

# Economic Outlook

Summer 2024

## SUMMARY

- The expectation that the long-awaited slowdown in global economic momentum would finally materialize in the first half of this year, once again, disappointed.
- Instead, 2024 so far, has largely just a been repeat of the scenario that has played out persistently over the last four years in which actual growth continues to chug along at a decent pace unabated.
- If anything, the biggest change concerning growth, so far this year relative to the preceding period, is the evidence of a broadening out beyond the US economy. Regions such as Europe, Japan and Emerging Markets (EM) (including China) that had stagnated in the second half of 2023 stabilized early this year and more recently have shown nascent signs of improvement.
- In a notable contrast to the last few years, however, it appears that forecasters are no longer just trading near-term strength for weakness later on and kicking out recession calls down the road.
- An imminent recession is no longer being treated as a high-probability event, with the previously assumed downward inflection for growth replaced by a fairly flat and stable trajectory across the forecast horizon.
- Even with growth momentum holding up better-than-anticipated, the progress with respect to attaining price stability has led effectively all major central banks to move to the sidelines and signal their intentions to move toward a less restrictive policy stance — a handful of central banks in EM and, more recently, Developed Markets (DM) have begun their gradual easing cycles, with more expected to join the fray before the year is out.
- While risks remain, the baseline outlook of broadening positive, if unspectacular growth, moderating inflation, and declining interest rates is clearly positive and highly constructive for financial markets.

*This commentary was authored by Guardian Capital LP, an affiliate of Guardian Partners Inc., and is being provided with permission from the author.*

## Upon further inflection

The expectation that the long-awaited slowdown in global economic momentum would finally materialize in the first half of this year, once again, disappointed.

Instead, 2024, so far, has largely just a been repeat of the scenario that has played out persistently over the last four years, in which actual growth continues to chug along at a decent pace unabated.

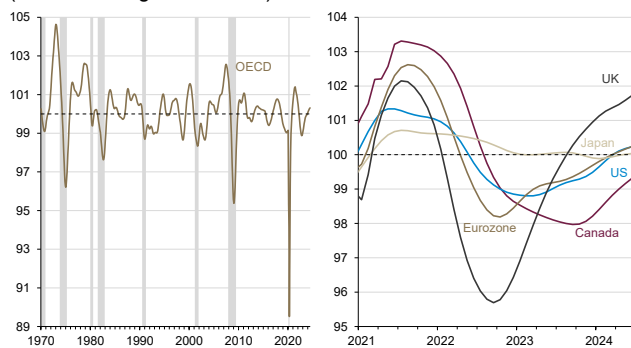
If anything, the biggest change concerning growth so far this year, relative to the preceding period, is the evidence of a broadening out beyond the US economy.

Regions such as Europe, Japan and Emerging Markets (EM) (including China) that had stagnated in the second half of 2023, stabilized early this year and, more recently, have shown nascent signs of improvement.

The broad slate of leading economic indicators is pointing to widespread improvement in momentum across the globe as the second half of 2024 begins.

### CHART 1: FOLLOW THE LEADER

**Composite leading economic indicator<sup>1</sup>**  
(index; trend-growth = 100)



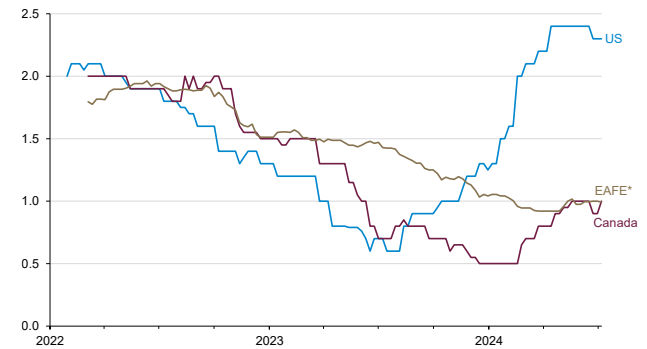
Shaded region represents a period of US recession; source: Guardian Capital using data from the Organisation for Economic Co-operation and Development<sup>2</sup> (OECD) and Bloomberg to June 2024

The general upward inflection in the dataflow is translating into more broad-based upward revisions to growth forecasts for the current year.

For sure, the US continues to play a key leadership role — and given its position at the forefront of the technological developments associated with artificial intelligence, is likely to stay there for the foreseeable future — but the upgrades elsewhere are narrowing the anticipated performance gap.

### CHART 2: A TURNING POINT

**Consensus real gross domestic product forecast, 2024**  
(year-over-year percent)



\*EAFE=Developed Europe, Australasia & the Far East Source: Guardian Capital using data from Bloomberg to July 12, 2024

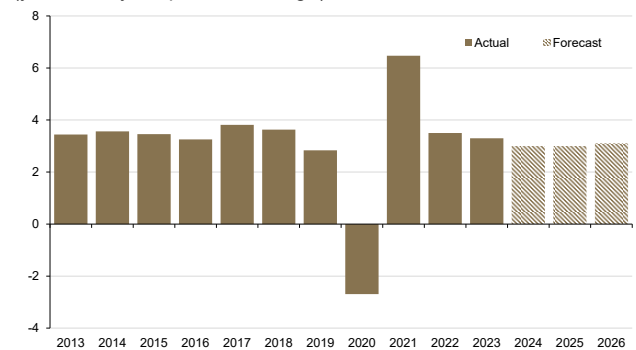
In a notable contrast to the last few years, however, apparently forecasters are no longer just trading near-term strength for weakness later on and kicking out recession calls down the road.

The downward inflection for growth that had been assumed to be coming has been replaced by a fairly flat and stable trajectory across the forecast horizon.

The current consensus is for real global growth to maintain rates generally consistent with what has ultimately prevailed over the last two years going forward, which represents just a marginal step down from pre-pandemic trends.

### CHART 3: STEADY AS SHE GOES

**Consensus real gross domestic product forecast, World**  
(year-over-year percent change)



Source: Guardian Capital using data from the International Monetary Fund and Bloomberg to July 12, 2024

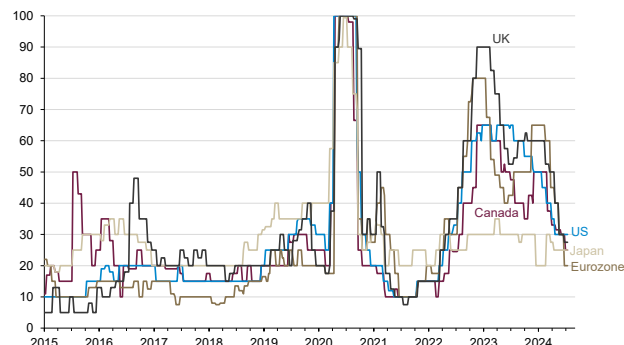
Further to this point, an imminent recession is no longer being treated as a high-probability event.

The estimated odds of a material economic downturn in the coming 12 months have fallen to just 1-in-4 across DM, its lowest level since 2022 — though it remains somewhat elevated relative to earlier periods

of “sustained” growth and above the typical 1-in-6 odds of a recession in any given year historically.

#### CHART 4: RECEDING RECESSION RISKS

Consensus expected probability of recession in 12 months (percent)



Source: Guardian Capital using data from Bloomberg to July 12, 2024

#### Convincing arguments

The ongoing caution over the outlook is certainly warranted, given the continued risks (discussed below), but the diminished expectations of the worst potential outcomes simply reflect that even the more bearish forecasters are succumbing to the weight of the evidence.

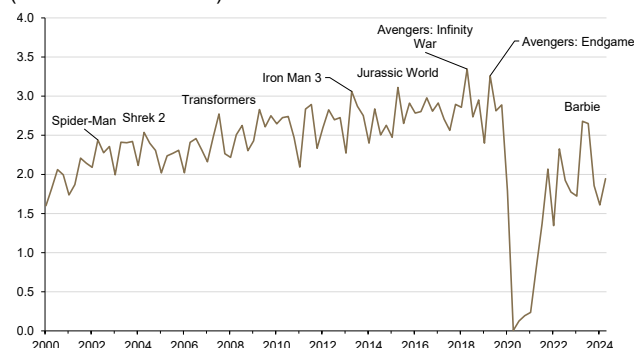
For starters, despite concerns that consumers are running out of gas following years of pandemic stimulus-related resilience, there are limited signs so far of weakness in household spending.

A prime example of the continued strength on this front is that expenditure on things such as entertainment and travel, generally considered among the most discretionary of discretionary spending, remains quite firm.

While movie theatre box offices may be finding difficulty recovering their pre-pandemic levels against a dearth of major tent pole releases and the rise of streaming options — industry monitor [Box Office Mojo](#) estimates that the year-to-June domestic gross revenue (from ticket sales) is down almost 20% and its lowest outside of the pandemic since 2000 — while ticket sales for (comparably higher cost) live concerts and sports are robust.

