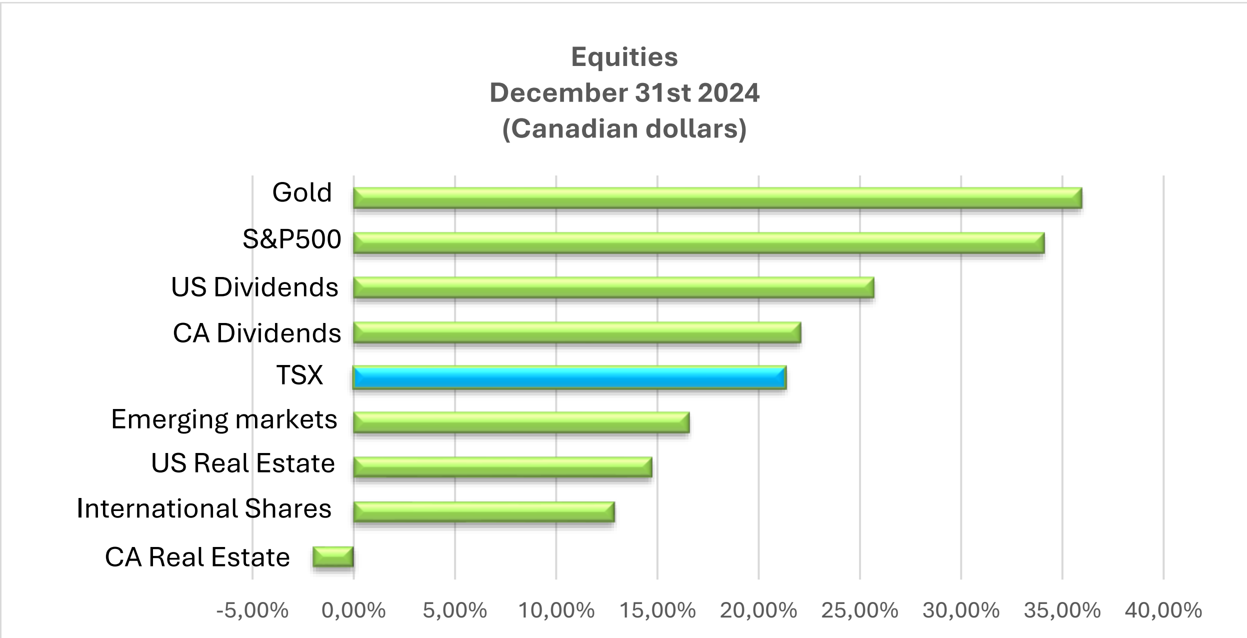
Winter 2025

Info SIGMA

Market review

Despite taking profits during the month of December, the markets generally added to their gains during this last quarter of 2024. The trends in place until then continued during the 4th quarter. The yield gap between the best and worst performing asset classes widened in the last three months of 2024.

Supported by geopolitical uncertainty and strong demand from central banks, particularly China's central bank, gold ended the year up nearly 27% in U.S. dollars and 36% in Canadian dollars.



Source : Croesus NBF 2024

The U.S. stock market was obviously the star of 2024, posting a return of 34% in Canadian dollars. The S&P 500 has added more than 9% to its performance over the past three months. The TSX also performed well with a gain of 3.75% since September, compared to international equities which have fallen 2% in three months. The war in Ukraine, as well as a marked loss of momentum in Germany and France, are weighing on European markets.

