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CHARTBOOK
Market Comment

Prepared by OceanFront Investment Counsel Inc.

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TABLE OF CONTENTS

Chartbook Market Comment: January 2024

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Market Comment

In 2023, investors who hung on through the tough times of 2022 were rewarded with mostly positive returns across global markets. At this time last year, the economy was facing high inflation and increasing interest rates to counter it. As 2024 begins, we appear to be transitioning into a period of declining interest rates and falling inflation, at least that's what markets seem to be expecting.

Federal Reserve has begun to put interest rate cuts into its forecast, while the Bank of Canada has been more cautious in its messaging towards cuts, but recent comments from BoC Governor Tiff Macklem implicitly suggest they are likely to come soon.

"Economic growth stalled through the middle of this year, and we expect it to remain weak into 2024. The excess demand that drove prices higher over the past two years is now gone, as higher interest rates and tighter global financial conditions have helped the economy rebalance", Macklem said. "When it's clear that inflation is on a sustained downward track, we can begin discussing lowering our policy interest rate. We don't need to wait until inflation is all the way back to the 2% target to consider easing policy, but it does need to be clearly headed to 2%."

In the US, the Federal Reserve's "dot plot" forecast of where future rates will be shows 1.5% of interest rate cuts expected in 2024, but the Fed has been quick to caution that rates could still go higher if inflation doesn't continue to trend toward the 2% target.

Following the bear market of 2022, most markets staged significant bounce backs in 2023 and for the most part recovered their bear market losses. In the table, you can see that the Nasdaq was the outlier to the upside with a massive 2023 return, while Chinese and Hong Kong markets followed a poor 2022 with a poor 2023.

Bond markets generally performed well in 2023, but not enough to recover their losses of 2022.

Market Returns

Returns: Annualized, Canadian Dollar Terms, as of December 31, 2023

Stock Indices	**1-Year**	**2-Year**
CAN: S&P/TSX Composite Index	11.83%	2.66%
USA: S&P 500 Index	23.27%	3.91%
USA: Nasdaq 100 Index	51.43%	4.65%
USA: Dow Jones Industrial Average	13.41%	6.29%
MSCI EAFE Index	16.12%	3.40%
MSCI Emerging Markets Index	7.59%	-3.93%
FTSE 100 Index (United Kingdom)	10.88%	5.29%
Euro Stoxx 50 Index (Europe)	24.24%	6.93%
Nikkei 225 Index (Japan)	18.86%	1.13%
Hang Seng Index (Hong Kong)	-12.70%	-9.66%
Shanghai Stock Exchange Composite Index (China)	-6.15%	-10.20%
Bond Indices		
iShares Core Canadian Universe Bond Index ETF	6.67%	-2.93%
Bloomberg U.S. Aggregate Bond Index	5.83%	-2.99%
Bloomberg U.S. Corporate Investment Grade Index	8.52%	-4.39%
Bloomberg U.S. 20+ Year Treasury Index	2.66%	-15.89%
Commodities		
Gold	13.10%	6.20%
WTI Light Crude Oil	-12.86%	-0.27%
Bloomberg Commodity Index	-14.64%	1.91%