#### CHART 5: A RELATIVELY GROSS BOX OFFICE

Movie theatre box office gross<sup>3</sup>, US and Canada (billions of US dollars)

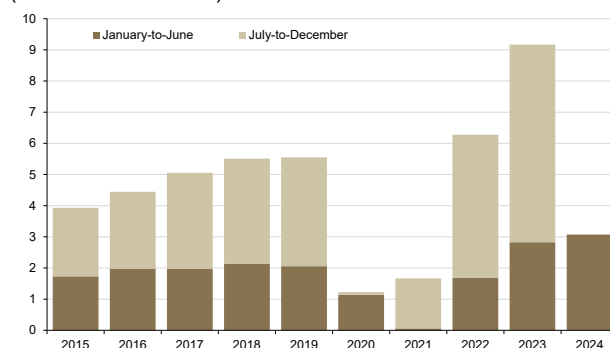


Source: Guardian Capital based on data from Box Office Mojo to Q2 2024

Data from [Pollstar](#), a trade publication for the live music industry, show that concert ticket sales are up nearly 10% year-to-date after smashing sales records through 2023, as fans flock to big-name artists’ tours.

#### CHART 6: ROCKING OUT

Total concert gross<sup>4</sup>, Top 100 Tour Worldwide (billions of US dollars)



Source: Guardian Capital based on data from Pollstar to June 30, 2024

As well, live sports are thriving, with attendance up year-to-date for [Major League Baseball](#) games, the [National Football League](#) breaking its attendance record this past season, and [European football leagues](#) playing in front of packed stadiums despite rising ticket prices — the recent UEFA Euro and Copa America tournaments and upcoming Paris Summer Olympics can be added to the list too.

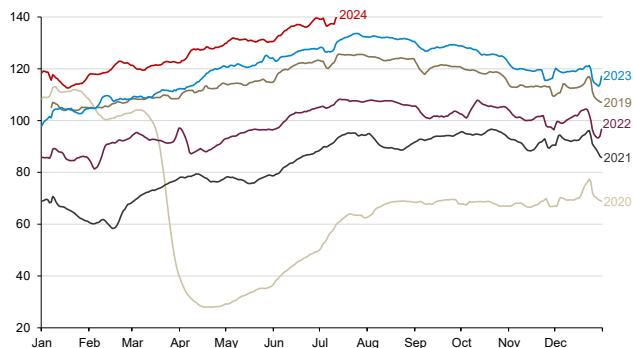
Furthermore, consumers worldwide continue to take to the skies in record numbers.

The US [Transportation Security Administration](#) has seen a record number of travellers pass through their checkpoints this year. More broadly, tracking data indicate that there are more commercial airplanes in

the air at any given point right now than there have ever been as people seek out experiences beyond their borders — and note that international vacations [cost roughly five times](#) more than domestic trips.

### CHART 7: UP IN THE AIR

**Tracked commercial flights\* per day, World**  
(thousands; seven-day moving average)



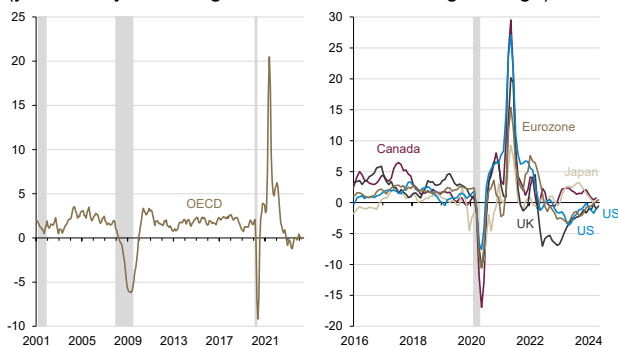
\*Commercial passenger, cargo charter and some business jet flights; source: Guardian Capital based on data from [FlightRadar24](#) to July 12, 2024

### Goods enough?

At the same time, spending on goods that surged amid the peaks of the pandemic has remained resilient and continued to run at elevated levels. Retail spending on an inflation-adjusted basis has not registered much of a give-back from its break higher from the trend, despite elevated price pressures.

### CHART 8: SALES' SAILS STILL CATCHING WIND

**Retail sales trade volumes<sup>5</sup>**  
(year-over-year change in three-month moving average)

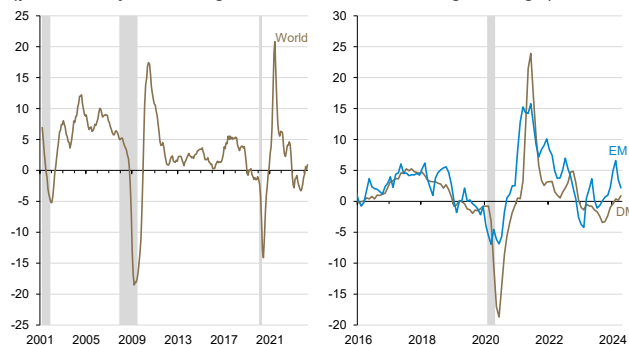


Shaded regions represent periods of US recession; source: Guardian Capital using data from the OECD to May 2024

Echoing this demand for consumer goods, international trade flows have turned for the better this year. Growth in import and export volumes has perked up, and there has been particular strength in EM that plays a significant role in the supply chain.

### CHART 9: TRADING PLACES

**International trade volumes<sup>6</sup>, World**  
(year-over-year change in three-month moving average)



Shaded regions represent periods of US recession; source: Guardian Capital using data from CPB Netherlands Bureau for Economic Policy Analysis to April 2024

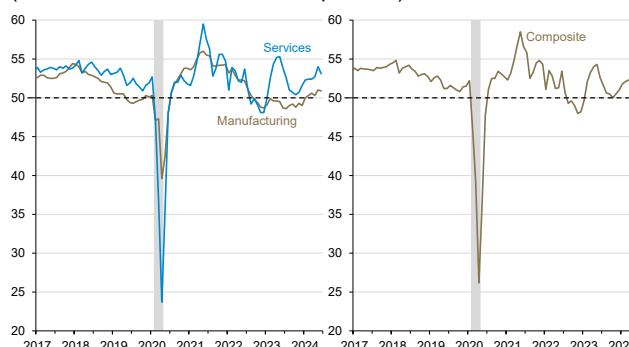
Finally, the momentum has been further confirmed by the bellwether global manufacturing Purchasing Managers' Index (PMI). The forward-looking gauge of factory activity just closed out its best quarter in two years, with the participation in the expansion of goods production broadening out notably.

The global PMI for the more economically important service sector has seen its moderate upward momentum sustained so far through 2024, with Q2 marking its best outturn in a year.

The composite PMI, aggregating countries and sectors, (a proxy for global growth) registered its strongest quarter in a year, pointing to continued growth in the months ahead.

### CHART 10: MAINTAINING MOMENTUM

**Purchasing managers' indexes<sup>7</sup>, World**  
(diffusion index; >50 denotes expansion)



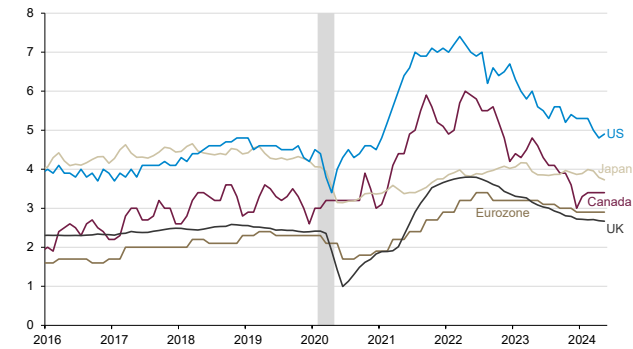
Shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to June 2024

## Keep the economy working

The solid levels of business activity have kept demand for workers elevated. While well off their earlier peaks, job vacancy rates generally remain above pre-pandemic levels worldwide.

**CHART 11: HELP WANTED**

**Job vacancy rates\***  
(percent)

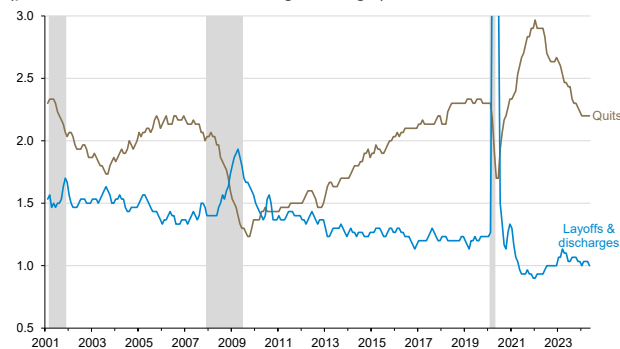


\*Job openings as a share of filled and open positions; shaded region represents a period of US recession; source: Guardian Capital using data from Bloomberg to May 2024

As well, layoffs remain benign (and filings for government unemployment insurance programs low) and, while the decline in ‘quits’ suggests some marginal cooling in the market, it also points to businesses’ efforts to retain staff in a market that still favours workers — this is corroborated by wage inflation, which remains elevated though it has moderated from earlier peaks.

