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CHARTBOOK
Market Comment

Prepared by OceanFront Investment Counsel Inc.

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Chartbook Market Comment: February 2024

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Market Comment

2023 was a year of interest rates spiking while we watched inflation steadily decline. In contrast, 2024 will likely be a year of watching and waiting to see if inflation remains under control. Central banks are trying to thread the needle of quelling inflation through higher interest rates to cool growth without inducing a recession, which is no easy task.

The first interest rate cuts are expected to be imminent, perhaps sometime in the spring. While investors are eagerly anticipating the expected cuts, central bankers continue to preach caution about expecting too many cuts too soon. There has been a disconnect between market expectations of interest rates and the expectations of central bankers for some time, and in 2024 we should finally find out who is right.

In January, global stock markets generally continued their strong performance from 2023, while bond yields remained relatively high. Should the expected rate cuts occur, they should provide a nice boost to bonds which are already attractively priced.

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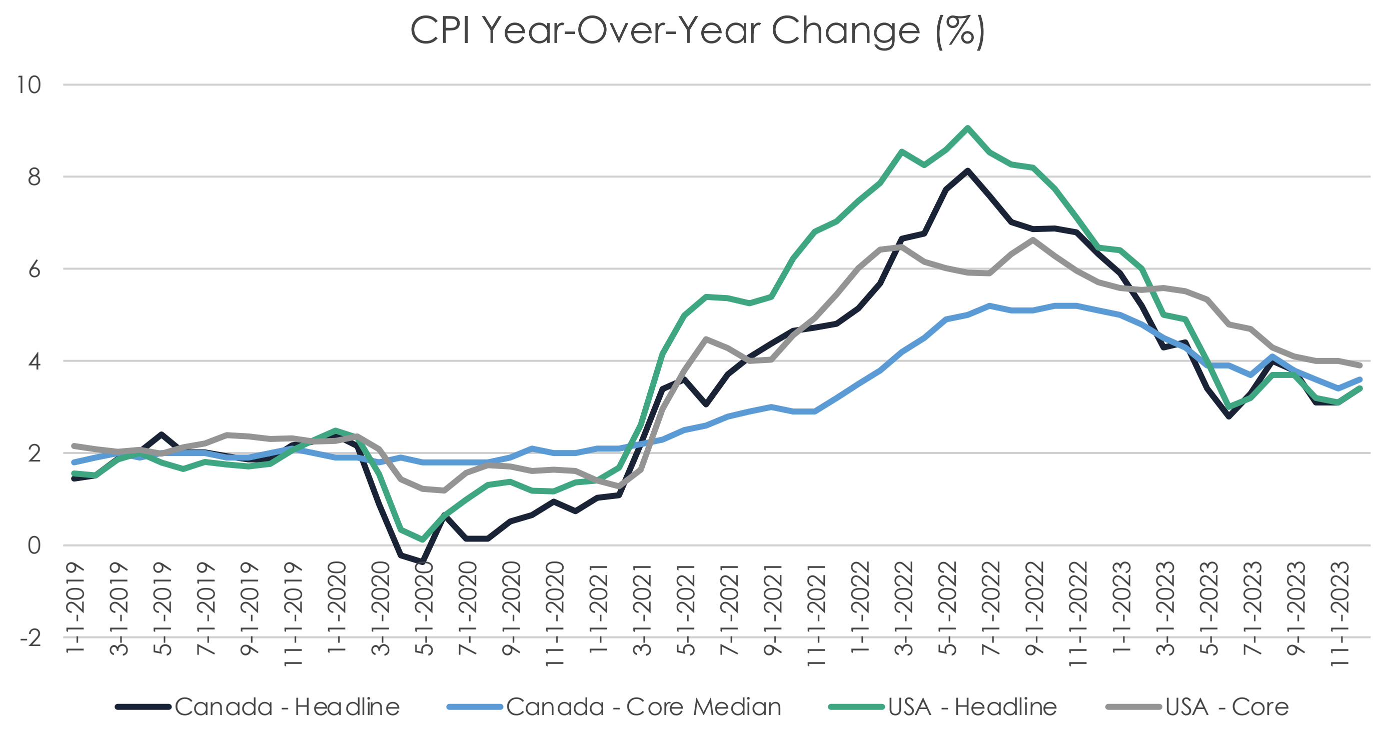
Inflation



Most measures of CPI inflation slightly increased in the December data and are in the 3%-4% range, still above the central bank target rate of 2%.