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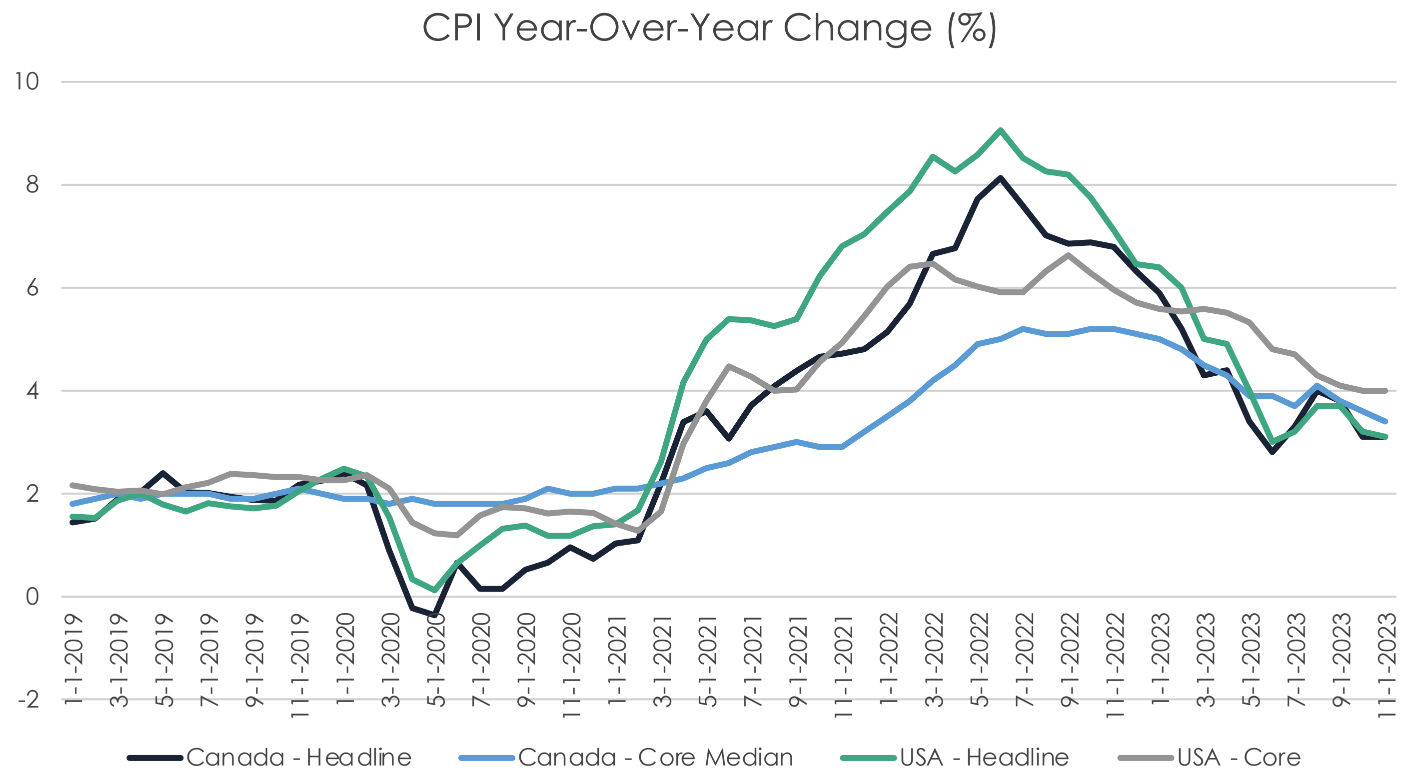
Inflation

