Investor Insights

Q4 2024 - Investor Insights

Market Review

The final quarter of 2024 was marked by mixed performance and increased volatility across both the Canadian and U.S. markets. The Canadian index, S&P/TSX, saw modest gains in the last quarter in the low-single digit returns of about 3%, driven by strong performances in the energy and financial sectors. The quarter's detractors were notable in the precious metals and the telcom areas. Over the year, the index had robust performance and increased positively in the high double-digits at about 18%. Throughout 2024 key drivers in the Canadian markets included the energy sector posting gains similar to the index, at around 18%, our precious metals gold subsector index ended the year in the mid-twenties, along with our financial sector experiencing their biggest surge in the third quarter and closing the year off at about 25% as well. The U.S. market, S&P 500 Index, also saw a modest final quarter of about a 2% increase, buoyed by gains in the consumer discretionary, information technology and communication services sectors. The “magnificent seven” continues to represent a significant weight of the U.S. indices by market cap and carries about a third of the S&P500 Index and nearly half of the Nasdaq. The “magnificent seven” includes stocks like Apple, Microsoft, Google parent Alphabet, Amazon, Nvidia, Meta and Telsa. Of these stocks Nvidia was the best performer with an astronomical return of nearly 170%, Meta and Tesla in the mid-sixties range, Microsoft with the softest returns in the low double-digits, while the remaining closed the year in the thirty and forty percent ranges. The impact these small number of stocks have on the indices are substantial. The S&P500 index demonstrated strong returns for the year, just shy of the mid-twenty mark at about 23%,

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while the Nasdaq ended the year closer to the thirty percent range. Growth outpaced value for the year, S&P Growth index measured in at the mid-thirties while S&P Value index in the 10% range. Gold reached new highs touching $2800 per ounce. The U.S. Dollar strength maintained all year and reaching its peak at the end of 2024 in the final month. The WTI oil ended the year flat, erasing all its gains from the start of 2024. The U.S. 10-yr treasury yields made a rally for the year and added to the volatility in equity markets.

Our Portfolios

For our portfolios, our quarter was a bit of mixed bag. Our Infrastructure portfolio, which has a concentrated exposure in the various infrastructure themed areas such as telecom, energy and railroads had a difficult quarter as the very interest rate sensitive sectors and telcom areas saw their stock prices compress. Unlike our High Income portfolio and Dividend Growth portfolio with higher allocation to our energy and commodity sectors, it provided a small modest positive quarter. The Defensive Income portfolio comprised of a 50% allocation to fixed income ended the quarter flat. The consolidated equity portfolio, the Canadian Dividend, was slightly down while the standalone Canadian Fixed Income portfolio was had a slightly positive quarter. Our international portfolio, Global Growth, was modestly down. On a calendar year basis, our portfolios were relatively aligned with the positive returns of the major indices. High Income was the top performer. Our consolidated equity portfolio, Canadian Dividend, closely behind in performance. Our Defensive Income was the most conservative on our returns for the year. The Fixed Income portfolio had a strong year as interest rate relief policies helped provide a positive return. Our international Global Growth portfolio and a healthy U.S. dollar, contributed to a strong year. There were a couple of portfolio changes in the quarter, which included a switch out of our gold miner Newmont and into Kinross and a replacement of a strong yielding stock, where we sold out of our bank stock TD and bought Exchange Income Fund.

As we align ourselves with industry standards and the continually evolving regulatory guidelines, we will be referring to general aggregated return figures based on client's investor profiles. Your individual consolidated performance returns are enclosed but for reference purposes on this commentary we will be providing return figures on how each investor profile has performed on aggregated numbers. The majority of clients are in the Growth profile, while some without any fixed income allocations would be in the Maximum Growth profile. A very small number of our clients are in the Balanced profile. In the calendar year, Maximum Growth had an aggregate return of 14%, similar to Growth at 14% while the Balanced profile was 11%.

Outlook

What lies ahead for 2025? We've seen a change in the political backdrop of our neighbours down south and we are bombarded with headlines and news of the potential threats that may affect our economy and our markets. Not only have we seen a political shift there, we also are on the horizon of changes in that arena in our own backyard. What do we make of all this and how will this affect our markets and our investment portfolios. There isn't a clear picture and things are very murky, which leads to volatility. The theme of this year will be continued volatility and markets moving in extremes. As we head into the year, continued risks we've mentioned in the recent past regards to a cycle shift and an ending of this very long secular bull market cycle maintains. Along with the uncertainty of geopolitical events and their affects are heightened. This all points to a higher risk environment as we enter the year. The strategy over the relatively short term would be to try and trim back the strong gains we earned last year and raise about 20% cash in our portfolios. We will look to reposition some of our equity holdings that may do better or withstand an environment that could be a result of unfavourable economic maneuvers. Gold has generally been a safe haven for investors and there is a shift into this sector during uncertain and difficult environments, with cautiousness as there has been a strong rally already, we would look to add into more in those areas. Patience and preparation will be our key themes, even within this murkiness and uncertainty there are some opportunities that we will look to pursue as the year evolves.

Economic Impact

In order to help keep you well-informed and well-advised, we want to share our in-house experts' views on the latest economic news and current financial landscape.

This month, Denis Girouard, Strategic Advisor to the Leadership Team / Head of the Transformation Network, is joined by Stéfane Marion, Chief Economist, to break down these questions in current affairs. This discussion focuses on the economic impact of tariffs and trade balances, particularly between U.S. and Canada, and the implications for the bond and stock markets.

Our Chief Economist, Stéfane Marion, offers insightful perspectives on the proposed U.S. tariffs, sparking thought-provoking discussions. Contrary to the headline news of 25% tariffs, he suggests this scenario is not the baseline. The U.S. president's concerns stem from their significant trade deficit, aiming to address this imbalance by considering higher tariffs. While Canada contributes minimally to this deficit, accounting for only about 3%, the impact of tariffs on Canadian imports may not alleviate the overall situation significantly. Of Canada's imports to the U.S., oil and gas is the only area in which a deficit is being carried, other imports like auto parts and other manufacturing items are at positive trade balance in favour of the U.S. The U.S.'s reliance on our energy export is a key revenue generator for the U.S. as they refine our products and then sell them. Imposing a 25% tariff on our energy export would negatively impact the U.S. and our Economist views this tariff as an unlikely situation.

Additionally, Stéfane underscores the internal tariff dynamics in Canada, highlighting an average 21% tariff among provinces. This presents an opportunity for the Canadian government to enhance economic relations by revising and reducing these tariffs. He also addresses Canada's underinvestment in the manufacturing sector compared to other G7 nations, despite advantageous electricity and natural gas prices crucial for manufacturing operations.

In conclusion, our Economist underscores the prevailing uncertainty in the economic landscape. While equity markets appear to discount the likelihood of imposed tariffs, bond markets anticipate inflationary pressures, reflected in rising bond yields. This juxtaposition creates a unique market backdrop, signaling ambiguous and unpredictable times ahead. We invite you to watch the full 12-minute video from our Chief Economist, Stéfane Marion, click on the Economic Impact Video Link to view.

Sincerely,

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