NATIONAL BANK FINANCIAL WEALTH MANAGEMENT

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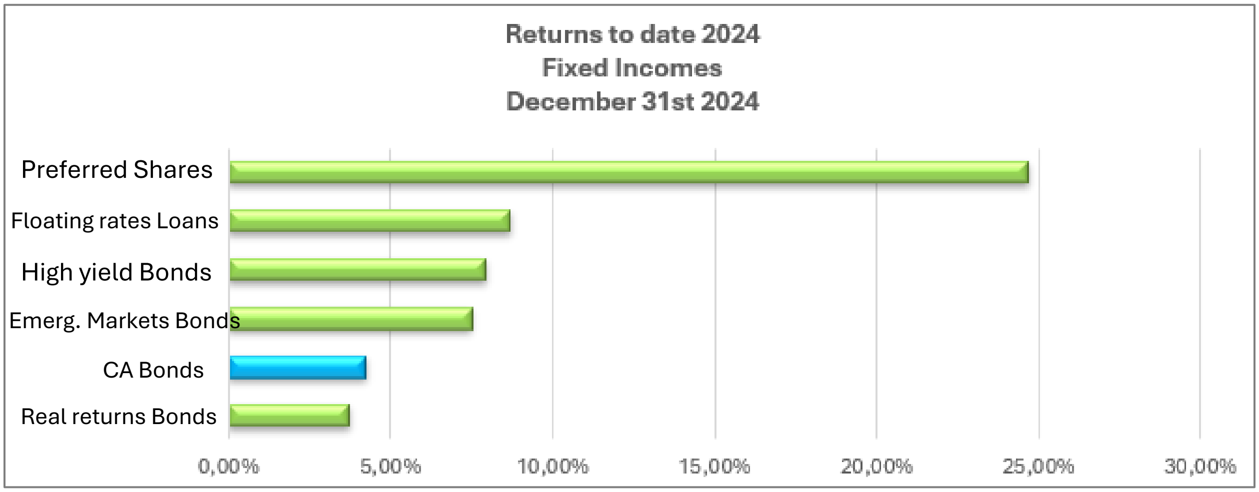
Global equities and emerging market equities have struggled, although their 2024 performance would be more than acceptable in normal times. The Russian invasion of Ukraine is still weighing on the Old Continent. The region's two main economic drivers, Germany and France, are in recession. The political tensions between the Democrats and the Right are creating uncertainty.



Source : Croesus NBF 2024

Donald Trump's return to power has put an abrupt end to the cut in interest rates on the American side, stoking inflation fears that could be precipitated by the tariffs with which he is threatening several countries, including, as Jean Chrétien would say, the *best country in the world*, Canada. Trump's plans have resulted in a historic steepening of the federal bond yield curve. For the first time in history, long-term rates are rising while the Federal Reserve is cutting its key rates. We can see that diversification has been beneficial to us in 2024. Most fixed income investments outperformed traditional Canadian bonds. This is especially true for preferred shares.

Rebalancing:

There were 19 buys and 21 rebalancing sales in the balanced Sigma basket. Remember that during rebalancing, sales are only partial, and are made simply to bring an overweight asset class back to its target weighting. Following this principle, we sell in strength and take profits, and buy in weakness, allowing us to reduce the average cost of our positions. Of the 19 purchases, 11 involved a fixed income position, four involved Canadian real estate, and the rest were equities. Of the 21 sales, there were no fixed income sales. Fifteen of these sales involved stock market indices, including seven in the United States. There were four profit-taking trades in gold, and two in preferred shares.

It is quite possible that the next four years will offer us several new events. Diversification will play a key role in managing investors' risk. As mentioned in our last issue, diversification and discipline have allowed our Sigma Balanced and Sigma Income baskets to place in the top 25% of the performance of balanced funds in Canada, as presented in the *Morningstar database*. This same discipline will surely help us to do well for the next four years.