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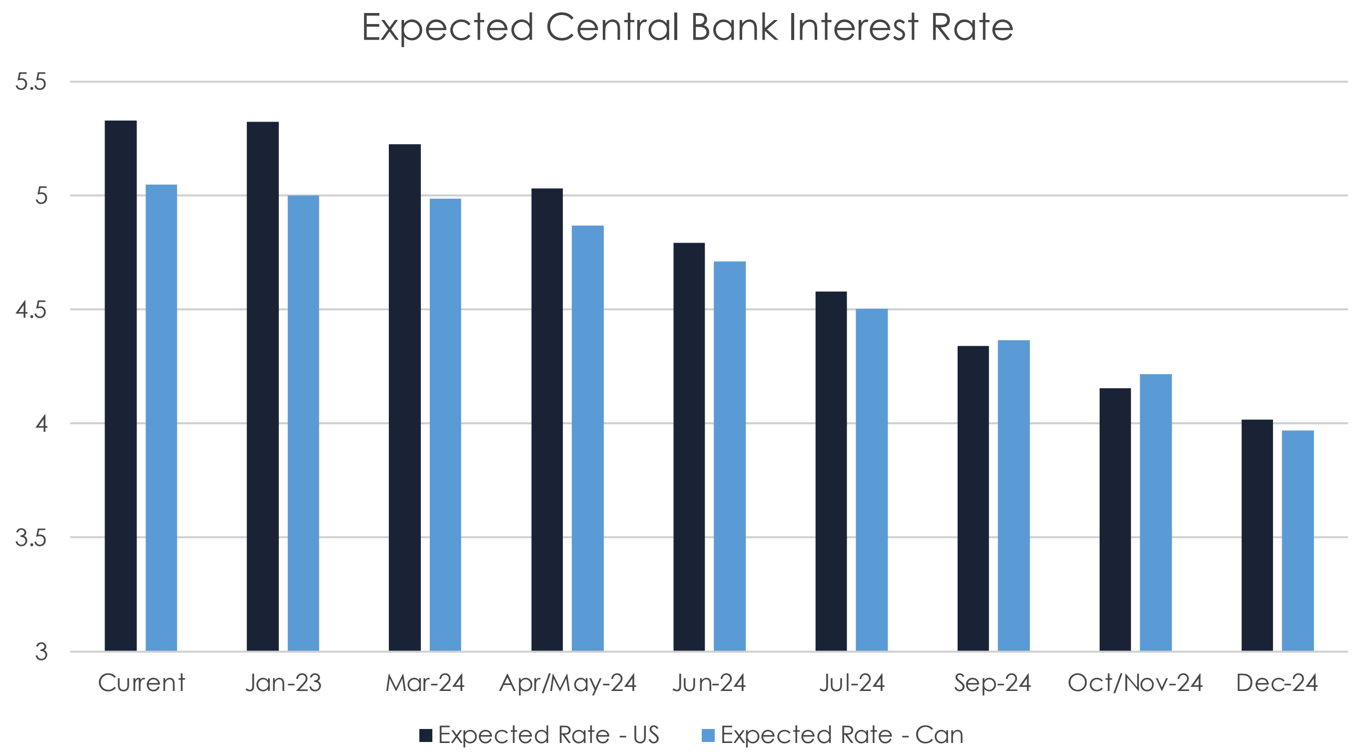