**CHART 12: KEEPING THEIR HEAD(COUNTS)**

**Job separation rates by type\*, US**  
(percent, three-month moving average)

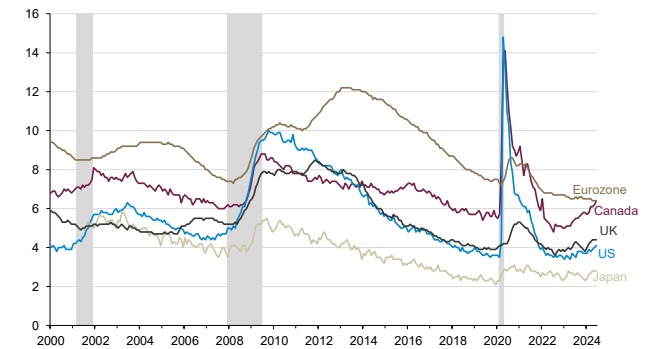


\*Share of employment; shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to May 2024

As a result, unemployment rates remain near their historic lows globally — increases in the US, UK and Canada reflect surging population growth, not job loss, in a welcome indication of easing constraints within the job market rather than signs of weakness.

**CHART 13: LITTLE SLACKING ON THE JOB**

**Unemployment rates**  
(percent)



Shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to June 2024

A still firm backdrop for employment bodes well for continued income growth, which, combined with the strength in finances — household balance sheets, in general, remain in solid shape against ample savings, strong financial markets and firm home prices — suggests there is still scope for consumers to continue to serve as a driver for global growth.

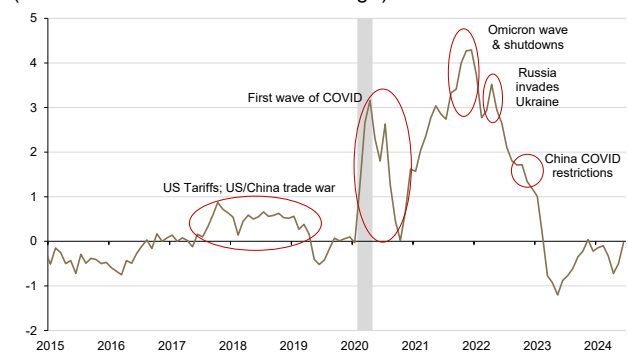
## Threats neutralized?

The outlook for consumers is also supported by the fact that underlying inflationary pressures have continued to moderate, giving a boost to household purchasing power.

Echoing the improvement in trade flows, the damaged links in the supply chain have been repaired, driving a material easing in supply-side price pressures that played a significant role in pushing inflation rates higher worldwide.

**CHART 14: WORKING OUT THE KINKS**

**Supply Chain Pressure Index<sup>8</sup>, World**  
(standard deviations from the average)

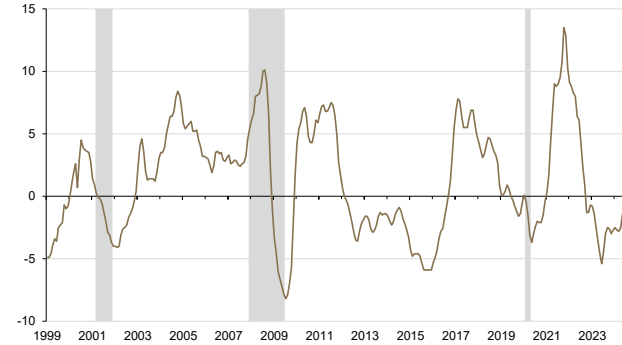


Shaded regions represent periods of US recession; source: Guardian Capital using data from New York Federal Reserve Bank to June 2024

Similarly, price pressures in the production pipeline have plunged. China, often the first step in the value chain, has seen producer prices outright deflate for nearly two years, for example.

### CHART 15: PLUNGING PIPELINE PRICE PRESSURE

**Producer Price Index<sup>9</sup>, China**  
(year-over-year percent change)

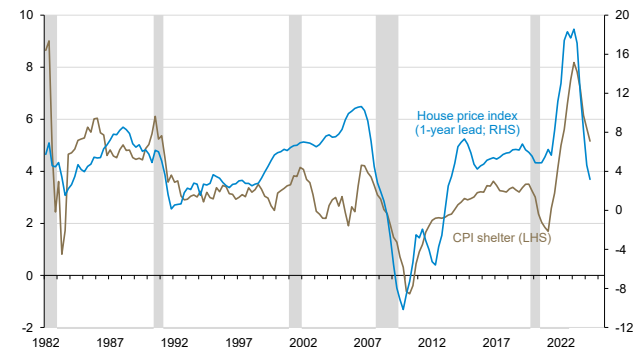


Shaded regions represent periods of US recession; source: Guardian Capital based on data from Bloomberg to June 2024

Even with still firm underlying demand, this has factored into the sustained downtrend in the rate of increase in consumer prices. Easing costs of labour and raw inputs to production, as well as the lagged impact of the moderation in home prices and rent increases, are also playing their part as well.

### CHART 16: TAKING SHELTER

**Consumer Price Index shelter and national house prices<sup>10</sup>, US**  
(year-over-year percent change)

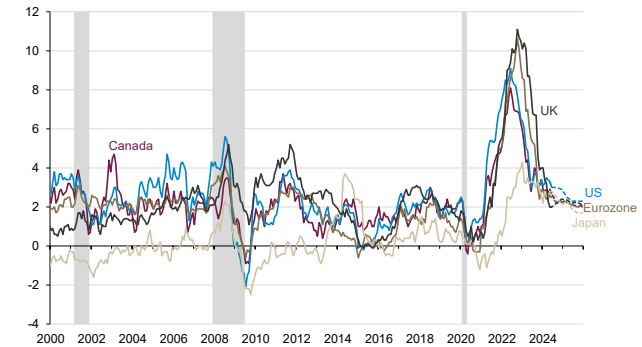


Shaded regions represent periods of US recession; source: Guardian Capital based on data from Bloomberg and the OECD to Q2 2024

Overall inflation remains elevated, but it has fallen back within reach of central bank targets in many regions and it is expected to move down to even more tolerable levels over the forecast horizon.

### CHART 17: GOING DOWN

**Consumer Price Index<sup>11</sup>**  
(year-over-year percent change)

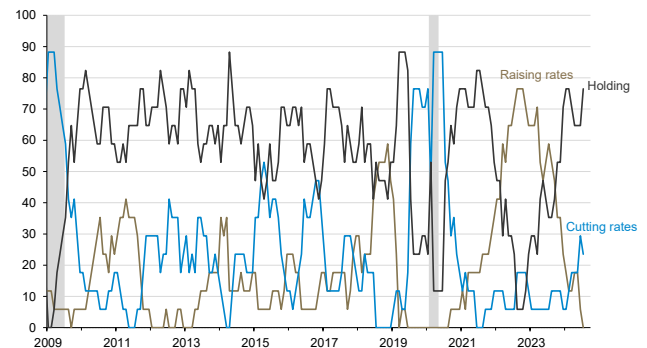


Dashed lines represent consensus forecasts as at April 19, 2024; shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to June 2024

So, even with growth and employment holding up better than anticipated, the progress with respect to attaining price stability has led, effectively, all major central banks to move to the sidelines and signal their intentions to move toward a less restrictive policy stance — a handful of central banks in EM and, more recently, DM have begun easing cycles.

### CHART 18: HOLD MY CALLS

**Central bank policy rate direction, G20**  
(three-month rolling percent of G20 central banks)



Shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg and the Bank for International Settlements<sup>12</sup> to July 12, 2024

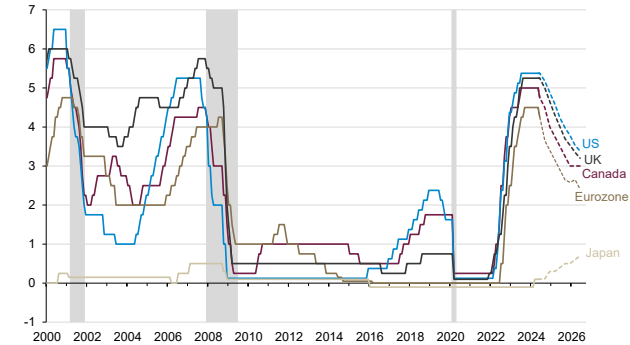
Except for Japan — where the economic and inflation backdrop did not compel the central bank to tighten policy with its peers — policymakers in major economies are expected to either cut rates further (European Central Bank and Bank of Canada) or make their first volleys (Bank of England and US Federal Reserve (Fed)) in the coming months.

The pace of cuts, however, is unlikely to mirror those of the typical easing campaigns that come in the face of recession. Instead, the projected path looks to be more gradual and shallower, ending at levels more

consistent with estimates of “neutral” (which typically range anywhere between 2% and 4%) rather than the “emergency” lows.

### CHART 19: DOWNSHIFTING TO NEUTRAL

**Central bank policy interest rates**  
(percent)



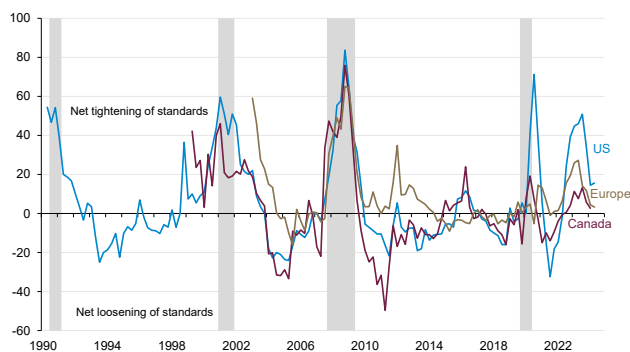
Dashed lines represent overnight index swap (OIS) implied rates as at July 12, 2024; shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to July 12, 2024

While that would suggest that policy easing would, therefore, result in a more modest degree of verve for the real economy than would otherwise be assumed, it still represents a material reduction in interest costs that would offer relief for borrowers and help push the net present value of delayed capital projects into positive territory.