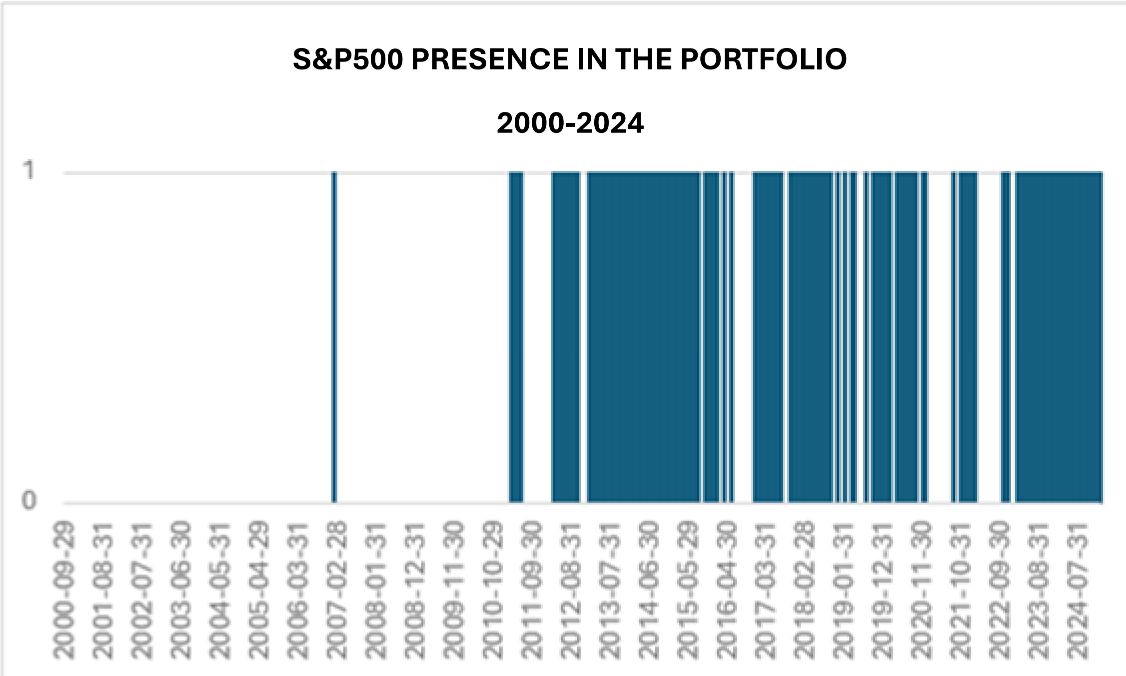
Since no management strategy is infallible at all times, it is important to support it with a complementary strategy. Asset class rotation baskets typically perform best in periods of sustained strong trends, when balanced and income basket rebalancing may be less effective. The various impacts of the Trump administration's policies could well give rise to serious trends that will persist over several months or even years. The relative performance mechanics at the base of rotation basket management would allow us to benefit from uptrends and avoid downtrends.

The performance of the US stock market for the coming years is a good example. Having posted an impressive annual return of 15% over the past 10 years, many are wondering if a "lost decade" like the one that followed the collapse of the tech bubble awaits us. Some have already been predicting this for several years, and are a little embarrassed by it.

Money and Happiness | Should we fear another "lost decade"? | The Press (French article)

Based on relative performance studies, only the five asset classes that have outperformed the others are included in the rotation baskets. In the graph below, each vertical line represents a month. If there is a blue line on that date, the S&P was present in the rotation portfolios. If there is only white for a given month, it was not there. The first half of the graph represents the lost decade from 2000 to 2010. Over these 120 months, the S&P was present in the portfolio for a grand total of 1 month. It is only from 2021, and even more so in 2023, that the S&P500's surge is evident.

Without having any S&P500 at all or only having the S&P500 over certain periods, the relative performance has allowed us to be underweight and overweight in the US stock market at the right times, which diversification does not allow. Also, we do not depend on forecasts. We apply a mechanism that allows us to potentially benefit from persistent trends that may arise.



Source : Bloomberg and Sigma Management 2024

2024-12-31

Sigma Income :	1 YEAR	3 YEARS	5 YEARS	10 YEARS
Return	12.07%	2.56%	4.29%	4.54%
Morningstar Index	15.74%	2.44%	3.33%	3.45%
Morningstar category average	15.71%	2.27%	3.15%	3.93%
Morningstar quartile	1	1	1	1
Sigma Balanced :	**1 YEAR**	**3 YEARS**	**5 YEARS**	**10 YEARS**
Return	15.98%	4.66%	6.77%	6.55%
Morningstar Index	1.46%	4.47%	6.24%	6.38%
Morningstar category average	13.63%	3.63%	5.55%	5.40%
Morningstar quartile	1	1	1	1
Sigma Asset class rotation : *	**1 YEAR**	**3 YEARS**	**5 YEARS**	**10 YEARS**
Return	18.81%	5.61%	7.09%	8.07%
Morningstar Index EQ Growth	19.26%	6.97%	8.99%	8.51%
Morningstar category average	16.76%	4.64%	6.86%	6.45%
Morningstar quartile	1	1	1	1
Morningstar Index EQ tact alloc	14.02%	4.47%	6.24%	6.38%
Morningstar category average AT	11.54%	2.72%	4.21%	4.41%
Morningstar quartile	1	1	1	1

Source : Croesus 2024 and Blackrock 2024

* 10 years returns are from 2016 simulations