GLOBAL
Insight
WEEKLY

Wealth Management

Perspectives from the Global Portfolio Advisory Committee

October 10, 2024

Recession scorecard update: Stop and start

Jim Allworth – Toronto

There have been no recent scorecard rating changes. However, two of the seven indicators have failed to move in the anticipated direction over the past month.

Unemployment rate

The unemployment rate fell for the second straight month. That decline has not altered its "red" status. The monthly rate has been above the smoothed trend for eight consecutive months, and that smoothed trend continues to rise. However, the gap between the two has narrowed, and we think two more months of a falling unemployment rate would, at the very least, muddy the picture.

The unemployment rate is important to the "recession/no recession" discussion for at least two reasons: because of its perfect track record of signaling the imminent onset of recession since it was first published in 1948, and because it factors mightily into Fed thinking about whether to and by how much to cut rates.

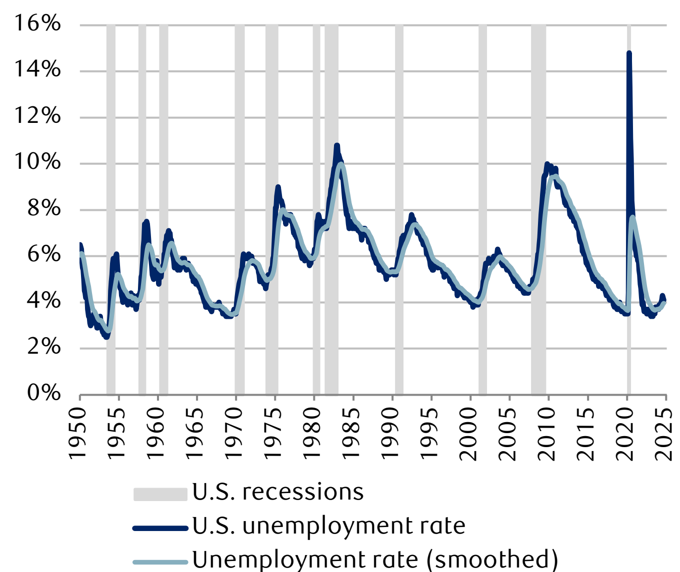
Fed Chair Jerome Powell, in the press conference following the Federal Open Market Committee's September meeting, noted that the labor market had cooled and that the Fed would not welcome any additional weakness on the employment front. Many observers believed the Fed's September rate cut was larger than normal because of the surge in the reported July unemployment rate to 4.3%.

Several factors argue in favour of the unemployment rate resuming its climb in the coming months:

- Temporary employment continued to fall even in September's blowout payroll gains. Employers typically

U.S. monthly unemployment running above trend

U.S. unemployment rate and 3-month smoothed trend



Source - RBC Wealth Management, Federal Reserve Bank of St. Louis (FRED); data through 9/30/24

For perspectives on the week from our regional analysts, please see pages 3–4.

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Priced (in USD) as of 10/9/24 market close (unless otherwise stated). Produced: 10/10/24, 12:37 ET; Disseminated: 10/10/24, 14:00 ET

reduce temp jobs before they lay off permanent employees.

- The multi-quarter decline in the number of workers voluntarily quitting their jobs accelerated sharply lower according to the September report.
- Small business hiring plans remain well below pre-pandemic levels according to the National Federation of Independent Business.
- The already-rising percentage of respondents who reported jobs were "hard to get" jumped higher in the latest Conference Board's Consumer Confidence Survey.

All the above have been useful leading indicators of where the unemployment rate was headed in the following six to 12 months.

ISM New Orders minus Inventories

This indicator has been wobbling around either side of zero. The New Orders Index taken by itself has been painting a negative picture for some time—22 of the past 24 months have shown new orders contracting for the manufacturing sector. However, inventories have also mostly been contracting over that stretch, leaving the net of the two indexes not telling us very much about the likely course of manufacturing from here.

Reading between the lines

Overall, we think the scorecard is red enough to argue for a cautious, watchful approach to equity investing but, at the same time, not deteriorating at a pace that would unequivocally rule out the possibility of a soft landing for the U.S. economy.

