Fall 2024
Info SIGMA

Market Review

September 30th 2024

Market review

The cut in key rates is in full swing, with inflation back to levels around the 2% desired by central banks. The Bank of Canada has just announced a 0.50% percentage cut in its key interest rate, adding to the previous 0.75% cuts. The rate now sits at 3.75%, 1.25% below its 2023 high of 5%. The US Federal Reserve has also started to cut rates, cutting by 0.50% in September. All of this indicates that the inflationary period precipitated by COVID is a thing of the past.

The markets' focus shifted from inflation to economic growth. With rates rising, central banks have managed to tame inflation, but is a recession in the offing? It's not an easy thing to slow down the economy just enough to stop price rises while avoiding triggering a recession. Given that the effect of rate hikes takes several months to materialize, the exercise is a bit like driving on a racetrack with a car that responds to the driver's commands with an uncertain delay, and one of unknown intensity. Hopefully, the road is wide enough.

Fixed income: The downward cycle in interest rates is fully underway.

The rebound in fixed income is well under way, with all our fixed income positions posting appreciable gains. Diversification has been beneficial so far this year. Four of our six holdings have outperformed traditional fixed-rate government bonds. The recovery in preferred shares that began in October 2023 continues into 2024, with the Canadian Preferred Share Index posting an excellent performance of just over 20% to date, which compares favorably even to the best-performing stock indexes of the year.

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

SIGMA MANAGEMENT
INDEX BASED SOLUTIONS
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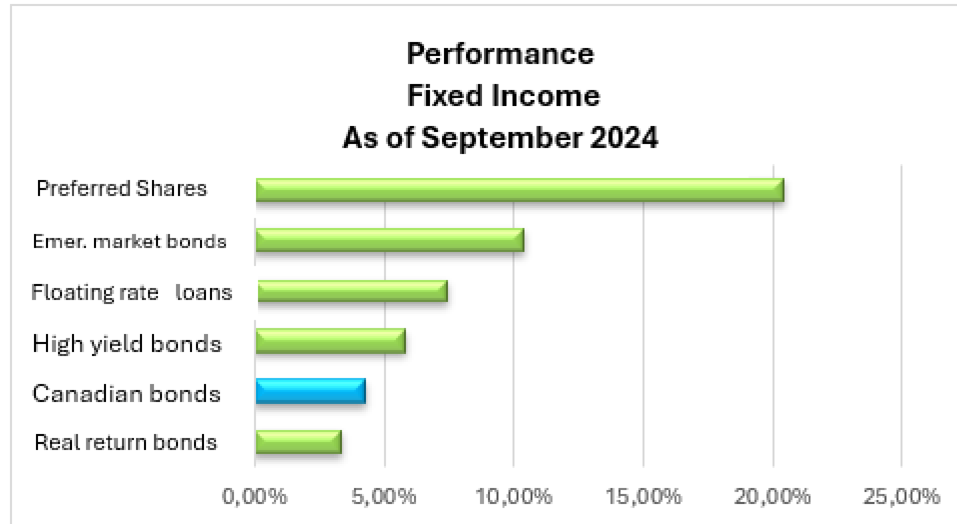
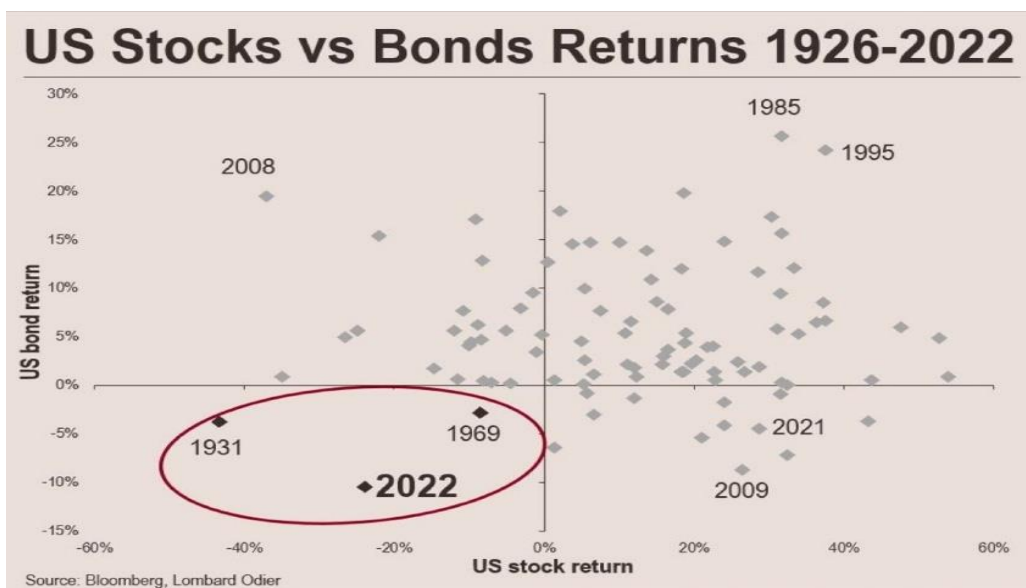


