MARKET & ECONOMIC SUMMARY

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MARKET SUMMARY

Fourth Quarter 2024

S&P/TSX Composite TR

Q4	YTD	1 year
⬆ 3.8%	⬆ 21.7%	⬆ 21.7%

S&P 500 TR (USD)

Q4	YTD	1 year
⬆ 2.4%	⬆ 25.0%	⬆ 25.0%

MSCI EAFE GR (C$)

Q4	YTD	1 year
⬇ 2.1%	⬆ 13.8%	⬆ 13.8%

ICE Bof AML Canada Brd Mkt TR

Q4	YTD	1 year
⬇ 0.1%	⬆ 4.1%	⬆ 4.1%

FOURTH QUARTER HIGHLIGHTS

- S&P/TSX Composite hits a new all-time high of 25,843.20 on Dec 9th
- S&P 500 hits a new all-time high of 6,099.97 on Dec 6th
- Canadian dollar hit a post-covid low of $0.6915 USD on Dec 18th
- WTI Oil was range bound ending year at $72.38 USD
- Bank of Canada lowered overnight rate by 1.00% to 3.25%

SUMMARY

The year 2024 proved to be remarkably strong for equity markets, with US and Canadian markets showing significant gains. US equities achieved back-to-back double-digit returns in 2023 and 2024, driven largely by AI-related technology stocks and a broadening rally across sectors. The S&P/TSX Composite Index posted its best performance since 2021, demonstrating the resilience of Canadian markets despite economic headwinds.

Throughout the year, markets were driven by declining inflation and interest rate cuts. The first quarter saw brisk gains in equities, particularly in US tech stocks, while Canada's healthcare and energy sectors showed strength. Global markets also participated in the rally, with European and Japanese shares advancing steadily. Q2 and Q3 maintained positive momentum despite some volatility, notably including a brief but severe correction in Japanese markets, with Canada's market notably surging nearly 10% in Q3.

The bond market experienced significant fluctuations throughout the year, with yields initially rising in Q1 before declining significantly by mid-September. The closely watched US 10-year government bond yield showed particular volatility, touching 3.6% in September before rising again late in the year following higher inflation data and Fed Chair Powell's cautionary comments about future policy direction.

The US economy demonstrated remarkable resilience, with GDP growth strengthening in Q2 and Q3 to around 3%, supported by robust consumer activity and a strong job market. The unemployment rate remained historically low, only rising modestly from 3.7% in January to 4.2% by November. In contrast, Canada's economy struggled, with GDP growth remaining flat between 0.3-0.5% and unemployment rising significantly from 5.7% to 6.8%. This divergence was reflected in corporate profits, which continued to trend upward in the US while remaining stagnant or declining in Canada.

A significant development was the Canadian dollar's persistent weakness against the US dollar, reaching .69 cents USD by year-end. The Bank of Canada was more aggressive in cutting rates than the Federal Reserve, lowering its key rate five times to 3.25%, reflecting the different economic conditions in the two countries. The Fed's more measured approach included three rate cuts totaling 100 basis points, bringing its policy rate target range to 4.25%-4.5%.

Looking ahead to 2025, the divergence between Canadian and US growth rates remains clear. While lower inflation and interest rates are expected to benefit the Canadian economy, particularly helping individuals and companies manage debt loads, the weak Canadian dollar presents both opportunities and challenges. Uncertainty surrounds potential US trade policies under Trump's administration, which could significantly impact Canadian sectors through proposed tariffs and trade restrictions all whilst dealing with a political dilemma at home. This political and economic uncertainty will require careful navigation by investors and policymakers alike.

> *"the market has experienced an average drawdown of 14% per year since 1980" – Matthew Jenkinson*

STRATEGIC NOTES

A market drawdown measures the peak-to-trough decline during a specific period for an investment market and are more common than conventional wisdom realizes. Understanding the nature and frequency of drawdowns is essential for developing realistic investment expectations and maintaining composure during challenging market periods.

Historical analysis of market data reveals that drawdowns occur with predictable frequency. On average, the S&P 500 experiences a 10% or greater decline approximately once per year, a 20% or greater decline every four years, and a 30% or greater decline roughly once per decade. Furthermore, the market has experienced an average drawdown of 14% per year since 1980; stated differently the stock portion of a portfolio should be expected to go down 14% in any given year from peak-to-trough and considered a normal ebb-and-flow on an upward trend. This pattern demonstrates that significant market declines are not anomalies but rather regular features of market cycles that investors should anticipate and prepare for in their long-term planning. The larger drawdowns often coincide with significant economic events, structural market changes, or external shocks to the financial system.

Understanding the psychology behind market pull-backs is similarly crucial for investors. These regular drawdowns often occur due to short-term factors such as profit-taking, temporary shifts in sentiment, or reactions to economic news. The key distinction is that most drawdowns generally don't reflect fundamental changes in market or economic conditions, unlike more severe downturns which, as previously stated, might be triggered by structural economic issues or significant external events.

Investors should approach market drawdowns with a strategic mindset rather than reacting emotionally. Key response strategies include maintaining adequate portfolio diversification, ensuring sufficient liquidity to avoid forced selling during market stress, and potentially using market declines as opportunities to rebalance portfolios or increase positions in quality investments at lower valuations; all of which we at Eastport implement for our clients.

It's crucial to remember that markets have historically recovered from every major drawdown, though the recovery timeline can vary significantly. Having a well-defined investment plan that accounts for these inevitable market cycles can help investors maintain discipline during challenging periods. Furthermore, as a core principle, a well-built portfolio allows investors to remain invested during uncertainty and to harvest the benefits of market appreciation as uncertainty ameliorates.

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