Given that highly restrictive monetary policy and resultant tight credit conditions have long been viewed as key catalysts to a downward inflection in growth, that these pressures are anticipated to ease further in earnest in the coming months represents another favourable development for the outlook.

### CHART 20: HOLDING TO A LOWER STANDARD

**Balance of opinion on standards for business loans**  
(net percent of banks tightening versus easing)



Shaded regions represent periods of US recession; source: Guardian Capital based on data from the US Federal Reserve, European Central Bank and Bank of Canada to Q2 2024

### What’s the risk?

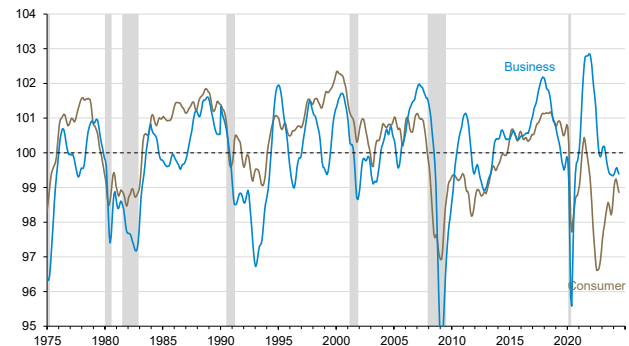
The baseline outlook of broadening positive, if unspectacular growth, moderating inflation, and declining interest rates is clearly positive and constructive for financial markets.

Unfortunately, however, those more pessimistic prospects of a potential “hard landing”, that have weighed on confidence over the last few years, cannot be completely eschewed quite yet. Growth and inflation trends have been favourable, but there is always the possibility that momentum could turn.

While there has been a clear disconnect between what consumers and businesses have been saying and doing in the post-pandemic era, it remains the case that measures of sentiment remain historically subdued.

### CHART 21: PESSIMISM STILL PREVAILS

**Consumer and business sentiment<sup>13</sup>, OECD**  
(index; long-term average=100)



Shaded regions represent periods of US recession; source Guardian Capital using data from the OECD and Bloomberg to June 2024

Weak confidence about what is to come can set off a negative economic spiral where more conservative household and business spending decisions now weigh on demand and bring forward weakness that spurs softer job markets, which only exacerbate the ultimate hit to activity.

Further, the high cost of living is a big factor behind the downbeat assessment of current conditions. If inflationary pressures were to reassert themselves and erode purchasing power even more, that would constrain spending.

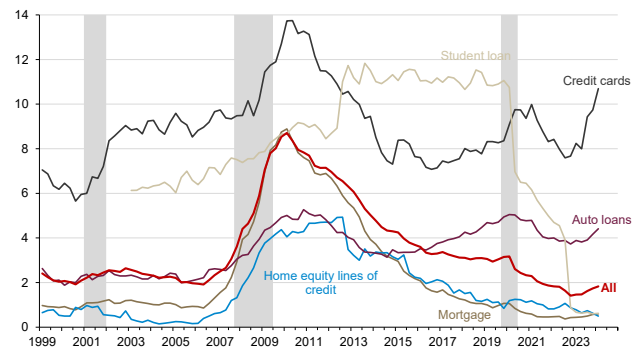
Persistently elevated inflation would also impede the ability of central banks to unwind the last two years’

worth of aggressive policy tightening, likely resulting in interest rates remaining higher for longer than currently assumed.

There is already growing evidence of the long and variable lag of monetary policy being increasingly felt among households. Delinquency rates on US consumer loans have been rising in recent quarters with particularly sharp increases among credit cards.

### CHART 22: PRESSING PAYMENTS

**Percent of loans 90+ days delinquent by type<sup>14</sup>, US**  
(percent of outstanding loan balances)



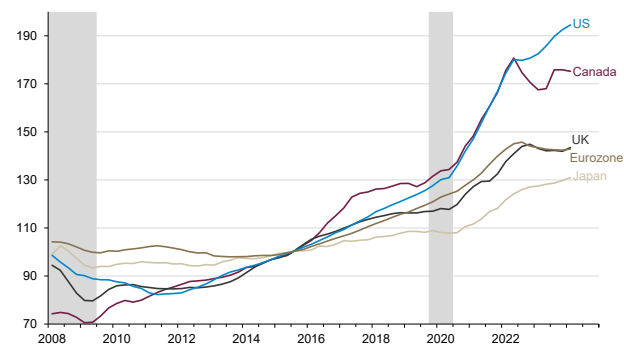
Shaded regions represent periods of US recession; source: Guardian Capital using data from the [Federal Reserve Bank of New York](#)<sup>15</sup> to Q1 2024

That said, overall consumer loan delinquency rates remain benign as households — that generally appear to be on solid footing against rising wealth and firm job markets — remain current on the housing-related debt, which accounts for the vast majority of liabilities.

Even here, however, the prospect of interest rates persisting at high levels presents risk as mortgages increasingly come up for renewal and would-be sellers face less-than-ideal real estate market conditions — this is more of a near-term risk in Canada and Europe, where mortgage terms are considerably shorter than seen in the US.

### CHART 23: HOUSING'S FOUNDATION

**House prices<sup>16</sup>**  
(index; 2015 = 100)



Shaded regions represent periods of US recession; source: Guardian Capital using data from the OECD to Q1 2024

Another key risk that appears set to intensify in the months ahead and increase the prospect of a more “exogenous” shock stems from geopolitics.

The ongoing conflicts in Ukraine and the Middle East continue to take heavy humanitarian tolls on their respective regions and reverberate globally via commodity markets and rising uncertainty.

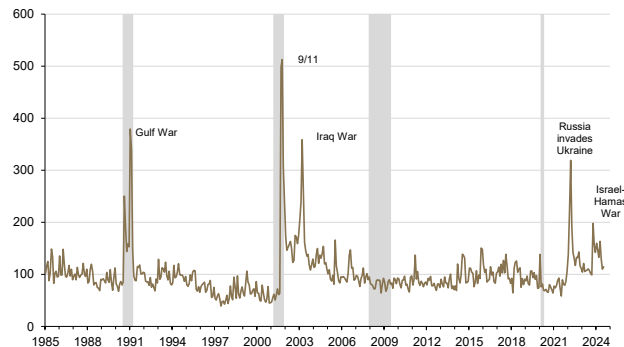
The tensions around the Taiwan Strait continue to linger on the back burner as well.

Relations between the US and China remain fraught. Recent tariffs imposed by the Americans focused on “clean” technology-related goods imported from the Middle Kingdom, will not ease strains, while also creating an inflationary impulse.

As well, the looming US election appears as though it will only likely add to economic frictions and increase the threat of added trade barriers.

### CHART 24: GEOPOLITICAL INSTABILITY

**Geopolitical Risk Index<sup>17</sup>, World**  
(index; pre-2019 average=100)

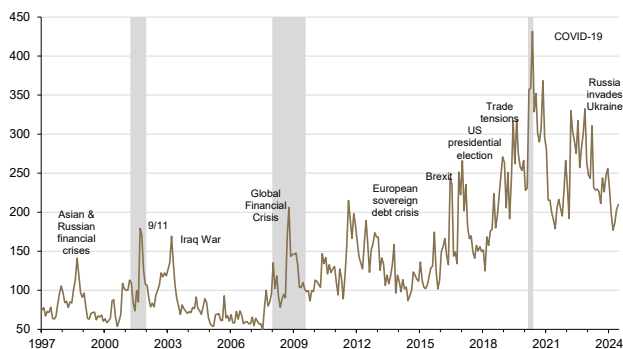


Shaded regions represent periods of US recession; source: Guardian Capital using data from [PolicyUncertainty.com](#) to July 12, 2024

Further, the uncertainty related to domestic policy stateside — and its global implications — has been ratcheted up in recent weeks against questions as to who will, ultimately, actually be facing off for the White House in four months; let alone the outcome of the vote.

### CHART 25: PLAYING POLITICS

**Policy Uncertainty Index<sup>18</sup>, World**  
(index; pre-2015 average=100)



Shaded regions represent periods of US recession; source: Guardian Capital based on data from PolicyUncertainty.com to June 2024

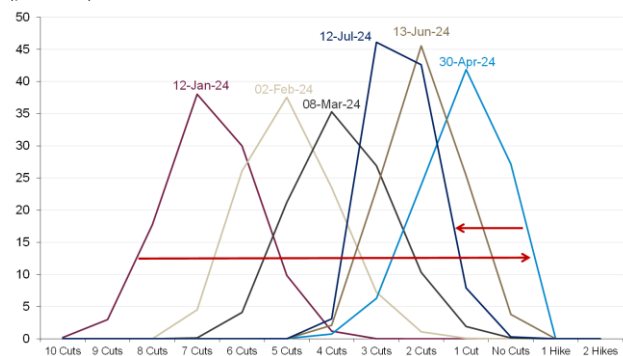
### Bonded spirits

Lingering risks combined with the prospect of further moderation in inflation and a policy-induced decline in interest rates offer up a constructive outlook for fixed income investments that have endured among their worst three years on record.