Source: Croesus FBN 2024

If a repeat of 2022 is a concern for you, the chart below should put your mind at ease. Years in which both stocks AND bonds show losses are extremely rare. In fact, since 1926, this has only happened three times, in 1931, 1969 and 2022. We can also see that bonds tend to perform well during stock market declines (in 2008 for example). The coincident weakness of 2022 was a rare event related to inflation fears. Unless these fears return in full force, such a scenario is unlikely.

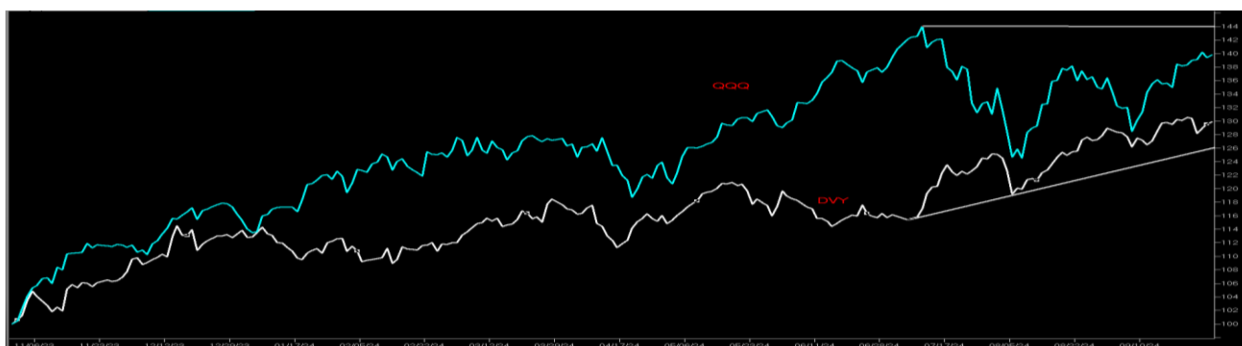
The bond yield and the return for the same year of the stock market



Equities - The rotation continues.

In the last issue, we drew your attention to a certain loss of momentum in the stocks that make up the *Magnificent* 7. Having been the locomotive driving indices upwards since 2023, they seem to be running a little out of steam. Since the NASDAQ's peak in July, it is down 2% as of September 30, while dividend stocks are up 12%. The stock market is reaching new highs, but technology stocks' leadership is waning. More interest-rate-sensitive and less expensive sectors such as banks, utilities, and homebuilders are outperforming.

Cumulative performance of the NASDAQ 100 and dividend stocks



Source : Thomson ONE 2024

All the attention paid to US growth equities obscures the excellent performance of the majority of asset classes. Gold has the highest return at almost 30% in Canadian dollar terms, outperforming the S&P 500. The US dividend stock index also performed very well, with a return of almost 20%.

Unlike 2023, the performance is spread across all asset classes, which is healthier, and also more profitable for an adequately diversified portfolio.