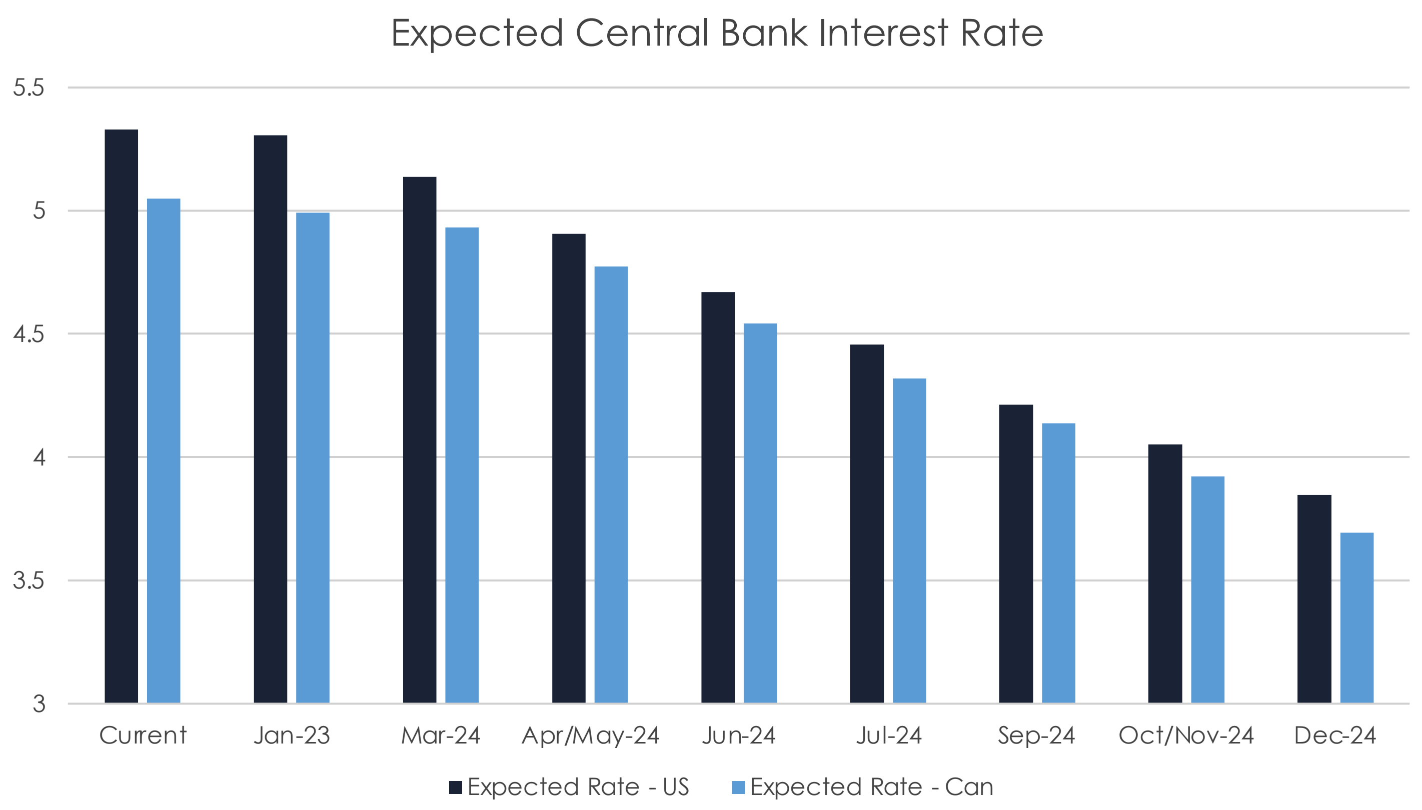


Inflation continues to gradually decline in the US and Canada, with most CPI measures now in the 3% range.

 Source: Bloomberg, OceanFront Investment Counsel Inc.

Interest Rate Expectations

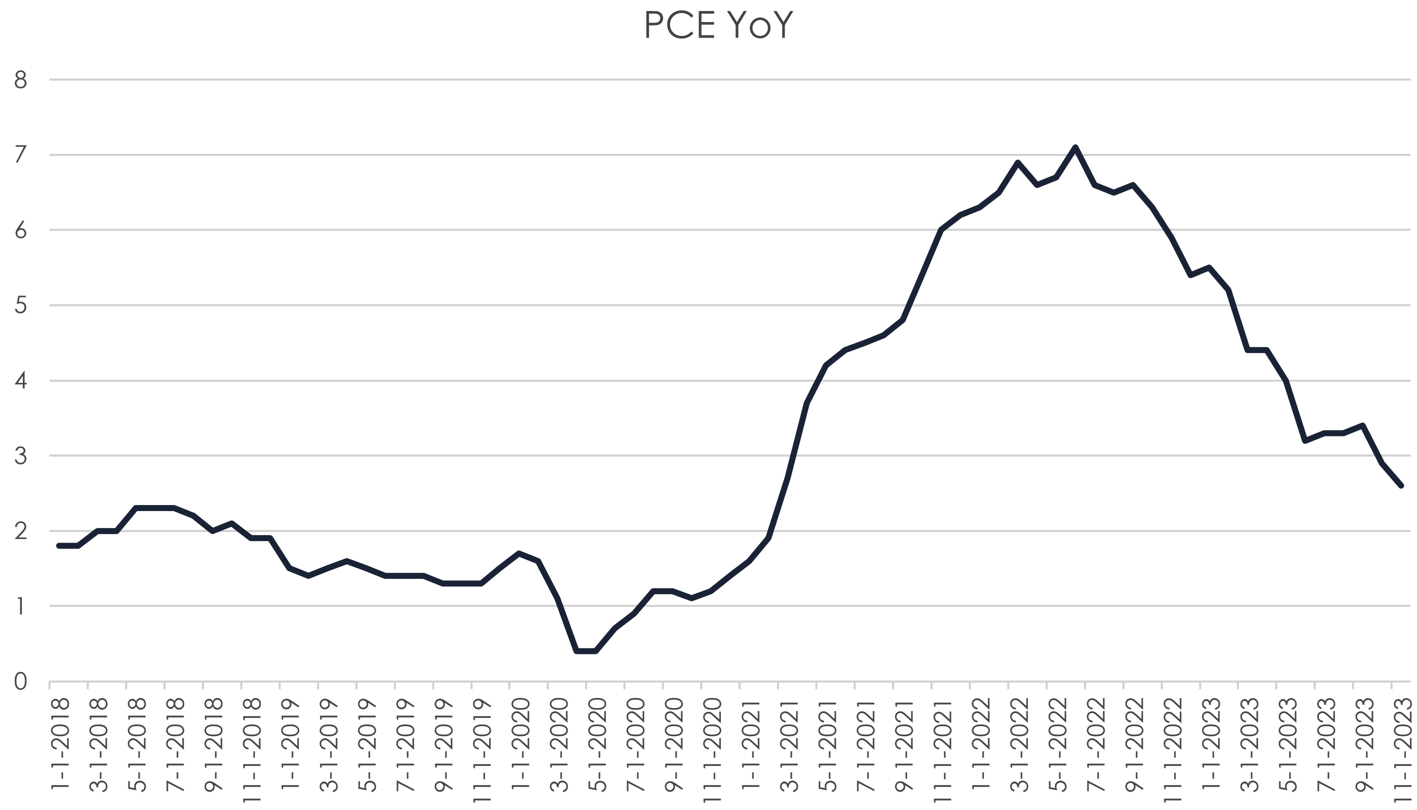
As inflation subsides, markets are pricing in about a 1% decline in both the Federal Reserve's and Bank of Canada's policy interest rates by the end of 2024.