That said, the very near term may see continued volatility until there is greater clarity on the policy rate path, especially concerning the Fed, where expectations have undergone sizable swings over the last year.

### CHART 26: THREE STEPS FORWARD, ONE STEP BACK

**Market-implied probabilities of US Federal Reserve policy path by year-end 2024**  
(percent)



Source: Guardian Capital based on data from CME FedWatch<sup>19</sup>

Barring an unexpected material break higher in inflation that spurs at least the contemplation of further action from policymakers, however, it would appear that the peak in rates has likely passed.

The anticipated synchronized easing cycle from global central banks would exert downward pressure on rates, though, the more-policy sensitive front-end of the curve will likely see bigger declines and result in a steepening in the long-inverted yield curve.

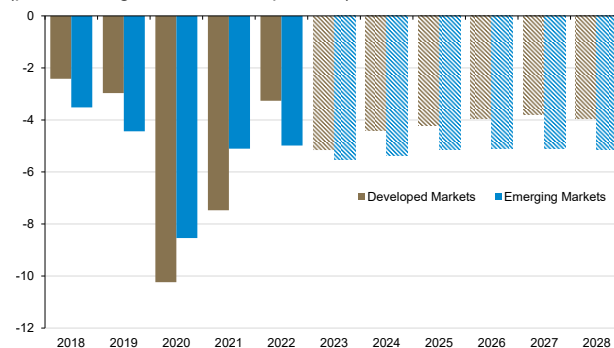
Further out on the yield curve, market forces will play more of a role than they have in recent history, and on that front, the expected supply/demand dynamics may keep longer-term rates more anchored.

Governments worldwide continue to express little appetite for reining in the still highly expansionary policies adopted in the aftermath of the pandemic that added to the inflationary thrust globally.

Budgetary shortfalls remain gaping and are not anticipated to improve materially any time soon as the heavy slate of elections this year and next are not typically conducive to fiscal restraint.

### CHART 27: FISCALLY UNFIT

**General government fiscal balance**  
(percent of gross domestic product)



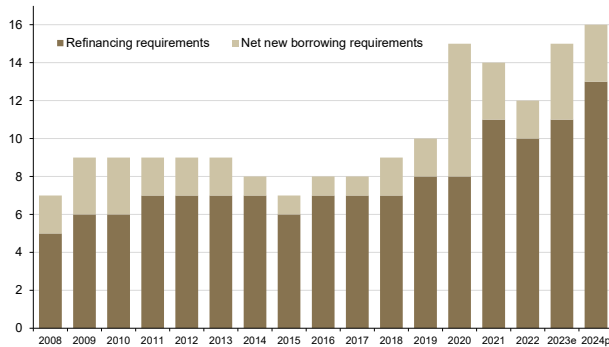
Forecasts are from the International Monetary Fund's April 2024 [World Economic Outlook<sup>20</sup>](#); source: Guardian Capital using data from the IMF

As a result, government debt loads are expected to continue growing at more onerous costs.

Sovereign borrowing requirements across the 38 largely DM economies that comprise the OECD are slated to hit new highs and push the outstanding stock of government debt to records north of US\$50 trillion (equivalent to 50% of gross domestic product for the world as a whole).

## CHART 28: GIVE ME SOME CREDIT

**Net sovereign borrowing requirements, OECD countries**  
(trillions of US dollars)



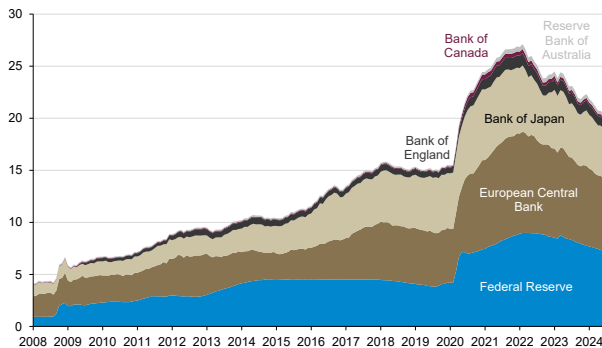
e="estimate"; p="projection"; source Guardian Capital using data from the OECD's [Global Debt Report 2024](#)<sup>21</sup> (March 2024)

Elevated government debt loads may not have represented an overly pressing concern in the world of zero interest rates and captive bond buying from price-insensitive central banks that prevailed over the last 15 years, but conditions have now changed.

Central banks are no longer active participants in markets, with major monetary authorities instead gradually scaling down the size of their historically bloated balance sheets.

## CHART 29: GETTING OUT OF THE GAME

**Central bank asset holdings**  
(trillions of US dollars)



Source Guardian Capital using data from Bloomberg to June 30, 2024

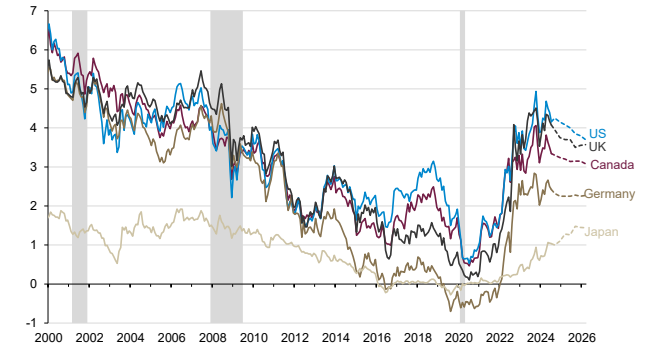
The continued deluge of supply could face growing difficulties being absorbed in the more discriminating market, which could result in upward pressure on benchmark yields — which, in turn, would put added pressure on fiscal plans and provide a moderate headwind for growth.

<sup>1</sup> Assuming bond purchase price is lower than its par value or selling price

As it stands, market consensus points to sovereign 10-year bond yields not deviating all that much from recent trading ranges over the forecast horizon.

## CHART 30: HOME ON THE RANGE

**10-year sovereign bond yield**  
(percent)



Dashed lines represent consensus forecasts as at July 12, 2024; shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to July 12, 2024

That said, bonds would appear to provide a fairly compelling balance of risks trade-off that could continue to attract investor flows.

Yields remain around their highest levels in over a decade and the prospect of rates moving lower sets up for potential capital gains as well (due to the inverse relationship between interest rates and bond prices)<sup>1</sup> — and in the event of a material economic slowdown actually materializing (or even just rising risks), this latter feature would become more prominent.

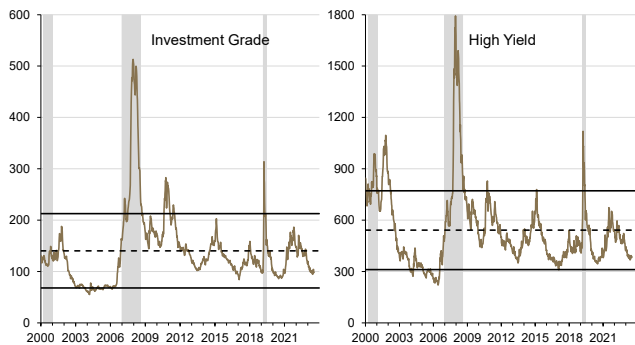
The fairly positive baseline economic outlook, however, would appear to argue in favour of fixed income exposures further out the risk curve.

Corporate bonds offer comparably higher coupons that point to higher relative returns, while also offering a potential cushion against adverse market moves.

As well, the potential positives of reduced credit risk associated with the more sanguine baseline outlook could compound bond performance by a narrowing in spreads — high-grade credit appears to offer somewhat more scope for improvement on this front, while also providing a safety premium should markets turn for the worse.

## CHART 31: OVER THE TOP

**Credit spreads over government bond yields, World\***  
(basis points)



\*Investment Grade = Bloomberg Aggregate Global Corporate Bond Index<sup>22</sup>; High Yield=Bloomberg Global High Yield Bond Index<sup>23</sup>; dashed lines represent series averages, solid lines are +/-1 standard deviation from the average; shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to July 12, 2024

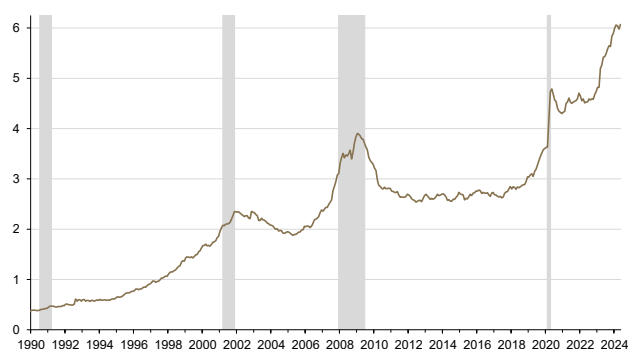
Debt with shorter maturities continue to also offer a yield advantage over those issues with a longer duration, though, they stand to see lower capital gains benefits from a decline in rates given their lower duration.

This segment of fixed income markets is also likely to be subject to growing reinvestment risk as lower short-term rates make holding cash less attractive.

The prospect of a reallocation of even some of the more than US\$6 trillion in US money market funds could serve as a tailwind to other, longer-duration fixed income assets.