U.S. Recession Scorecard

	Status		
Indicator	Expansionary	Neutral/ Cautionary	Recessionary
Yield curve (10-year to 1-year Treasuries)			✓
Unemployment claims		✓	
Unemployment rate			✓
Conference Board Leading Economic Index			✓
Non-financial corporate cash flows	✓		
ISM New Orders minus Inventories		✓	
Fed funds rate vs. nominal GDP growth			✓

Source - RBC Wealth Management

UNITED STATES

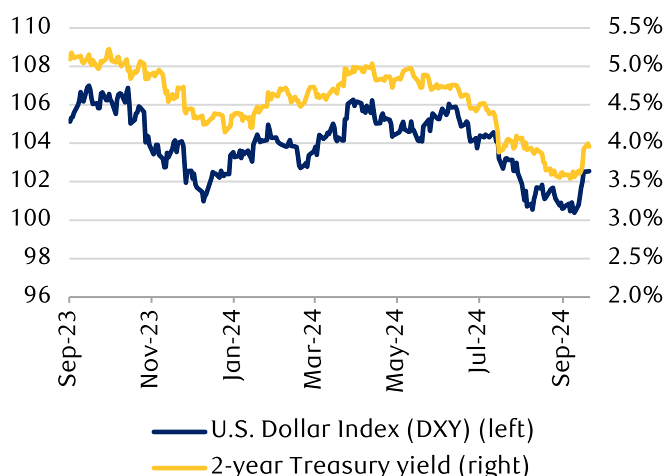
Atul Bhatia, CFA – Minneapolis

- **Treasury bond prices moved lower following last week's release of the September employment report.** The data showed unexpected labor market strength, with job growth picking up and unemployment falling relative to August. Because Fed Chair Jerome Powell has frequently cited labor-market concerns as the rationale for rate cuts, the strong data had some investors questioning how far the Fed will ultimately end up cutting. In the days following the report, 2-year government bond yields—which move inversely to price—rose 22 basis points (bps) while 10-year yields were up 18 bps.

- **Emphasizing the critical importance of labor markets to the Fed's thinking, investors largely shrugged off September Consumer Price Index (CPI) data, despite the faster-than-expected pace of price increases.** We see two reasons why bond prices were higher or largely unchanged after the numbers were released. First, the miss was small, with the reported data only 0.1% higher than economists expected, according to a Bloomberg survey. That's hardly a catastrophic miss. Second, and more importantly, nothing in the data really calls into question the larger disinflationary trend; at most, it may extend by a month or two the timeline for inflation to return to target. We continue to see labor markets as the primary input for Fed policy normalization, and nothing in the September numbers changes that view.

- **One beneficiary of higher bond yields was the U.S. dollar.** The U.S. Dollar Index—which had been rising ahead of the jobs report—notched eight consecutive daily gains as of Oct. 9, the longest streak since early 2022, and one that has seen a nearly 2% appreciation in the greenback. In addition to higher yields, we believe the dollar has benefitted from the perceived resilience of U.S. growth and the corresponding attractiveness of dollar assets relative to overseas counterparts.

U.S. Dollar Index and bond yields rise after September jobs report



Source - RBC Wealth Management, Bloomberg

CANADA

Josh Nye & Brett Feland – Toronto

- **The Canada-U.S. divergence has returned.** The contrast between a high-flying U.S. economy and a struggling Canadian economy was a key theme for investors earlier this year. This theme gained attention as expectations for deeper rate cuts by the Bank of Canada (BoC) relative to the U.S. Federal Reserve caused cross-border bond spreads (the difference in yields between U.S. and Canadian bonds of the same maturity) to widen and weighed on the Canadian dollar. That divergence narrative moved into the background over the summer as disappointing U.S. economic data caused the futures market to dial up expectations for Fed rate cuts. However, with the U.S. economy once again displaying its resilience while Canada's continues to face headwinds, short-term bond spreads are starting to widen again and the Canadian dollar is down from its recent highs. In our view, some divergence between the two central banks is warranted. While the U.S. futures market has backed off pricing in another 50 bps rate cut by the Fed in November, we see appreciable risk of a larger move by the BoC in October following three consecutive 25 bps cuts.

- **Canadian corporate spreads have re-tightened.** Investment-grade corporate spreads (the yield difference between corporate bonds and government bonds of the same maturity) drifted wider over the summer but have reversed course in recent weeks, returning to year-to-date lows amid an improvement in risk appetite. The aggregate index spread is now about 20 bps below its 10-year average. Tighter spreads and lower government bond yields, notwithstanding a recent increase in the latter, have reduced all-in yields on corporate bonds over the past year. The spread now accounts for 26% of that all-in yield, a relatively low share by historical standards. In our view, this suggests investors are receiving limited compensation for credit risk despite a challenging domestic economic backdrop. Market conditions reflect strong domestic demand for corporate bonds, with investors showing little concern regarding the financial health of Canadian corporate issuers.