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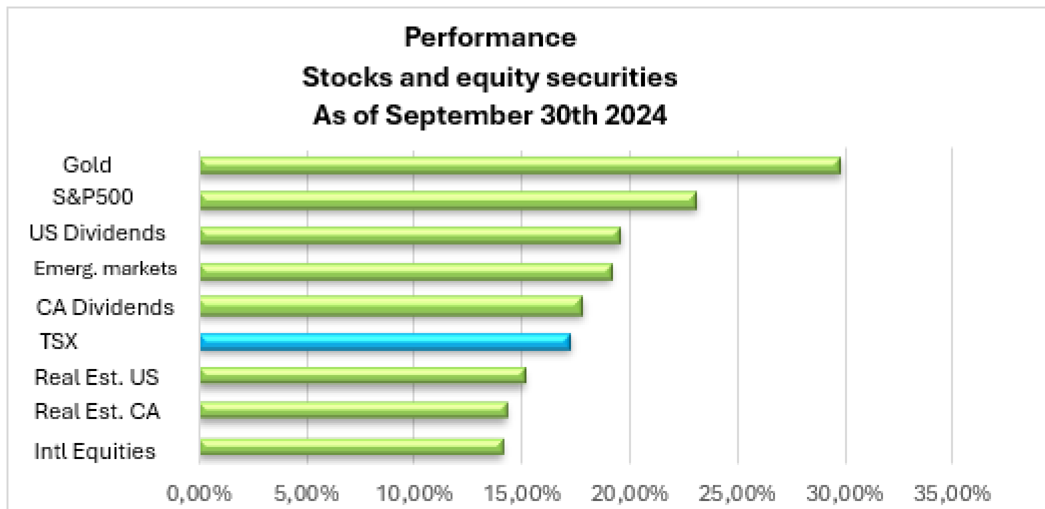
I have written this report to the best of my judgement and professional experience to provide you with my views on various investment solutions and considerations. The views expressed herein, which represent my informed opinion and not a research analysis, do not necessarily reflect those of NBF.



Source : Croesus FBN 2024

Ultimately, it is more prudent not to rely on a single index, whether it is the QQQ, or the S&P500 to generate a return. Unfortunately, there is no magic index that outperforms endlessly. Any period of outperformance will eventually be followed by a period of underperformance. Has this period begun for US growth stocks? Only time will tell, but an eventual mean reversion is inevitable and the days when investors think they are smart to make so much risk-free return by simply buying the S&P 500 ETF will be behind us.

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Markets

Decade of Big S&P 500 Gains Is Over, Goldman Strategists Say

- Expect annualized nominal return of 3% over coming 10 years
- See stocks facing more competition from assets like Treasuries

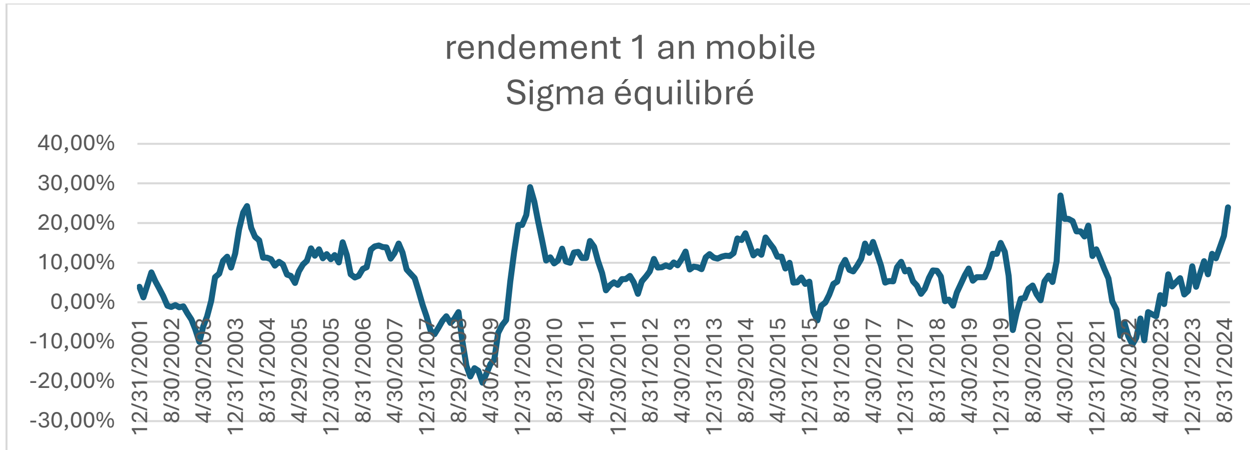
Source Bloomberg 2024

At this time last year, investors' patience was being tested. The markets had just gone through three consecutive months of decline. It can be tempting to capitulate in these circumstances, but these periods are usually followed by sharp upside.

As the chart below illustrates, significant one-year lows in returns are followed by rebounds that are not to be missed. Periods of sharp increases do not last indefinitely

either. The best approach to success is not to worry too much during periods of decline and not to get too carried away during periods of increases. The return on the balanced basket over the last twelve months was more than 23%.

Balanced 12-month Sigma return. Dips are buying opportunities.