## CHART 32: TAKE THE MONEY AND RUN?

**Total money market assets, US**  
(trillions of US dollars)



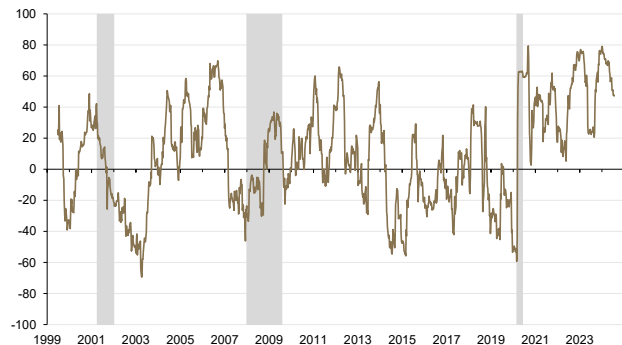
Shaded regions represent periods of US recession; source: Guardian Capital based on data from the Investment Company Institute and Bloomberg to July 12, 2024

The yields on offer and better longer-term return prospects with lower reinvestment risk make other fixed income assets (i.e., such as longer duration

government and corporate bonds) attractive, particularly in a balanced portfolio context, where they serve as a counterbalance for equities should the economic backdrop deteriorate and spur central banks into action, prompting a decoupling in the high correlation across asset classes seen in recent years.

## CHART 33: PARTING WAYS

**Stock\* and bond\*\* correlation, World**  
(rolling 26-week correlation of returns)



\*Stocks=MSCI World Index<sup>24</sup>; \*\*bonds=Bloomberg Global Aggregate<sup>25</sup>; shaded regions represent periods of US recession; source: Guardian Capital based on data from Bloomberg to July 12, 2024

## Stock in trade

The outlook of positive growth, moderating inflation and declining interest rates remains constructive for equities and continues to suggest that balanced portfolios may benefit from a tilt in favour of the asset class.

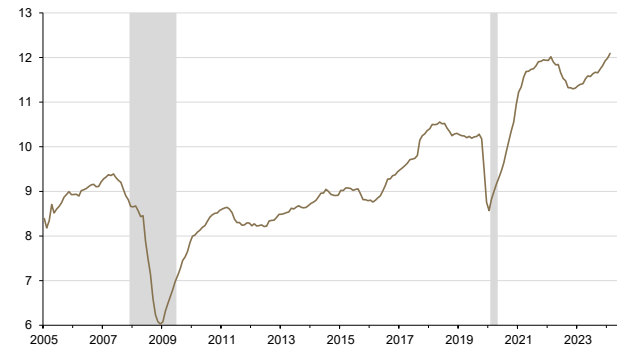
Indeed, despite the strong performance of stock markets year-to-date, there appears to be scope for further gains in the months ahead.

From a fundamental perspective, ongoing economic growth bodes well for company revenues, while declining cost pressures support their improved profitability.

Despite earlier expectations to the contrary, corporate profit margins have resumed their upward trajectory this year, which has, in turn, contributed to the positive inflection in earnings momentum.

### CHART 34: BETTER AT THE MARGIN

**MSCI World Index<sup>26</sup> forward profit margins (percent)**

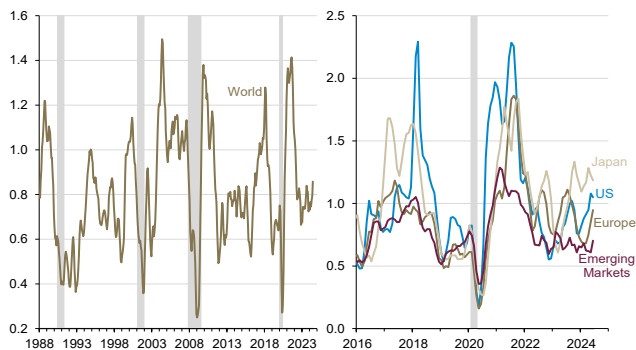


Shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to July 12, 2024

Analyst earnings expectations have firmed in recent months — the ratio of earnings upgrades-to-downgrades over the last three months increased to its best level since January 2022, globally, and the improvement has been broad-based across regions.

### CHART 35: SYSTEM UPGRADES

**Three-month earnings per share revision ratios (ratio of analyst upgrades to downgrades)**



Shaded regions represent periods of US recession; source: Guardian Capital using data from Bank of America to June 2024

Broad equity valuations, however, would suggest that the improving fundamentals and constructive outlook are already being fully priced in, which could skew the balance of risks for investors.

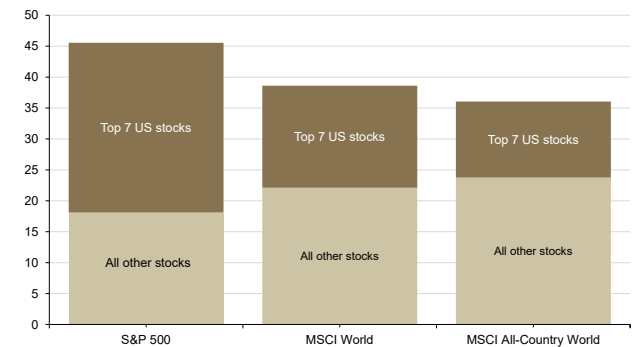
The price-to-earnings ratio for the aggregated global stock markets stands more than one standard deviation above its historical norms and history would suggest that these valuations do not bode well for longer-term return prospects.

The current market environment, however, is truly without historical precedent.

The last two years have seen a significant divergence in performance, with an extremely narrow subset of stocks of mega-cap US Information Technology (specifically artificial intelligence)-related companies accounting for the vast majority of overall gains, while returns have been relatively tepid elsewhere.

### CHART 36: THE BEST VS. ALL THE REST

**Contribution price return since January 1, 2023 (percentage points)**

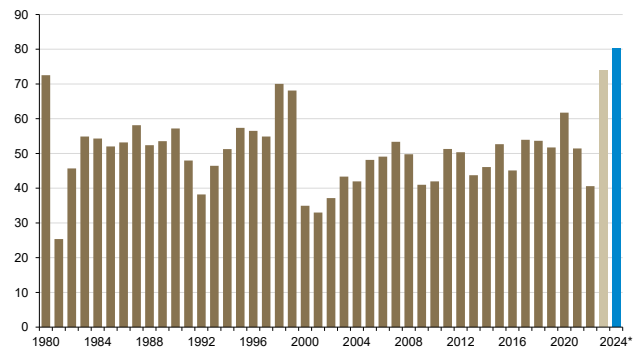


Source: Guardian Capital using data from Bloomberg to July 12, 2024

This extreme concentration means that index-level performance does not provide a good picture of the market as a whole. Case in point, 80% of the constituent stocks in the S&P 500 Index<sup>27</sup> are lagging the overall US equity benchmark year-to-date. Should this hold for the next five months, that would break the record set last year (data since 1980).

### CHART 37: GASPING FOR BREADTH

**Share of S&P 500 stocks underperforming the index (percent)**



\*2024 is based on data to July 12, 2024; Source: Guardian Capital using data from Apollo Global Management and Bloomberg

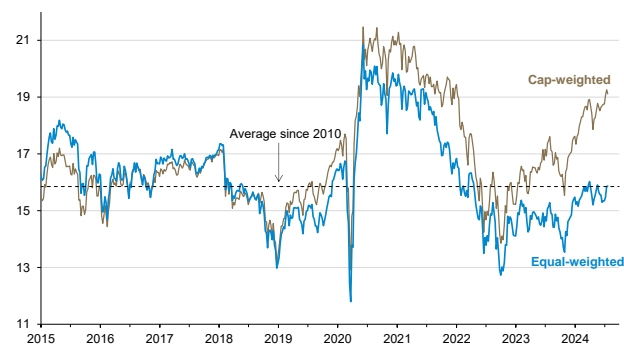
In other words, the average stock has turned in worse performance than the overall index would suggest, as it clearly has not been a case of a rising tide lifting all boats to new heights.

Accordingly, broad market metrics continue to be skewed by the significant outperformance of a small number of large stocks and, therefore, not overly representative of the market.

To this point, while the price-to-earnings ratio for the market-capitalization-weighted MSCI World Index points to the global equity market being quite expensive relative to its historical averages, the equal-weighted version of that index projects that a more level playing field remains below its historical norms.

### CHART 38: MOVING AVERAGES

Forward price-to-earnings ratio, MSCI World Index (ratio)

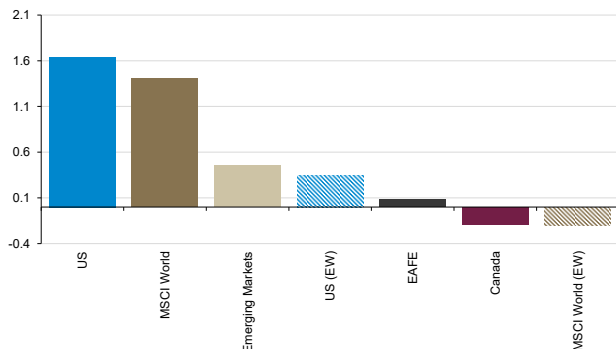


Source: Guardian Capital using data from Bloomberg to July 12, 2024

Most stocks are more reasonably valued than overall gauges would otherwise imply, indicating that there are opportunities for active and selective investors — especially for those with a more global focus — while also suggesting that there is some cushion in the event earnings expectations prove too optimistic.