EUROPE

Frédérique Carrier & Thomas McGarrity, CFA – London

- **The EU has formalized new tariffs on electric vehicle (EV) imports from China.** Members of the bloc voted Oct. 3 to apply an anti-subsidy tariff of up to 35.3% on top of the existing 10% levy. Tariffs will be applied at various levels, with Tesla facing a tariff of less than 10%, and SAIC, owner of the MG brand, subject to the highest rate.

This decision, which was provisionally implemented in July, is now official and will remain in place for the next five years. The vote comes as Chinese companies are expanding aggressively in the European EV market, where domestic car manufacturers are struggling to compete with these heavily subsidized competitors.

- **The imposition of tariffs is seldom a one-off move.** In response, China imposed tariffs on EU brandy imports—a move which will primarily affect France, which voted in favour of the EU's EV tariffs and accounts for 99% of the brandy exported to China. China is also considering tariffs on European cars, pork, and dairy products.

- **The potential threat to EU exports to China is compounded by the possibility of U.S. tariffs** imposed by former U.S. President Donald Trump if he wins the November election. Notably, Trump has suggested imposing a blanket 10% tariff on all imports from the EU.

- **Tariffs could be a significant headwind for Europe,** an open economy where exports represent a large percentage of economic activity (at 51% of GDP in 2023, compared to less than 12% for the U.S.).

- **European equities may thus trade somewhat cautiously in the weeks ahead of the U.S. election, in our view,** reflecting market concerns about Trump's tariff proposals. But we see potential for the European outlook to improve after November (particularly if the threat of new U.S. tariffs does not come to fruition) with interest rate cuts by major central banks, a seemingly resilient U.S. economy, and China potentially stabilising with stimulus all setting the stage for a rebound in European equities given their current low valuation.

- **The share price of UK pharmaceuticals major GSK rose 3% after the company announced it had settled 93% of approximately 80,000 outstanding Zantac product liability cases in U.S. state courts for "up to $2.2 billion."** Notably, GSK admitted no liability and maintained its claim that there is no scientific evidence ranitidine, the active ingredient in Zantac, increases the risk of any cancer. The company stated that it strongly believes these settlements are in the best long-term interests of the company and its shareholders, as they remove significant financial uncertainty and distraction associated with prolonged litigation.

ASIA PACIFIC

Jasmine Duan – Hong Kong

- **Asian equities experienced volatility this week as China returned from the National Day holiday.** The National Development and Reform Commission (NDRC), China's economic planning body, held a press conference on Oct. 8, the first trading day after the holiday. Investors had high hopes the NDRC would announce new stimulus policies. However, it merely reiterated the easing stance from the September Politburo meeting, stating that it would continue to focus on boosting domestic demand and stabilizing the property market.

- **The lack of concrete measures disappointed investors.** The Hong Kong benchmark Hang Seng Index closed down 9.4% and fell another 1.4% on Wednesday.

- Arguably, while its role on long-term economic reform and planning is crucial, **the NDRC may not be the appropriate body to announce fiscal policies,** which should be the responsibility of the Ministry of Finance. Any budget revision would need an approval from the National People's Congress Standing Committee. Thus, the NDRC's press conference does not necessarily indicate stimulus policies will be lacking.

- **Investors are closely monitoring National Day tourism data,** as it provides the first glimpse of consumer confidence following the announcement of new stimulus packages in late September. We think there are some positive signs. Domestic visitor numbers and total tourism revenue are trending upward, increasing by 10% and 8%, respectively, compared to pre-pandemic levels. Additionally, home appliance sales revenue surged 149% y/y, and auto sales volume rose 12%, driven by consumer trade-in subsidies. The average daily number of visitors from mainland China to Hong Kong was 27% higher than the previous year.

- **However, the data is not entirely positive.** Spending per tourist is 2.1% below pre-pandemic levels. While an increasing number of tourists choose to visit lower-tier cities, which could lead to lower spending, a rise in average spending would be beneficial to confirm a rebound in consumer confidence.