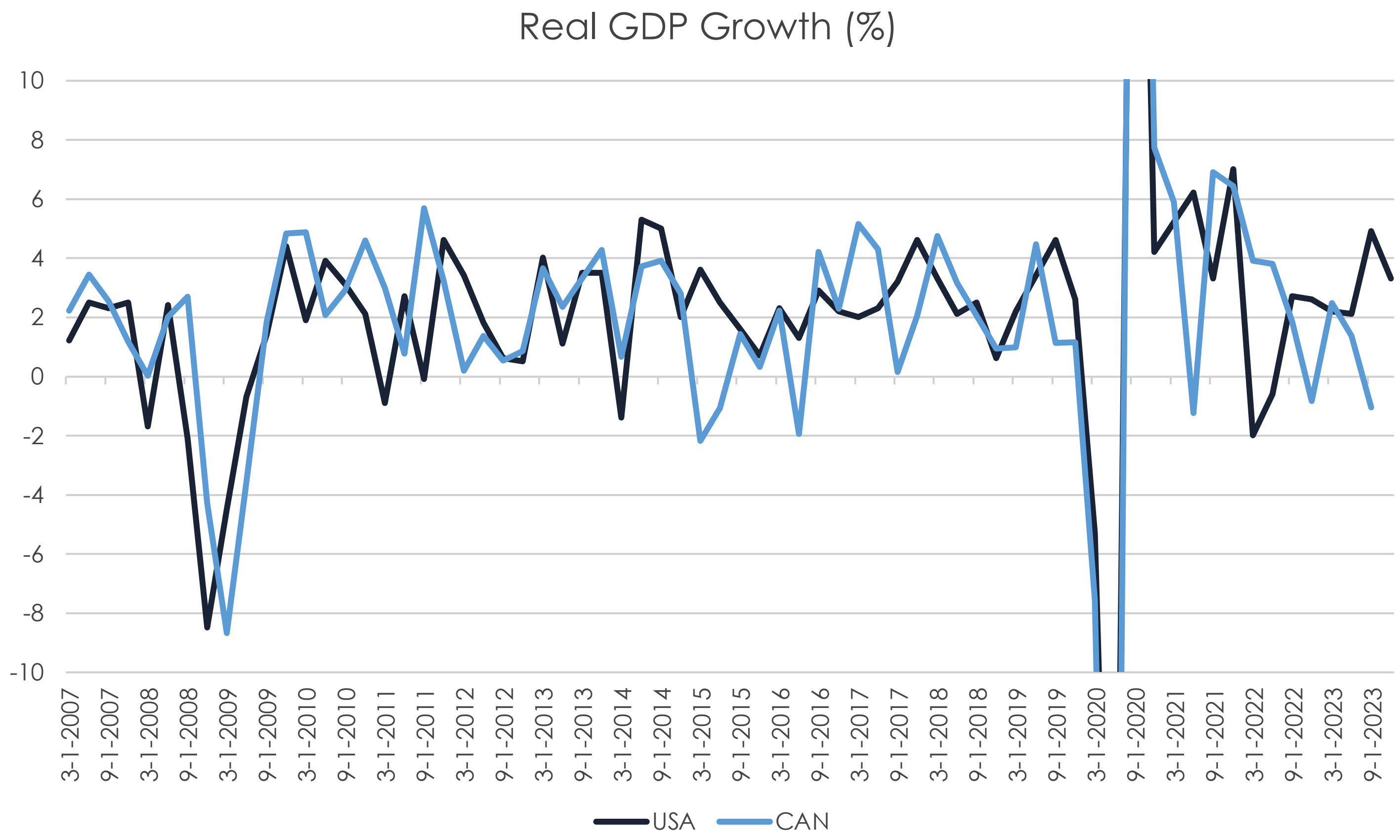
Interest Rate Expectations

