# Johnstone Wealth Management Market Commentary December 31, 2024

Looking back at early 2023, the prevailing view at that time was that economies would experience a recession, and, as a result, interest rates and equity markets would decline. As the year developed, it became clear that the US consumer had another stronger trajectory in mind and, by the end of the year, consensus had shifted to a soft-landing scenario.

Several factors contributed to market volatility over the course of the year, including concerns about elevated inflation and rising interest rates, stress in the US and European banking systems earlier in the year, and rising geopolitical tensions around the world. Equity markets showed resiliency in the face of this uncertainty, reversing their third quarter declines to close the year with strong year-over-year gains.

The sentiment that the interest rate hiking cycle was peaking crystallized, with bond yields plummeting approximately 100 bps, giving both Canadian and US bond markets one of their strongest quarters on record. Federal Reserve Chairman, Jerome Powell gave investors a year-end bonus by confirming the Fed's shift to a friendlier policy path in the final month of the quarter.

The FTSE Canada Universe Bond Index gained 8.3% for the fourth quarter, lifting bond returns into positive territory for the year. In the quarter, yields on short-term bonds declined at a faster pace than those on long-term bonds, as bond investors priced in greater expectations of central bank reductions in their overnight policy rates. The decline in yields was somewhat larger in the Canadian bond market than the US bond market given weaker expected growth in Canada, and therefore lower inflation prospects. Corporate bonds outperformed their equivalent maturity government counterparts with investors looking to capture their higher yields.

Global equity markets rose in the final quarter of the year, supported by the Fed's more accommodative monetary stance in light of moderating inflationary pressures. US markets rallied, led by the technology sector, with most developed markets also delivering positive returns. Emerging markets continued to lag, weighed down by slower growth in China. Canada trailed most developed markets, with the energy sector driving most of the underperformance in the quarter. Defensive sectors, including consumer staples and healthcare, also lagged most global indexes in the period.

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With markets beginning the 2024 year at elevated levels, some volatility in the next few months would not be surprising given expectations for a soft economic landing and further declines in inflation seem largely priced in. Nevertheless, risks of a more pronounced economic slowdown remain. Anything other than a soft landing, such as a recession or strong growth, may lead to scenarios with more risk and volatility. Furthermore, elections in the US and ongoing geopolitical uncertainty will also add to near-term risks.

The current economic climate remains highly uncertain, and investors should expect market volatility to continue for some time. We believe what's most important is being disciplined in adhering to the variables that we can control, such as risk management, active management and asset allocation. Given the wide range of possible scenarios, we remain balanced in our approach -- in an effort to build resilience over the long-term and not being overly exposed to any one outcome.



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