Hong Kong visitor arrivals from the mainland are recovering, but remain below pre-pandemic levels

Monthly arrivals from mainland China (thousands)

Source - RBC Wealth Management, Bloomberg; data through August 2024

MARKET Scorecard

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	5,792.04	0.9%	21.4%	33.6%	59.1%
Dow Industrials (DJIA)	42,512.00	0.5%	12.8%	26.5%	45.1%
Nasdaq	18,291.62	0.9%	21.9%	35.7%	71.7%
Russell 2000	2,200.59	-1.1%	8.6%	25.3%	29.3%
S&P/TSX Comp	24,224.90	1.1%	15.6%	25.9%	30.4%
FTSE All-Share	4,507.44	-1.1%	6.5%	11.3%	18.2%
STOXX Europe 600	520.05	-1.5%	8.6%	17.2%	32.8%
EURO STOXX 50	4,982.57	-1.7%	10.2%	21.2%	47.6%
Hang Seng	20,637.24	0.0%	21.1%	17.8%	16.3%
Shanghai Comp	3,258.86	5.5%	9.5%	5.2%	7.8%
Nikkei 225	39,277.96	-1.4%	17.4%	26.7%	44.9%
India Sensex	81,467.10	-4.8%	12.8%	24.4%	40.0%
Singapore Straits Times	3,595.66	0.6%	11.0%	13.6%	14.3%
Brazil Ibovespa	129,962.06	-2.1%	-3.1%	12.9%	11.7%
Mexican Bolsa IPC	51,931.03	-1.6%	-9.5%	5.3%	13.6%
Gov't bonds (bps change)	**Yield**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. 10-Yr Treasury	4.073%	32.2	19.3	-72.8	19.1
Canada 10-Yr	3.258%	30.1	14.8	-89.8	-12.7
UK 10-Yr	4.180%	20.3	64.3	-29.6	-5.8
Germany 10-Yr	2.257%	12.4	23.3	-51.5	6.3
Fixed income (returns)	**Yield**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. Aggregate	4.47%	-1.4%	3.2%	11.6%	11.2%
U.S. Investment-Grade Corp	4.92%	-1.3%	4.2%	14.7%	17.0%
U.S. High-Yield Corp	7.23%	-0.4%	7.5%	16.6%	25.3%
Commodities (USD)	**Price**	**MTD**	**YTD**	**1 yr**	**2 yr**
Gold (spot $/oz)	2,607.76	-1.9%	26.4%	40.1%	53.9%
Silver (spot $/oz)	30.50	-3.4%	28.2%	39.4%	51.5%
Copper ($/metric ton)	9,594.57	-2.6%	13.4%	19.3%	27.8%
Oil (WTI spot $/bbl)	73.57	7.9%	2.7%	-14.8%	-20.6%
Oil (Brent spot $/bbl)	76.61	6.4%	-0.6%	-13.1%	-21.8%
Natural Gas ($/mmBtu)	2.64	-8.9%	5.1%	-21.7%	-60.8%
Currencies	**Rate**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. Dollar Index	102.9180	2.5%	1.6%	-3.0%	-8.8%
CAD/USD	0.7292	-1.4%	-3.4%	-0.9%	0.2%
USD/CAD	1.3713	1.5%	3.5%	0.9%	-0.2%
EUR/USD	1.0937	-2.0%	-0.9%	3.5%	12.2%
GBP/USD	1.3063	-2.3%	2.6%	6.7%	17.8%
AUD/USD	0.6713	-2.8%	-1.5%	4.7%	5.3%
USD/JPY	149.3500	5.0%	5.9%	0.6%	2.8%
EUR/JPY	163.3400	2.9%	4.9%	4.1%	15.4%
EUR/GBP	0.8373	0.3%	-3.4%	-3.0%	-4.7%
EUR/CHF	0.9416	0.3%	1.4%	-1.7%	-2.8%
USD/SGD	1.3079	2.1%	-0.9%	-4.2%	-8.7%
USD/CNY	7.0808	1.0%	-0.3%	-2.9%	-0.5%
USD/MXN	19.4903	-1.0%	14.8%	7.0%	-2.7%
USD/BRL	5.5893	2.9%	15.1%	8.8%	7.4%

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Tuesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.72 means 1 Canadian dollar will buy 0.72 U.S. dollar. CAD/USD -3.4% return means the Canadian dollar has fallen 3.4% vs. the U.S. dollar year to date. USD/JPY 149.35 means 1 U.S. dollar will buy 149.35 yen. USD/JPY 5.9% return means the U.S. dollar has risen 5.9% vs. the yen year to date.

Source - Bloomberg; data as of 10/9/24

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