

February 2024 Market Newsletter

February 2, 2024

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Opening Comments

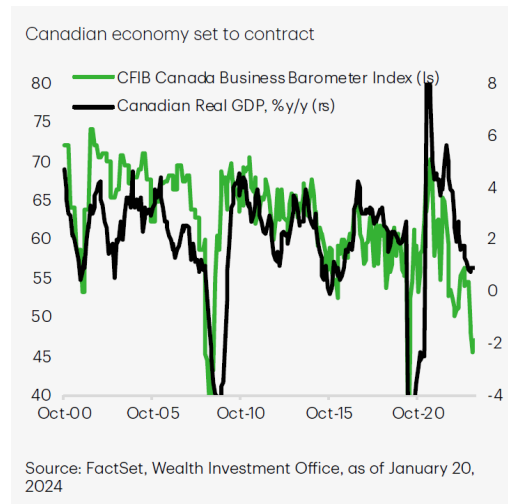
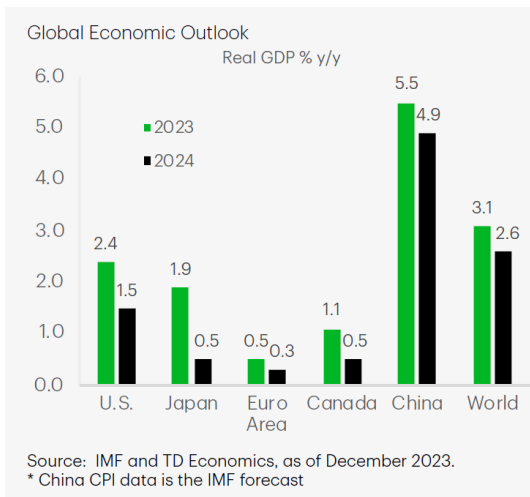
- The RRSP deadline for the 2023 tax year is February 29th, 2024. The 2023 limit is the lesser of \$30,780 or 18% of your earned income in the previous year.
- If you would like to make an RRSP contribution before the deadline please reach out to us!

Noteworthy News

- Canadian and US central banks held interest rates steady this past month. The governor of the Bank of Canada Tiff Macklem specifically noted that, "If the economy evolves broadly in line with the projection we published today, I expect future discussions will be about how long we maintain the policy rate at five per cent."
- Meanwhile the US Federal Reserve Chair Jerome Powell stated that they are looking for greater confidence that inflation is moving sustainably down to their goal.
- Both statements indicate a possibility of interest rates remaining at or near current levels over the short term.

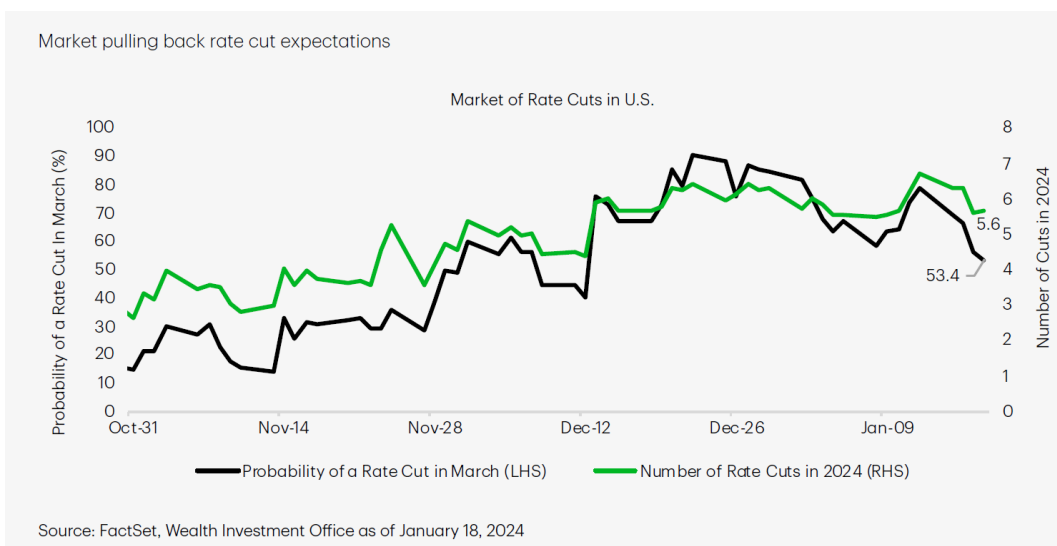
2024 Economic Outlook

- The forecast from TD Economics is that the U.S. economy will grow 1.5% this year, lower than the 2.4% real GDP growth in 2023. Canada is expected to grow only 0.5% — a step down from 1.1% last year — while euro zone economic growth is forecasted to expand 0.3%, slightly lower than the 0.5% last year (bottom left figure).
- The U.S. economy, as it usually does in the late stages of the cycle, has outperformed other developed economies. Several European economies are already in recession, with Germany in particularly bad shape due to weakened demand for its manufacturing sector, which is closely tied to the Chinese economic outlook and has been hit hard by higher energy prices amid the Ukraine-Russia war.
- Meanwhile, the Canadian economy is already nearing a recession (bottom right figure), due in part to significant differences in the way mortgages are structured north of the border. Unlike the long-term fixed mortgage structures in the U.S., Canadian mortgage borrowing is fixed for only a few years (typically five), which allows rate hikes to hit the economy faster, raising mortgage costs and dragging down consumer spending. Canada's larger proportion of commodities companies also gives the economy more of a cyclical structure than in the U.S., which leads to higher growth volatility — all of which is to say that, compared to its southern neighbour, the Canadian economy faces greater risks.



Looking Forward

- The case for being overweight bonds remains strong when we consider the macroeconomic backdrop. After better-than-expected growth throughout the first half of 2023, the economic surprise index has been rolling over. The data for jobs and economic growth in Q3 and Q4 of 2023 have been revised lower. A continuation of the downward trend in economic surprises should be a tailwind for bonds.
- In sum, lower growth this year should translate to lower bond yields. Earlier this year, the consensus had six 25-bp policy-rate cuts in the U.S. — we think four cuts is more likely. As of mid-January, this view is being priced into the market (see figure below).
- We believe that the equity market has a balanced return outlook. Earnings growth has been challenged year-over-year, but we believe that it is now starting to stabilize and show signs of positive momentum. Valuations in many geographies are reasonable, with the U.S. commanding a premium largely due to its exposure to higher-growth technology companies.



Closing Thoughts

- We will continue to be committed to enhanced diversification, by building and managing portfolios that are designed to perform in a wide range of economic conditions.
- Please reach out to us about your RRSP contributions or if you have any questions about the material above!

- Andrew & Nathan

Market Performance (Source: Bloomberg Finance L.P.)			
	Jan. 31, 2024	Dec. 31, 2023	YTD Change
Equity Index Update			
S&P 500	4845	4772	+1.5%
S&P/TSX Comp.	21026	20963	+0.3%
MSCI EAFE	2248	2236	+0.5%
Government Bond Yields			
U.S. 10-yr Treasury	3.94	3.88	+0.06
Canada 10-yr Bond	3.32	3.10	+0.22
Foreign Exchange Cross Rates			
C\$ (USD per CAD)	0.74	0.75	-1.3%
Euro (USD per EUR)	1.08	1.10	-1.8%
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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