MARKET & ECONOMIC SUMMARY

Volume 12, Issue 2 – April 2024

MARKET SUMMARY

First Quarter 2024

S&P/TSX Composite TR

Q1	YTD	1 year
⬆ 6.6%	⬆ 6.6%	⬆ 14.0%

S&P 500 TR (USD)

Q1	YTD	1 year
⬆ 10.6%	⬆ 10.6%	⬆ 29.9%

MSCI EAFE GR (C$)

Q1	YTD	1 year
⬆ 8.7%	⬆ 8.7%	⬆ 15.9%

ICE Bof AML Canada Brd Mkt TR

Q1	YTD	1 year
⬇ 1.3%	⬇ 1.3%	⬆ 1.9%

FIRST QUARTER HIGHLIGHTS

- S&P/TSX Composite hits a new all-time high of 22,220.90 on Mar 28th
- S&P 500 hits a new all-time high of 5,264.85 on Mar 28th
- Canadian dollar hits 7-month high of $0.7559 USD on Jan 1st
- WTI Oil range bound ending quarter at $84.90 USD
- Bank of Canada maintained overnight rate at 5.00%

SUMMARY

In Q1, equities posted impressive returns with U.S., Canadian, and global equities seeing consistent gains backed by strong corporate earnings, AI excitement, and the optimism that the Fed and BoC rate cuts are getting closer. While U.S. job creation continues, there are signs of a slowing labour market, particularly in Canada, and inflation has been stickier in the U.S. than the market likes. China's central bank reduced its five-year loan prime rate, aiming to boost liquidity and stimulate growth in its struggling economy, while the Bank of Japan introduced its first-rate hike in 17 years.

U.S. CPI came in at 3.5%, down significantly from a peak of 9.1% but well above their stated target of 2%. The Fed kept interest rates at 5.25-5.5% and projected three rate cuts later this year. Canadian CPI cooled to 2.8%, within the Bank of Canada's target range of 1-3%. The bank held rates at 5%, indicating it needs to see a sustained downward trend before considering rate cuts. It is our opinion the Canadian economy is responding better to higher interest rates than our southern neighbour and thus allowing room for a rate decreases as early as June.

The S&P/TSX Composite Index, the S&P 500 Index, and the MSCI EAFE Index all ended the quarter with satisfactory gains. Tech, driven by AI excitement, continued performing well but more importantly the market broadened its recovery. Microsoft and Apple reached a market cap of US$3 trillion. Adding some perspective the combined stock value of the Magnificent Seven as they've been termed; Apple, Microsoft, Meta (Facebook), Amazon, Google, Nvidia, and Tesla is $13.1T (trillion). The second largest stock market in the world is China at $11.1T then Japan at $6.5T.

The optimism in the bond markets which drove yields downward after the reserve banks of North America indicated the top of the interest rate increasing cycle partially unwound during the quarter. As a result, we saw U.S. and Canadian yields rise, though they remain lower than their October 2023 peak, which weighed on income portfolios.

Oil prices recovered to near US$85 a barrel at the end of Q1, due to falling U.S. inventories, Chinese stimulus measures, and concerns about Houthi militia attacks in the Red Sea. The Trans Mountain pipeline's capacity to Canada's west coast increased, with reports of substantial orders for Canadian crude from Asia. Both factors being very positive for Canada. The Canadian dollar was however down versus the U.S. dollar due to a widening gap between U.S. and Canadian short-term interest rates.

Equity markets are reaching new all-time highs, led by U.S. and Japanese stocks. U.S. firms are delivering strong earnings, reflecting a resilient economy. However, the pace of these rallies and the rising valuations are causing some concern and may possibly lead to near-term consolidation. It is essential to maintain a disciplined approach to investing, focusing on long-term goals, and ensuring your portfolio remains diversified and fundamentally positioned.

“Stocks are still the best of all the poor alternatives during an era of inflation”

– Warren Buffett

STRATEGIC NOTES

Canada is responding much better to higher interest rates than the USA. Real GDP is below trend at 0.9% for 2023 vs 2.5% in the USA. Unemployment is 6.1%, up from 4.9%, in Canada whereas it is only 3.8%, up from 3.4%, in the USA. The culmination is inflation in Canada is 2.8% and within the BoC’s target range of 1-3%, however the Federal Reserve of America is very focused on core inflation which is tracking 3.8% well above their target of 2%.

Up until recently the trend of inflation globally has been downward. Canada has mostly remained on trend but the USA has produced inflation that exceeded expectations for 3-months. It has been quoted “Inflation is like toothpaste, once it’s out you can hardly get it back in again”. Our case that long-term inflation drivers are abundant is proving true and we need to continue to defend against its purchasing power erosion. Furthermore, this is not new, erosion of purchasing power has been the hurdle of wealth creation throughout time.

The three main components to have in a portfolio during sustained inflation are stocks, commodities, and tangible assets. “Stocks are still the best of all the poor alternatives during an era of inflation” – Warren Buffett. Stocks, being equity ownership in companies, benefit from increasing product prices. Ownership of good companies who can control costs through strong economic moats will navigate inflation well. Tangible assets such as real estate and infrastructure tend to benefit in their value as rents and equivalents adjust upward. Commodities are limited in supply, an inherent benefit when a currency is devaluing due to oversupply. Furthermore, commodities are often the cause of inflation therefore it helps to own the source.

At Eastport we’re focused first and foremost on the preservation of capital against loss of purchasing power and loss of capital. As such we own high quality companies in our stock portfolios managed by the best managers available. Furthermore, all the asset classes mentioned above are in our portfolio to defend against purchasing power erosion. We appreciate being able to serve you during the current times of unprecedented uncertainty.

Cy Korun, CFA
Senior Advisor – Eastport Private investment Counsel

Matt Jenkinson CFA, CKA
President - Eastport Private Investment Counsel