Investor Insights

Q4 2023 - Investor Insights

Market Review

The last quarter for the 2023 year, both the Canadian and U.S markets showed a strong finish. The positive calendar year returns for S&P/TSX Composite Index in Canada and S&P 500 Index in the U.S. were a contrast to the previous year's performance, the losses in the preceding year were offset by this year end. In Canada, leading up to the final quarter of 2023, returns were relatively flat but a significant rally in the fourth quarter resulted a year-end return in the high-single digit range. Canada's three largest sectors by weight for the S&P/TSX Index is the Financial sector, followed by the Energy then the Industrials. The Financial sector ended the year with a high-single digit return, not fully retracing the previous year's losses but nonetheless positive (Thomson One). Our second largest sector by weight, the Energy sector, had a dismal very low single-digit return (Thomson One), stark contrast to the previous year, which was a remarkable year in that area. Oil West Texas Intermediate (WTI), retreated in the last quarter and was down for the year with a double-digit loss of about 10% (Thomson One). The best performing sector in Canada, although not as heavily represented as compared to our U.S. counterpart, was the IT sector, registering a year-to-date return just shy of 70% (Thomson One). The worst performing sector in Canada was the Communication Services area, closing the year with a negative high-single digit return. The favoured growth stocks that have dominated markets in the U.S., specifically the "magnificent seven" – Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla – represents about 30% of the S&P500 market cap and had an average return exceeding 100% (Thomson One). These stocks have been the contributors for

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the outperformance in U.S. indexes, with the S&P500 capping the year with returns in the mid-twenties and the technology heavy Nasdaq with a return over 40% (Thomson One). Gold was up in the mid-teen range to close the year, which was supported by a weakening USD, compared to a relatively flat gold performance and stronger USD in the year prior. Persistent inflation which has been the prevalent concern over the past year or so, seemingly has been curtailed and the central banks have paused on their rate increases and held steady. The 10-yr long-term bond yields have come off its fall 2023 highs in five percent range and dropped 100 basis points to sub four percent to end the year (Thomson One). Supporting the year-end rally in equity markets.

Our Portfolios

All our major portfolios posted a strong final quarter to end the 2023 year. Similar to the U.S. markets our Global Growth portfolio outperformed our Canadian portfolios by regaining all the losses we experienced in the prior year, closing the year in the high-twenties. The Growth stocks outpaced the value stocks, which is the primary focus of this portfolio. Our value-oriented Canadian portfolios had a range of returns, the highest performer was the Infrastructure portfolio, with relatively flat returns over the three previous quarters, ended the year up in the high single-digits. Our energy and commodity focused portfolio, Dividend Growth, finished the year posting the lowest return amongst the group, with a low-single digit performance. While our Defensive Income, High Income and Canadian Dividend were in a similar range of mid-single digits of around three to five percent. The Canadian Fixed Income portfolio had a much better year than previous, posting a positive mid-single digit return. Overall the optimistic momentum in the markets for the final quarter of the year helped turn out a positive year-end. Market sentiment for an easing of monetary policies was evident and delivered through elevated equity markets and declining long-term bond yields.

Outlook

Looking ahead and into 2024, I believe there are indicators that warrant a strategy supporting a cautious and defensive stance. As we head into the year and into the first quarter with positive momentum and equity price increases, complacency and optimism in the markets could provide a circumstance where we could potentially be going against the grain. It’s been a challenging several years with the pandemic induced recession and extensive monetary injection from our central banks that may have perhaps skewed relatively normal market behaviours. Based on one of our most reliable market cycle technical analysis experts we’ve been following for years, there is a potential for two cycle measures on the secular and long-term cyclic measures coming to a simultaneous down and troughing juncture. This would be negative for equity markets in general. In preparation for such a scenario, raising cash to help protect capital to subdue the effects of a decline would be likely. One of our basic principles of protecting and preserving in the downturn helps us achieve our long-term targets. A reallocation and redeployment into defensive sectors and companies at deeply valued valuations is an equally key component of our strategies for long-term results.

GICs vs. The Stock Market

A common theme that has arisen over the recent while is whether it's better to invest in Guaranteed Investment Certificates (GICs) over equities and should one cash out of their stocks. The spotlight has shifted in recent times towards this traditional financial investment instrument, GICs, and has been making a comeback. As interest rates have soared, GICs have gained prominence, becoming more well-known for their attractive returns and safety. A seemingly new phenomenon that investors haven't considered for nearly a decade. A question that begs, how do GIC returns compare to stocks?

For illustrative purposes, below is a table from TaxTips.ca that depicts historical returns on $1,000 CDN invested in equity markets and fixed income instruments to December 31, 2023. The Cdn Government Bonds 1 to 3 year figures would closely represent GICs, as the table indicates bonds are held to maturity. When comparing those fixed income returns to equity markets, there is an outperformance in equity markets. The long-term returns spanning back 50 years to the mid-seventies are representative of the extreme high interest rates and high inflation of the 80's era. During times when interest rates were astronomically high, equity returns fared better over fixed income. Investment decisions depend entirely on your goals, how you approach risk and your time horizon. There are suitable situations where GICs are the best option, and which align with each individual's objectives or specific goals. Long-term investing, savings for retirement and for use into retirement drawdowns have a long-time horizon and should be invested with that in mind. There is no black and white answer that applies to all but a reminder of the objectives one has chosen with the onset their investing path, how one views equities should not be deterred as interest rates rise and fall.

Sincerely,

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