### CHART 39: A WORLD OF OPPORTUNITY

MSCI Index forward price-to-earnings ratio (standard deviations from average since 2010)



EW=equal-weighted versions of the Index; source: Guardian Capital using data from Bloomberg to July 12, 2024

With that in mind, shifts in sentiment may well result in top-line softness in equity markets in the months ahead. After all, corrections happen and, ultimately, prove to be beneficial for the longer-run health of the market as they clear excesses and froth, resetting for the next leg higher.

Importantly, however, index-level declines would not necessarily mean that the market as a whole is struggling or provide an indication that economic momentum is faltering.

Instead, it could simply represent something as fairly innocuous as investors rebalancing what have become increasingly concentrated portfolios due to the significant divergence in performance.

That would be less than ideal for performance for passive/index investors, but could prove to be a boon for active managers that have lagged in the last couple of years due to relative underexposure to the narrow subset of market leaders — and that is especially the case for more value or income-focused investment strategies.

### The outlook is just right?

Downside risks to the outlook certainly remain, but the flow of contemporaneous activity data and forward-looking indicators suggest that the odds of the worst-case outcomes of a significant downward inflection in momentum materializing in the near term have diminished.

The likelihood of continued modest and broadening economic growth momentum, moderating inflationary pressures, and declining market interest rates would represent a constructive backdrop for financial markets.

This is especially the case given that valuations across asset classes do not appear particularly stretched in general at the moment, which suggests there may be scope for added gains in the months ahead.

## Market Returns as of June 30, 2024

All returns in CAD

### CANADIAN EQUITIES

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
S&P/TSX Composite	-1.4	-0.5	6.1	12.1	9.3	6.9
S&P/TSX 60	-1.8	-1.3	4.9	11.2	9.4	7.5
S&P/TSX Completion	0.1	2.9	11.0	16.2	9.0	5.3
S&P/TSX SmallCap	-1.9	0.8	8.8	14.4	8.1	3.1
S&P/TSX Composite High Dividend	-2.9	-1.5	2.8	6.6	8.7	5.7
S&P/TSX Composite Dividend	-1.8	-0.2	6.4	12.4	9.7	7.5

### S&P/TSX SECTOR RETURNS (%)

SECTOR RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
Communication Services	-4.6	-3.4	-11.6	-16.9	0.4	5.2
Consumer Discretionary	-0.9	-1.5	3.0	2.7	8.4	8.6
Consumer Staples	0.5	4.1	8.3	15.6	11.7	13.4
Energy	-3.8	0.9	14.1	24.1	13.3	2.7
Financials	-1.8	-1.2	4.3	14.6	9.7	9.0
Health Care	1.6	-18.6	-3.6	12.5	-29.1	-24.3
Industrials	1.0	-3.4	7.3	10.4	11.5	11.2
Information Technology	6.8	-5.6	-1.0	13.5	14.5	18.5
Materials	-4.6	7.4	13.7	11.4	9.3	4.9
Real Estate	0.6	-5.7	-4.1	-0.3	1.3	6.1
Utilities	-2.5	0.2	-0.9	-5.6	5.1	6.6

### INTERNATIONAL EQUITIES

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
MSCI World Index (Net, C\$)	2.4	3.7	16.0	24.3	12.8	11.9
MSCI EAFE Index (Net, C\$)	-1.2	0.6	9.3	15.3	7.4	7.0
MSCI ACWI (Net, C\$)	2.6	4.0	15.5	23.4	11.8	11.2
MSCI France (C\$)	-7.2	-6.5	1.7	3.9	7.4	7.7
MSCI Germany (C\$)	-1.4	-0.3	9.5	13.9	5.5	5.0
MSCI Japan (C\$)	-0.3	-3.3	10.3	17.0	7.6	8.2
MSCI U.K. (C\$)	-1.4	4.8	10.9	16.3	6.7	5.2
S&P/IFC Investable (Emerging Markets)	3.8	6.4	11.2	17.7	5.1	6.3
MSCI EAFE Growth (Gross, C\$)	-0.1	0.5	10.5	13.5	7.8	8.4
MSCI EAFE Value (Gross, C\$)	-2.4	1.5	9.0	18.4	7.7	6.3

### CANADIAN FIXED INCOME

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
FTSE Canada 91 Day TBill	0.4	1.3	2.6	5.1	2.2	1.5
FTSE Canada Short Term Overall Bond	0.8	1.2	1.6	5.6	1.4	1.7
FTSE Canada Mid Term Overall Bond	1.2	0.8	-0.3	3.9	0.3	2.0
FTSE Canada Long Term Overall Bond	1.6	0.2	-3.4	0.4	-2.3	2.1
FTSE Canada Universe Bond	1.1	0.9	-0.4	3.7	0.0	1.9
FTSE Canada High Yield Overall Bond	0.1	1.5	4.5	12.1	5.0	5.0
FTSE Canada Real Return Bond Overall	1.6	1.0	-0.8	1.5	-0.2	1.6

### US EQUITIES

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
S&P 500	4.0	5.4	19.6	28.8	16.1	15.7
Dow Jones Industrial Average	1.6	-0.2	8.7	20.0	11.3	14.1
NASDAQ	6.4	9.5	22.6	33.0	18.3	17.8
Russell 1000	3.7	4.7	18.5	28.1	15.7	15.3
Russell 2000	-0.5	-2.2	5.6	13.8	7.9	9.7
Russell 3000	3.5	4.4	17.8	27.3	15.2	15.0
Russell 1000 Growth	7.2	9.5	25.3	38.0	20.4	19.3
Russell 1000 Value	-0.6	-1.1	10.6	16.9	10.0	11.0

### S&P 500 SECTOR RETURNS (%)

SECTOR RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
Communication Services	5.2	10.5	31.5	49.8	15.8	12.7
Consumer Discretionary	5.3	1.7	9.6	16.9	11.6	15.1
Consumer Staples	0.2	2.4	13.1	11.8	10.5	11.7
Energy	-0.9	-1.4	15.1	19.8	14.0	5.9
Financials	-0.5	-1.0	14.3	28.4	11.6	13.4
Health Care	2.3	0.1	11.9	15.5	12.6	13.9
Industrials	-0.6	-1.9	11.8	19.5	12.6	13.2
Information Technology	9.7	15.0	33.1	46.6	28.3	25.9
Materials	-2.7	-3.5	8.0	12.4	11.9	10.9
Real Estate	2.4	-0.9	1.2	9.2	5.4	N/A
Utilities	-5.1	5.8	13.6	11.5	7.1	10.8

### INTERNATIONAL EQUITIES

MSCI EAFE SECTOR RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
Communication Services	0.6	1.6	8.6	13.8	2.6	3.1
Consumer Discretionary	-2.9	-8.0	4.9	3.5	7.0	6.8
Consumer Staples	-3.1	-0.6	-1.1	-3.7	1.3	4.8
Energy	-2.3	2.3	7.4	19.8	6.1	4.3
Financials	-1.6	4.4	16.3	28.4	9.5	6.9
Health Care	1.8	5.8	13.8	15.3	9.2	8.1
Industrials	-3.1	0.3	11.1	18.9	9.1	8.8
Information Technology	5.2	1.3	18.9	28.4	14.0	13.8
Materials	-3.6	-2.2	-0.7	12.2	8.5	7.8
Real Estate	-3.2	-5.7	-1.8	11.3	-3.1	N/A
Utilities	-3.2	1.8	-0.7	2.8	4.8	5.3

### CANADIAN FIXED INCOME

SECTOR RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
FTSE Canada Federal Bond	1.0	0.8	-0.4	3.1	-0.2	1.2
FTSE Canada Provincial Bond	1.4	0.7	-1.5	2.3	-0.9	2.0
FTSE Canada All Corporate Bond	1.0	1.1	1.2	6.5	1.4	2.7

### GLOBAL FIXED INCOME

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
FTSE World Government Bond	0.3	-0.5	-0.3	2.8	-2.3	1.3

Sources: Bloomberg Finance L.P., FTSE Bond Analytics, TD Securities, Thomson Financial

