggregate Index	-2.10	-1.96	4.28	-3.40	-1.11	-2.19	-0.14	1.73
Bloomberg Global Aggregate Index (CAD Hedged)	-1.68	-1.58	4.56	-1.82	1.12	-2.33	0.06	1.72
Bloomberg US HY Index (CAD Hedged)	-1.01	0.37	8.49	0.31	8.07	0.92	2.95	3.70
Equities								
MSCI World Index	-2.25	6.52	19.05	9.23	19.92	9.59	10.92	11.34
MSCI World Growth Index	-2.55	6.55	21.63	10.25	25.56	9.23	13.69	14.00
MSCI World Value Index	-1.93	6.50	16.29	8.19	14.04	9.26	7.43	8.30
MSCI Canada Index	-1.94	4.09	17.14	4.64	9.33	7.49	7.98	6.55
MSCI USA Index	-2.69	7.07	19.77	10.15	24.35	10.87	13.09	14.27
MSCI EAFE Index	-1.08	5.39	17.40	7.39	10.69	6.72	6.63	6.75
MSCI Europe Index	-0.40	6.28	17.86	7.56	8.87	7.86	7.25	6.35
MSCI Japan Index	-3.41	3.81	18.41	10.04	20.78	6.35	6.86	8.85
MSCI Pacific Ex Japan Index	0.30	3.44	12.02	1.15	2.28	1.39	2.80	5.40
MSCI Emerging Market Index	1.98	10.88	14.20	7.13	11.30	-2.15	2.32	5.30
World Currencies								
US Dollar	1.52	2.83	-1.04	4.19	1.29	3.75	0.42	2.27
Euro	0.51	1.22	0.11	0.85	-1.89	-0.27	-0.52	-0.35
Pound Sterling	0.63	1.11	2.12	2.34	0.91	0.33	-0.38	-0.74
Yen	-2.36	-4.48	-4.76	-6.66	-12.35	-8.12	-6.29	-2.05
Commodities								
Bloomberg Sub WTI Crude Oil Index	1.56	14.11	4.22	22.67	20.75	25.55	2.60	-5.95
Bloomberg Sub Brent Crude Index	2.23	13.62	5.99	21.32	21.83	31.81	13.79	1.05
S&P GSCI Gold Spot Index	4.45	14.54	14.28	15.81	16.69	13.31	12.84	8.32
Bloomberg Sub Copper Index	15.54	20.35	24.28	23.02	21.25	6.16	10.63	6.33

Source: Morningstar data as of April 30, 2024

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to computing, or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages.

NEI Investments is a registered trademark of Northwest & Ethical Investments L.P. ("NEI LP"). Northwest & Ethical Investments Inc. is the general partner of NEI LP and a wholly-owned subsidiary of Aviso Wealth Inc. ("Aviso"). Aviso is the sole limited partner of NEI LP. Aviso is a wholly-owned subsidiary of Aviso Wealth LP, which in turn is owned 50% by Desjardins Financial Holding Inc. and 50% by a limited partnership owned by the five Provincial Credit Union Centrals and The CUMIS Group Limited.Union Centrals and The CUMIS Group Limited.