Source : Thomson ONE

Or in other words:

"Investors lost much more money by preparing for or anticipating stock market corrections than they lost in the corrections themselves"

- Peter Lynch

The impact of the U.S. election

The election is finally done, and it was brutally fought. We now have another 4 years to look forward with President Elect Trump. What impact his election and Republicans winning both Houses of Congress remain to be seen. Whether it be “Drill baby drill”, or mass deportations, or 20% tariffs on China etc, Donald Trump made it more than clear that he intends on making a lot of changes! What impact these changes might have on the economy is anyone’s guess at this point. It is also to be determined just how many of his initiatives will actually be seen through (remember the big, beautiful wall Mexico was supposed to pay for?). Even though he has a red Congress, it is unclear if he will be able to impose his will as indiscriminately as he would like. His aggressive nomination picks are certainly his way of seeing how much he can bully Washington.

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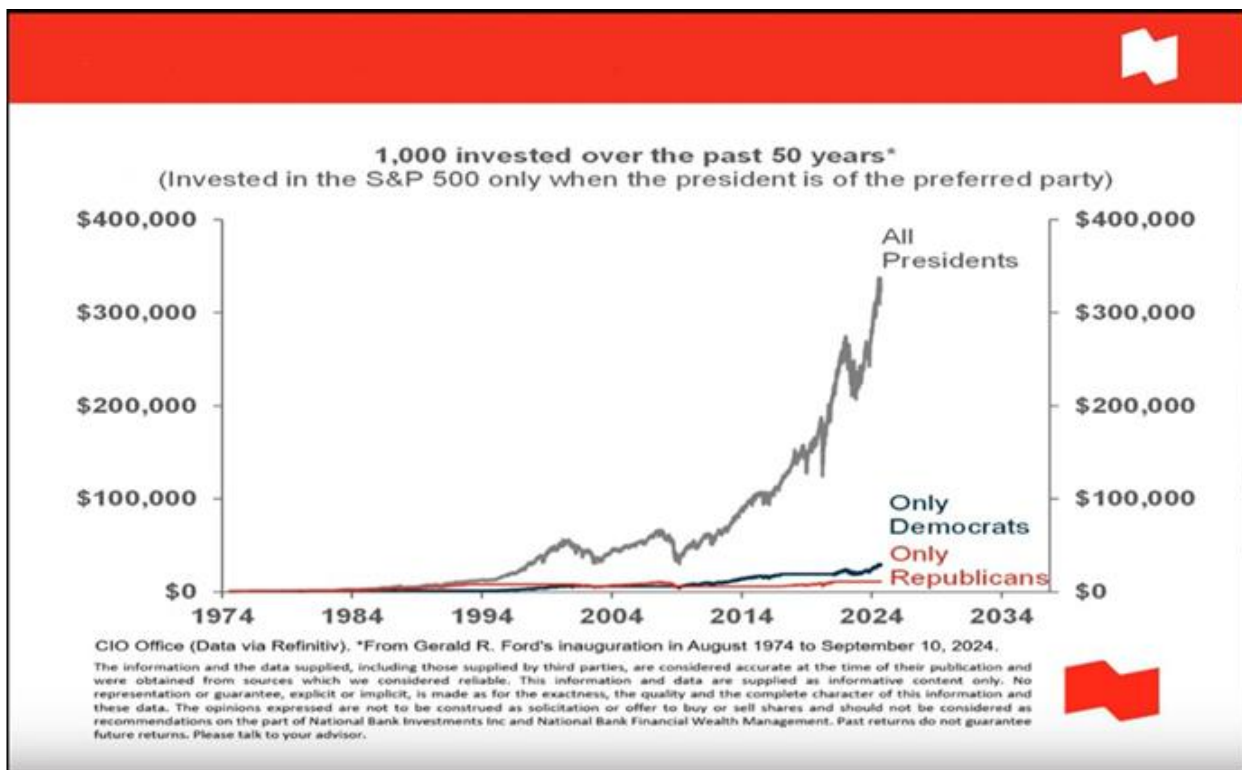
Markets had a certain preference for Mr. Trump vs Mrs. Harris. His proposed tax cuts and defunding of Federal agencies including regulatory ones are popular with profit seeking investors. But enthusiasm is tempered by concern about the sheer mayhem that his proposals would probably cause.

When it comes to elections, just like geopolitical uncertainties, the worst one can do is to try to anticipate the outcome and make changes to your portfolio based on scenarios that you have in mind. As far as markets go, it would seem, as shown in the chart below, that seeing their preferred candidate elected is far from assuring strong market performance.

Wealth Accumulation 1974 to 2024



Source: BNC 2024