Interest rate markets have been volatile, reacting and adjusting to the latest economic data released. Markets are still pricing in rate cuts of about 1% by the end of 2024.



Data: Overnight Index Swap markets as of January 24, 2024

Gross Domestic Product



The aim of central banks' rate hikes has been to cool off a hot economy to bring inflation down. This would mean a slowdown in economic growth, which we have seen in Canada but less so in the US. Canada has seen negative GDP growth in 2 of the last 4 quarters while in the US the last 4 quarters have all been positive, including a quarter of almost 5% annualized growth.

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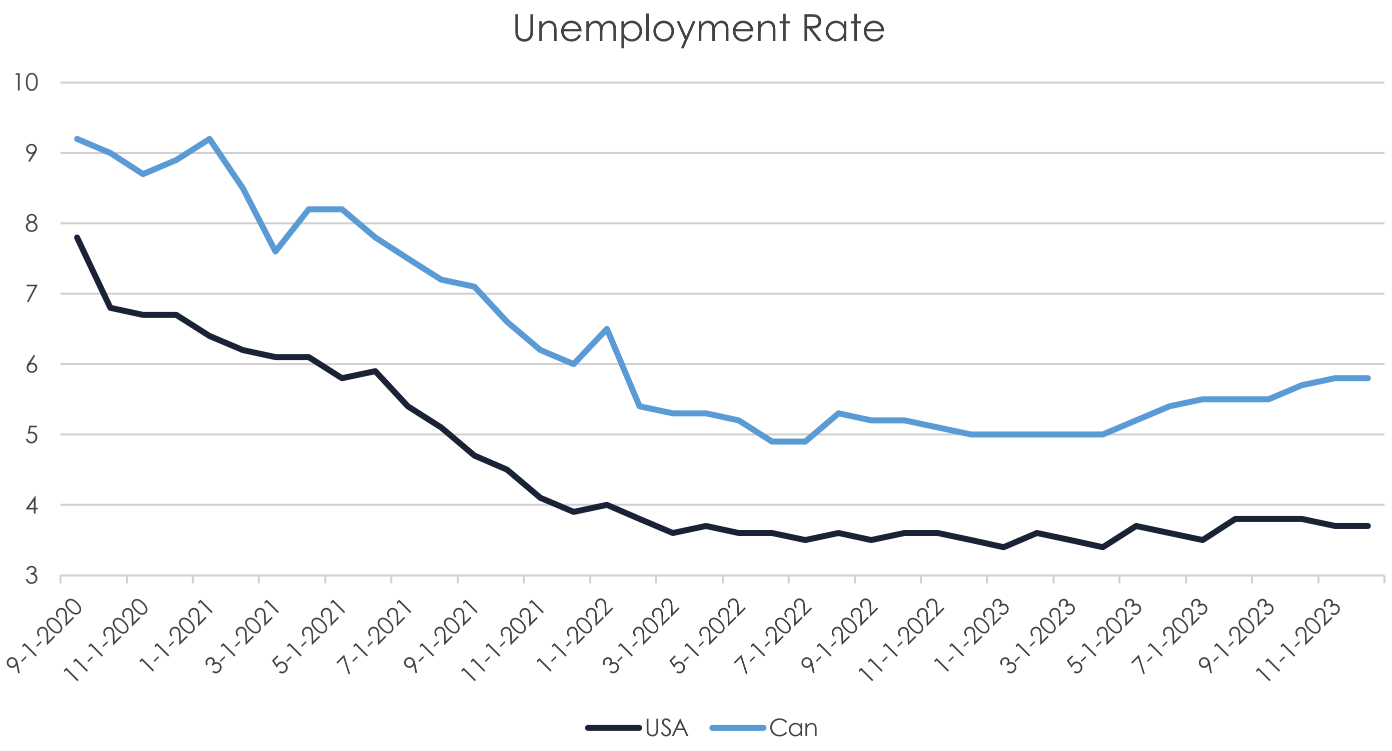
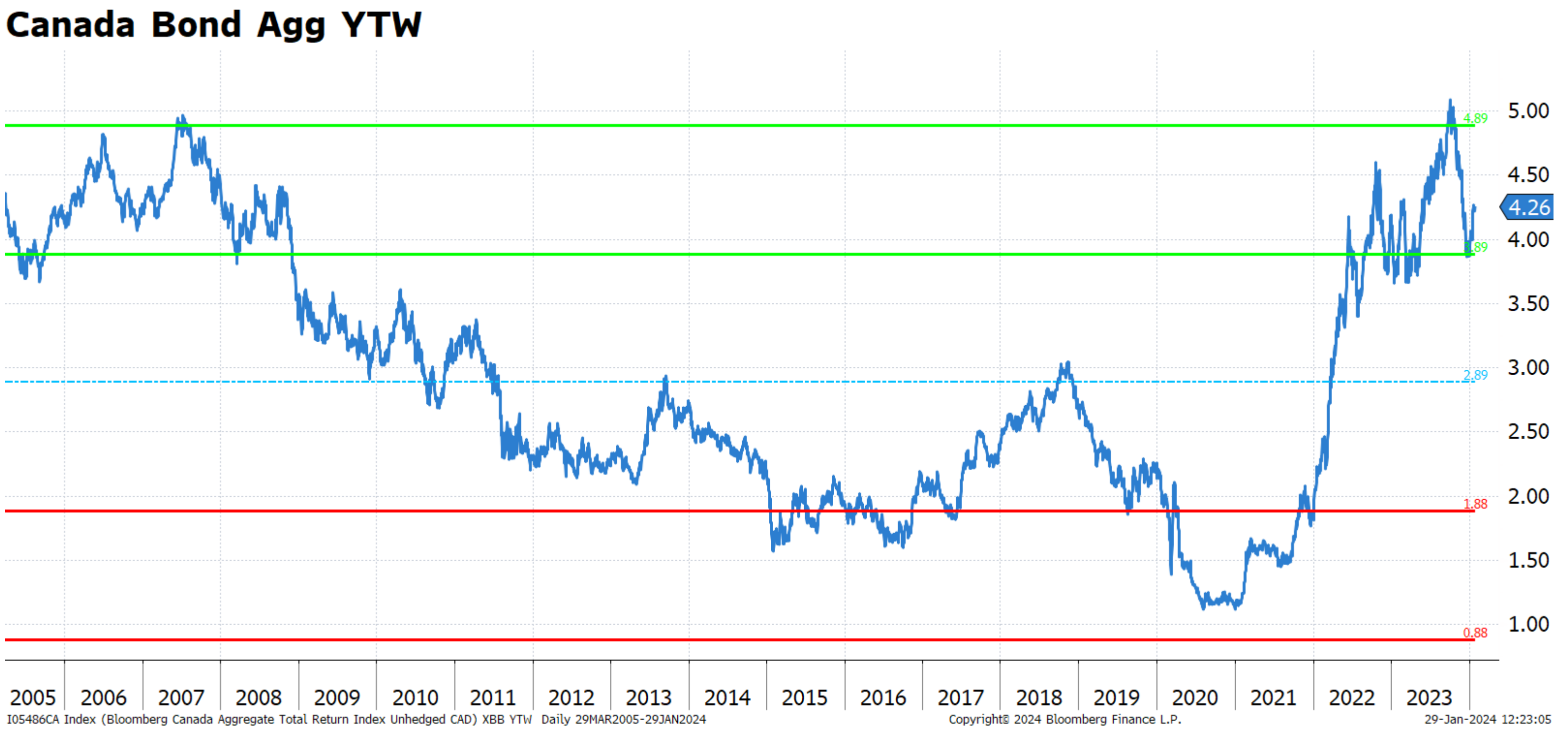
Employment

In an economic slowdown we would also expect to see an increase in unemployment. The unemployment rate in Canada has increased from about 5% to almost 6% over the last year, while in the US it is mostly flat. The US economy has been significantly more resilient to the effects of rate hikes than the Canadian economy.



Bond Yields

Looking simply at yields, rather than spreads, on the Bloomberg Canada Aggregate Total Return Index, which is an Investment Grade bond index. We can see that bonds are still paying a very high yield relative to the recent past, even with the recent decline in yields from about 5% down to 4%. There is still an opportunity to own these high-quality bonds at attractive yields.



High Yield Bonds

During periods of economic weakness and market turmoil, high yield bonds tend to be one of the first areas to see distress. This means prices of these bonds decline, and the yield spikes higher as a result. The chart shows the difference, or "spread", in yield between high yield bonds and much less risky government bonds. The dotted blue line shows the average spread with the current level significantly below average, which means that markets aren't expecting distress here.

Distressed Debt

TRACE number of distressed issuers

Data as of January 26, 2024.

In periods of economic stress and turmoil, we are also quick to see signs of it in the number of debt issuers classified as "distressed", which will increase dramatically. At the present time, this number is low and decreasing.

 Source: Bloomberg, OceanFront Investment Counsel Inc.

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