TD Wealth Private Investment Counsel

January 2024 Market Newsletter

December 31, 2023

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Opening Comments

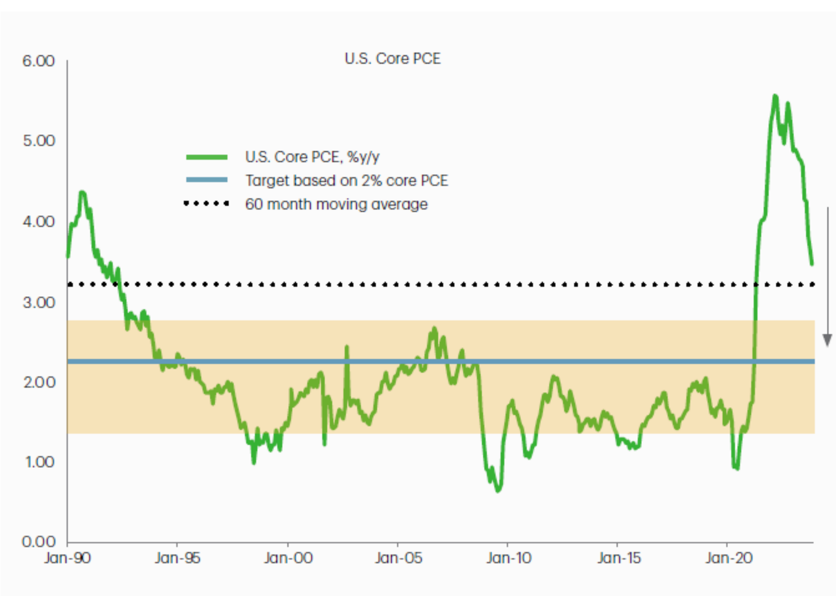
- The 2024 annual contribution limit for Tax Free Savings Accounts (TFSA's) will be going up to $7,000 this year, (from $6,500 in 2023).
- Investors are eligible to make their 2024 contributions from January 1st, 2024 onwards. If you would like to check in with us on your contributions, please do not hesitate to reach out!

Noteworthy News

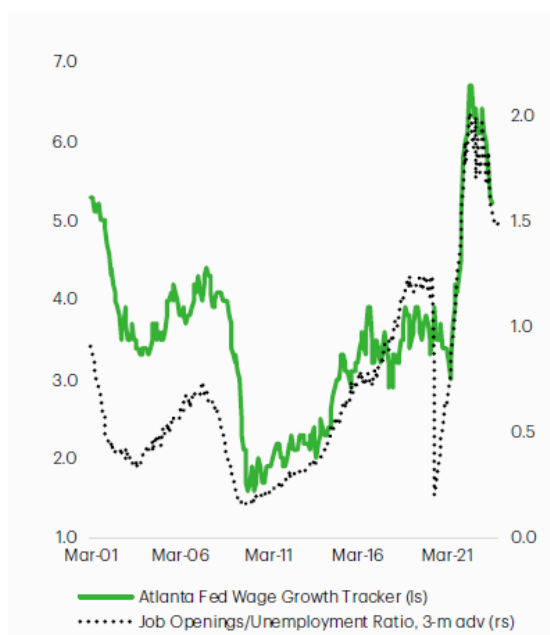
- November turned out to be a month for the record books, with investors frantically bidding up the price of bonds and sparking the best month since the 1980s.
- Government bonds leapt as the 10-year Canadian yield dropped by over 50 basis points (bps) to 3.55%, while the equivalent U.S. yield fell by over 60 bps to 4.33%. Overall, the bellwether Canadian bond index (FTSE Canada Universe Bond Index) returned 4.3% over November, while the U.S. equivalent (Bloomberg U.S. Aggregate Index) returned 4.4%.

Reaching Target Inflation May Be Difficult

- The battle against inflation has been a 2023 story, but the hard part back to the 2% target still ahead.
- We've seen inflation come down faster than expected in the United States. Most categories are below the highs witnessed during the pandemic; some are even lower than the pre-pandemic level.
- Shelter costs, which accounts for 34% of the consumer price index, are coming down too, although it's taking some time to show up in the data. And even wage growth is starting to come down alongside an easing in the labour market — all of which is great news for investors looking for a rate cut in early 2024.
- But we think the easy gains on the inflation front are behind us and the trek back to the US Federal Reserve's 2% target will be slower than the progress made over the past year. If it is, it could lend credence to the Fed's suggestion that a "higher for longer" policy rate may be required.