# Market Returns as of June 30, 2024

All returns in CAD

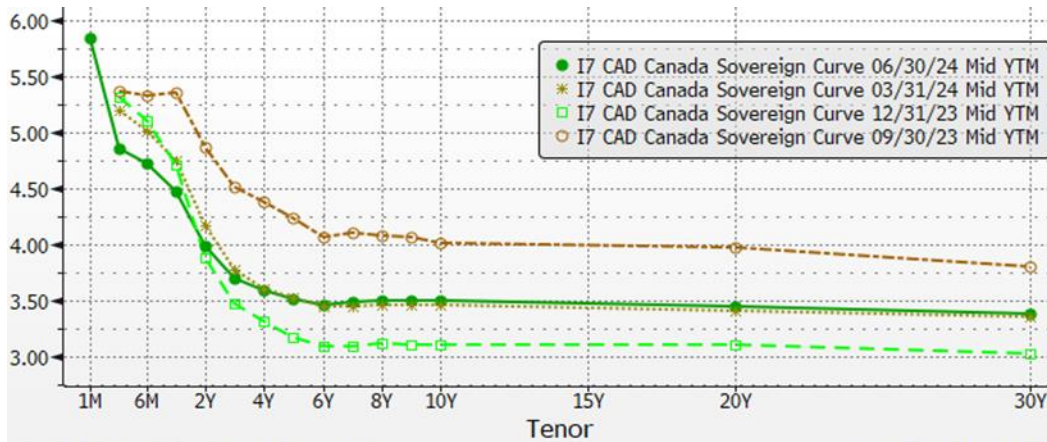
## COMMODITIES

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
Bloomberg WTI Cushing Crude Oil Spot Price	6.3	-0.9	18.1	19.4	7.9	-0.1
Bloomberg European Dated Brent BFOE Price	8.6	0.7	15.9	18.5	7.1	-0.1
Edmonton Crude Oil Syncrude Sweet Blend FOB Spot	1.7	-4.7	34.3	13.2	7.8	0.0
S&P GSCI Nat Gas Index Spot	0.9	49.1	7.4	-3.9	3.4	-2.9
S&P GSCI Copper Index Spot	-4.1	9.3	16.2	18.6	10.8	5.7
S&P GSCI Gold Index Spot	0.1	5.6	17.2	25.4	11.6	8.5

## CURRENCY

% CHANGE	1M	3M	YTD	1Y	5Y	10Y
CAD/USD	0.4	1.1	3.8	3.4	0.9	2.5
CAD/Yen	-1.9	-4.9	-9.1	-7.1	-6.8	-2.1
CAD/GBP	-0.3	1.2	2.9	2.8	0.8	-0.5
CAD/Euro	-0.9	0.3	0.7	1.6	-0.3	0.0

## GOVERNMENT OF CANADA YIELD CURVE



Copyright © 2024 Bloomberg Finance L.P.

09-Jul-2024 12:00:25

## U.S. TREASURY YIELD CURVE



Copyright © 2024 Bloomberg Finance L.P.

09-Jul-2024 12:00:59

Sources: Bloomberg Finance L.P., FTSE Bond Analytics, TD Securities, Thomson Financial

- 
- <sup>1</sup> The [composite leading indicator](#) (CLI) is designed to provide early signals of turning points in business cycles showing fluctuation of the economic activity around its long-term potential level. CLIs show short-term economic movements in qualitative rather than quantitative terms.
- <sup>2</sup> OECD+ is an aggregate including the 38 OECD economies and six major non-member economies (Brazil, China, India, Indonesia, Russia and South Africa).
- <sup>3</sup> Gross refers to gross earnings in U.S. dollars. On average, a movie's distributor receives a little more than half of the final gross (often referred to as the "rentals") with the remainder going to the exhibitor (i.e., movie theater). The money split varies from movie to movie, but, generally, the contract favours the distributor in the early weeks and shifts to the exhibitor later on.
- <sup>4</sup> Gross represents the total monies received from ticket sales and does not include taxes, outlet, or venue fees.
- <sup>5</sup> The index of retail trade volumes is based on turnover in the retail sector deflated by changes in retail prices
- <sup>6</sup> Aggregate volume of merchandise trade leaving a country (exports) and entering a country (imports) on volumes for 81 countries worldwide covering approximately 99% of world trade.
- <sup>7</sup> The Purchasing Managers Index (PMI) is a measure of the prevailing direction of economic trends in manufacturing and services sectors; based on a monthly survey of companies to determine whether business conditions are improving, unchanged, or deteriorating compared to the previous survey, seasonally adjusted.
- <sup>8</sup> The Federal Reserve Bank of New York [Global Supply Chain Pressure Index](#) is a measure of global supply chain conditions.
- <sup>9</sup> A producer price index is a price index that measures the average changes in prices received by domestic producers for their output.
- <sup>10</sup> A consumer price index measures the price of a weighted average market basket of consumer goods and services purchased by households. The shelter component measures the costs of rental and owned accommodation. The OECD nominal house price index covers the sales of newly built and existing dwellings based on data collected by national statistical institutes or ministries.
- <sup>11</sup> Inflation measured by the consumer price index (CPI) is defined as the change in the prices of a basket of goods and services that are typically purchased by specific groups of households.
- <sup>12</sup> The Bank for International Settlements (BIS) supports central banks' pursuit of monetary and financial stability through international cooperation, and to act as a bank for central banks.
- <sup>13</sup> The [consumer](#) and [business](#) confidence indicators provide an indication of future developments of households and businesses' spending and investment based on opinion surveys. An indicator above 100 signals a boost in confidence towards the future economic situation; values below 100 indicate a pessimistic attitude towards future developments in the economy.
- <sup>14</sup> Percent of the balance for which payment is either 90-day late, 120-day late or severely derogatory. 90+ days late is synonymous to seriously delinquent. Not all creditors provide updated information on payment status, especially after accounts have been derogatory for a longer period. Thus, the payment performance profiles obtained from data may to some extent reflect reporting practices of creditors.
- <sup>15</sup> Federal Reserve Bank of New York, Quarterly report on household debt and credit; [https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC\\_2024Q1](https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2024Q1)
- <sup>16</sup> Nominal house price index covering the sales of newly-built and existing dwellings as calculated by the OECD; prices are indices seasonally adjusted. [Housing prices | OECD](#)
- <sup>17</sup> The Geopolitical Risk Index, created by Dario Caldara and Matteo Iacoviello, is a measure of adverse geopolitical events and associated risks based on a tally of newspaper articles covering geopolitical tensions. The index reflects automated text-search results of the electronic archives of 10 newspapers related to adverse geopolitical events in each newspaper for each month (as a share of the total number of news articles).
- <sup>18</sup> The Global Economic Policy Uncertainty Index is a GDP-weighted average of national Economic Policy Uncertainty (EPU) indices for 16 countries that account for two-thirds of global output. Each national EPU index reflects the relative frequency of own-country newspaper articles that contain a trio of terms pertaining to the economy, uncertainty and policy-related matters.
- <sup>19</sup> CME Group, CME FedWatch Tool, July 30, 2024, <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>
- <sup>20</sup> International Monetary Fund, World Economic Outlook: steady but slow: resilience amid divergence; April 16, 2024, <https://www.imf.org/en/Publications/WEO/Issues/2024/04/16/world-economic-outlook-april-2024>
- <sup>21</sup> Organisation for Economic Co-operation and Development, Global Debt Report 2024: Bond markets in a high-debt environment; March 7, 2024, <https://www.oecd-ilibrary.org/sites/91844ea2-en/index.html?itemId=/content/publication/91844ea2-en>
- <sup>22</sup> The Bloomberg Barclays Global Aggregate Bond Index is a flagship measure of global investment grade debt from twenty-four local currency markets.
- <sup>23</sup> The Bloomberg Global High Yield Index is a multi-currency flagship measure of the global high yield debt market. The index represents the union of the US High Yield, the Pan-European High Yield, and Emerging Markets (EM) Hard Currency High Yield Indices.
- <sup>24</sup> The MSCI World Index captures mid- and large-cap representation across 23 developed market countries.
- <sup>25</sup> The Bloomberg Barclays Global Aggregate Bond Index is a flagship measure of global investment grade debt from twenty-four local currency markets.
- <sup>26</sup> The MSCI World Index captures mid- and large-cap representation across 23 developed market countries.
- <sup>27</sup> The S&P 500 is an index of 500 stocks designed to reflect the risk/return characteristics of the large-cap US equity universe.

**This document is confidential and may not be copied, reproduced or distributed, in whole or in part, to others at any time without the prior written consent of Guardian Partners Inc.** The material contained herein is not intended for distribution to, or to be used by, any person or entity in any jurisdiction or country in which distribution or use would be contrary to law or regulation. Except as otherwise permitted herein, distribution of this material to any person other than the person to whom this was originally delivered and to such person's advisors is unauthorized and any reproduction, in whole or in part, or the divulgence of its contents, without the prior consent of Guardian Partners Inc. in each such instance is prohibited. The statements and opinions expressed herein are as of the date hereof (unless otherwise indicated) and are subject to change as economic and market conditions dictate. This document includes information concerning financial markets that was developed at a particular point in time. This information is subject to change at any time, without notice, and without update. This commentary may also include forward-looking statements concerning anticipated results, circumstances, and expectations regarding future events. Forward-looking statements require assumptions to be made and are, therefore, subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. This document is not intended to be, nor should it be construed or used as investment, financial, accounting, tax or legal advice. Information or data about past performance is no assurance of future results. The material contained herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any trading strategy. Total returns and return-based metrics are stated in Canadian dollars unless otherwise indicated. Metrics for underlying portfolio holdings are stated in that company's reporting currency.

Guardian Partners Inc. provides private client investment services and is a wholly owned subsidiary of Guardian Capital Group Limited, a publicly traded firm listed on the Toronto Stock Exchange. For further information on Guardian Capital Group Limited and its affiliates, please visit [www.guardiancapital.com/](http://www.guardiancapital.com/). For further information on Guardian Partners Inc., please visit [www.guardiancapital.com/gpi](http://www.guardiancapital.com/gpi). All trademarks, registered and unregistered, are owned by Guardian Capital Group Limited and are used under license.

Published: August 2024