RESEARCH CAPITAL CORPORATION — John Bruce

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Dear Client,

Volatility rose, equities fell sharply, and bonds jumped in the first three trading days of August, but markets soon stabilized, and stocks regained a positive tone throughout the rest of the month. Here’s a summary of the main events that steered the markets.

Monthly market developments

- Catalysts for the **stock market sell-off** included fears of a U.S. recession sparked by an unexpectedly weak July jobs report, the unwinding of the yen carry trade following a Japanese rate hike in July, anticipation of lower U.S. rates, an accelerating rotation away from the tech sector, and ongoing geopolitical issues.
- **Equities started recovering** in the second week of the month as secondary data suggested a more resilient U.S. labour market than initially thought. By mid-month investors were also reassured by lower U.S. inflation data and an uptick in July U.S. retail sales after a slight decline in June. Recession concerns ebbed and investors refocused on cooling inflation and the probability of a U.S. rate cut in September, an outlook confirmed on August 23 by Fed Chair Jerome Powell at the annual Jackson Hole central bank summit.
- Despite the volatile start to the month, major U.S., Canadian, European and Japanese equity indices all posted **solid gains for the month**.

- Canada’s July **unemployment rate** held steady from a month prior at 6.4%, despite losing 2,800 jobs. The U.S. unemployment rate rose in July for the fifth month in a row, to 4.3%, up from 4.1% in June.
- **Inflation** in Canada rose 2.5% in July, on an annualized basis, down from 2.7% in June, a three-year low. The employment and inflation data underpinned the case for the Bank of Canada to trim its key policy rate for a third time this year on September 4th.
- **CPI data** also continued its recent downward trend, slipping to 2.9% in July, the lowest reading since 2021. Core U.S. inflation, which excludes volatile food and energy items, was 3.2%, also a three-year low.
- Inflation decelerated significantly in **Germany, the eurozone’s largest economy**, with August data of 1.9%, the lowest reading since March 2021, and down from 2.3% in July. Broad eurozone inflation data released at the end of the month dipped to 2.2%, down from 2.6%. The trend opens the door for the ECB to cut interest rates for a second time this year in September. Lower than expected eurozone wage inflation of 3.5% for the three months ending June was also supportive of further easing by the ECB.
- **The Bank of England**’s Monetary Policy Committee trimmed its key bank rate by .25 basis points to 5% on August 1st, bringing the rate down from a 16-year high. UK inflation for July was a less than expected 2.2%, but still up slightly from June levels.
- **Japan**’s core inflation measure, which excludes food and energy fell to 1.9% in July.
- **China**’s central bank kept its key policy rates unchanged, as expected, after cutting short and long-term rates in July.
- The Dow, S&P 500 and S&P/TSX each **ended August at or near YTD highs**, while the NASDAQ finished 5% below a YTD high notched in July. European equities also rose but Chinese stocks continued to slide.

- Late in the month **U.S. GDP growth** for the three months ending June 30 was revised upward to 3% (annualized, quarter on quarter) from an initial reading of 2.8%, in part due to revised data indicating higher consumer spending levels. The new data more than doubled the growth rate of 1.4% recorded in the first three months of the year and further soothed recession concerns.
- **Canada's Q2 GDP report**, released on the last trading day of the month, was a higher than expected 2.1%, although much of the growth was attributable to government spending while consumer spending slowed.

How does this affect my investments?

After the slump and subsequent recovery in stock prices in August, the positive economic prospect of declining inflation and lower interest rates continues to support markets and a soft-landing narrative. Investors will closely monitor economic data throughout the fall to allay any concerns that central banks have left rate cuts too late to avoid a slowdown, but the Bank of Canada and U.S. Fed have clearly signalled their intent to prioritize growth going forward after successfully wrestling inflation down close to their stated target ranges.

Sincerely,

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