MARKET & ECONOMIC SUMMARY

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MARKET SUMMARY

Fourth Quarter 2023

S&P/TSX Composite TR

Q4	YTD	1 year
⬆ 8.1%	⬆ 11.7%	⬆ 11.7%

S&P 500 TR (USD)

Q4	YTD	1 year
⬆ 11.7%	⬆ 26.3%	⬆ 26.3%

MSCI EAFE GR (C$)

Q4	YTD	1 year
⬆ 7.7%	⬆ 15.7%	⬆ 15.7%

ICE Bof AML Canada Brd Mkt TR

Q4	YTD	1 year
⬆ 8.2%	⬆ 6.4%	⬆ 6.4%

FOURTH QUARTER HIGHLIGHTS

- S&P/TSX Composite hits 20-month high of 21,091.10 on Dec 27th
- S&P 500 hits 23-month high of 4,793.30 on Dec 28th
- Canadian dollar hits 42-month high of $0.7199 USD on Oct 31st
- WTI Oil strikes 6-month low of $67.71 USD on Dec 13th
- Bank of Canada maintained overnight rate at 5.00% in Q4

SUMMARY

The start and end of 2023 presented starkly different scenarios for investors. The year began with trepidation following a tumultuous 2022 but concluded on a high note as inflation slowed and equities yielded substantial returns.

On the equities and bonds front, 2023 was a year of recovery with U.S., Canadian, and global equities registering double-digit gains. U.S. stocks, in particular, ended the year near all-time highs. Although many sectors contributed, technology emerged as the standout performer. This marked a significant turnaround from the sector's slump in 2022.

Another dip in equities occurred in May due to U.S. debt ceiling negotiations in Congress and the fall of another regional bank, First Republic. The situation improved in June and by mid-year the Nasdaq had recorded its best start ever.

Internationally, Japanese stocks hit a 33-year high. However, concerns about interest rates, inflation, and a slowing global economy temporarily stalled the positive trend in Q3. Despite geopolitical tensions in the Middle East causing cautious market reactions in October, equities remained in positive territory year-to-date and rallied in the last two months.

As for bond markets, yields fluctuated throughout the year but dropped consistently in Q4. The yield curve, the difference between 10-year and 2-year U.S. yields, was the most inverted since 1981, indicating higher short-term rates than long-term rates and an ominous harbinger of a recession.

There were several investor-friendly economic indicators in Canada and the U.S., including robust job creation and consumer spending. However, economic slowdowns were evident in Europe and China, decreasing global demand. Currency markets saw fluctuations, with the U.S. dollar initially rallying before weakening as investor confidence improved.

The price of oil had a volatile ride, falling in Q1 and Q2 due to factors such as the banking scare and economic slowdown fears. It then rose in Q3 due to production cuts by Saudi Arabia and OPEC, but slid again in Q4.

U.S. inflation fell steadily from 7.1% to 3.3% over the year, largely due to declining energy prices and stabilizing food prices. The Fed raised its target interest rate four times during the year, but rates remained steady for the rest of 2023. Inflation cooled in Canada from 6.8% to 3.1% by year's end, with the Bank of Canada raising rates three times in 2023.

"A recession can be underway for several months before it's officially declared"

– Matthew Jenkinson

STRATEGIC NOTES

There has been much discussion about a potential recession in recent years. To clarify, a recession refers to a period of temporary economic decline during which trade and industrial activity are reduced, generally marked by a fall in real GDP for two consecutive quarters.

The business cycle, typically lasting eight to twelve years, goes through several phases, starting with recovery, proceeding to early and late growth, and ending with a recession. In North America, there have been 24 declared recessions since 1900, with an average gap between troughs of 8 years and duration of 11 months. The National Bureau of Economic Research in the US and the C.D. Howe Institute's Business Cycle Council in Canada are responsible for determining the start and end of a recession.

To make this determination, officials examine a wealth of data to ascertain if an economy is experiencing a widespread economic decline lasting more than a few months. Summary key data includes real GDP, real personal income less transfers, and nonfarm payroll employment. If these factors are broadly negative, the economy is likely in decline and a recession is being experienced.

What's crucial to understand is the retrospective nature of this process. A recession can be underway for several months before it's officially declared. A friend once said imagine this scene: the weather is deafeningly calm, the fog is so thick you can't see your hand in front of your face, you're on a boat in the middle of the ocean at night and a giant tanker creeps past you. You don't hear or see a thing but you feel the waves, that's the same as a recession. While the government takes action to stimulate the economy once a recession is declared, we can monitor leading and lagging economic indicators to anticipate the economic tide's direction.

By the time a recession is declared, we're often most of the way through it, having already felt its effects. Indicators might include tighter monthly spending, difficulty finding jobs or new business, and heightened societal tension due to stress. Our role is to perceive these waves, combine them with data, ascertain a risk level and build the portfolio accordingly. Rest assured, we are prepared to weather the storm.

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