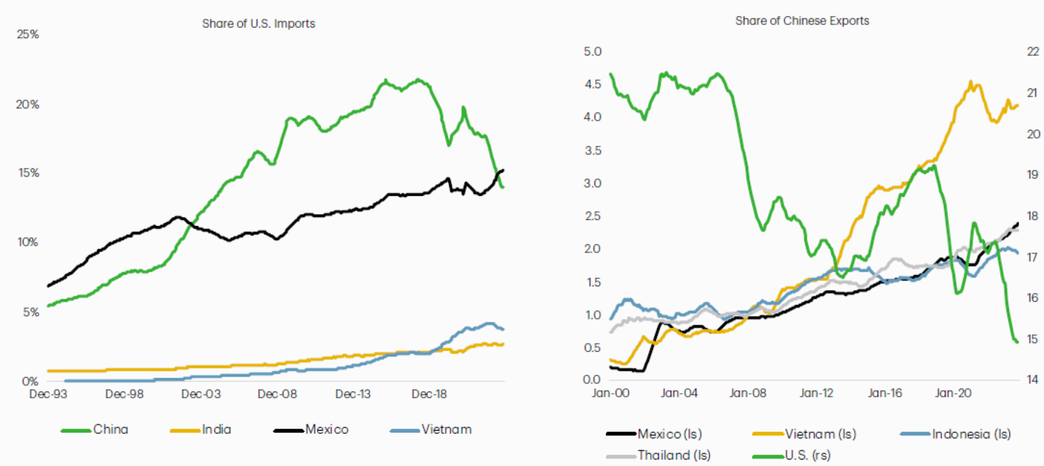
Source: Bureau of Economic Analysis as of December 1, 2023.



Looking Forward

- Rising geopolitical tension between the U.S. and China have rejigged trade flows globally, allowing for the integration of emerging and frontier economies into the global supply chain.
- Because trade ties tend to improve relationships between economies, it's to be expected that the fragmentation of the global economy will lead to rising geopolitical risk.
- As such, some will benefit while others will not from the shift in trade flows, with several emerging-market nations benefiting from the "China plus one" strategy.
- Vietnam, for example, has been gaining market share as a destination for Chinese and global exports. Other Asian countries and Mexico could also benefit from this trend, either through the establishment of manufacturing bases by foreign companies, or as a location where Chinese goods pass through before being re-exported to the West.
- This is an important reminder of a diversified geographic approach to investing. We continue to monitor the impacts of shifting geopolitics on investor portfolios and adjust allocations between countries as necessary.

Certain countries will be net beneficiaries from the global supply-chain reorganization.



Source: Wealth Investment Office as of November 27, 2023.

Closing Thoughts

- We expect inflation and interest rates to be a continuing theme for our updates in 2024, and look forward to continuing to update you all on the latest developments.
- Please do reach out to us about your 2024 TFSA contributions or if you have any questions about the material above!
  - Andrew & Nathan

Market Performance (Source: Bloomberg Finance L.P.)			
	Dec. 31, 2023	Dec. 31, 2022	YTD Change
Equity Index Update			
S&P 500	4772	3840	+24.3%
S&P/TSX Comp.	20963	19385	+8.1%
MSCI EAFE	2236	1944	+15.0%
Government Bond Yields			
U.S. 10-yr Treasury	3.88	3.88	+0.00
Canada 10-yr Bond	3.10	3.30	-0.20
Foreign Exchange Cross Rates			
C$ (USD per CAD)	0.75	0.74	1.3%
Euro (USD per EUR)	1.10	1.06	3.8%

Official Policy Rate Targets Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	5.25% - 5.50%
Bank of Canada (Overnight Rate)	5.00%

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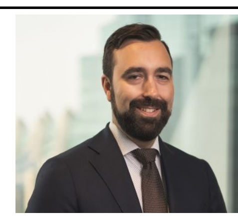

Disclaimer

Sources quoted include TD Asset Management and Bloomberg Finance L.P. Excerpts from Wealth Investment Office (WIO) Monthly Perspectives December 2023 and Wealth Investment Office (WIO) "The Year Ahead" Market Insights December 2023. Additional sources include the US Federal Reserve, and the Bank of Canada.

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