Data: Overnight Index Swap markets as of January 3, 2024

Personal Consumption Expenditure

Personal Consumption Expenditure, another inflation measure, and which the Federal Reserve prefers to CPI inflation, has subsided substantially to 2.6%. This is now approaching the Fed's long-term inflation target of 2%. The Fed will be cautious to avoid a secondary spike in inflation, but with inflation at this level, rates are more likely to decline than increase from here.



Data as of January 3, 2023.

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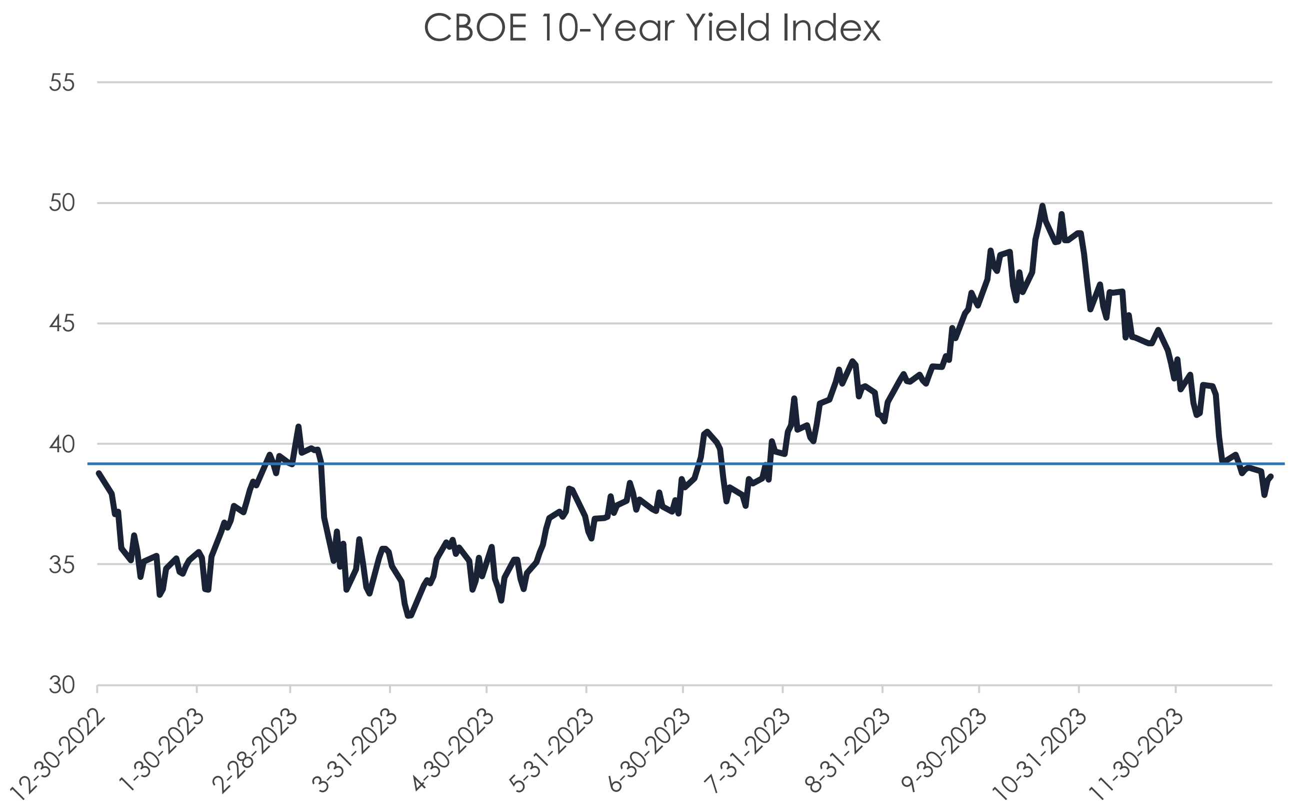
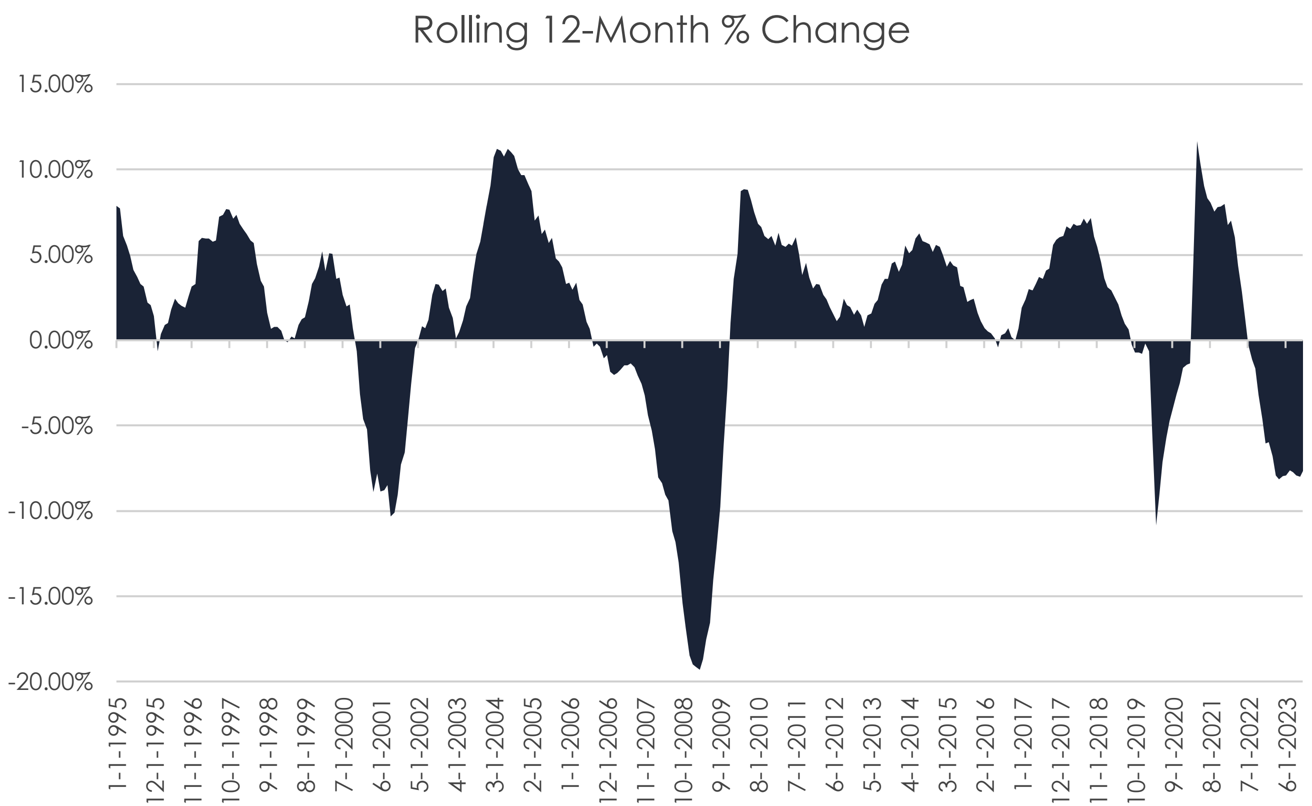
US 10-Year Government Bond Yield

The yield on the 10-year US Treasury bond ended the year at nearly the exact level that it began 2023 at. If you weren't paying attention, it would appear it was a quiet year for bond yields, which experienced a dramatic amount of volatility throughout the year.



Leading Economic Index



Economic growth and inflation tend to have a positive correlation, high growth leads to higher inflation and vice versa. This seems to be the case today as well, as there are indications of a slowing economy. The Conference Board Leading Economic Index for the US, an index of a group of leading indicators of the US economy, has declined significantly over the past year or so. This signals a warning for upcoming declining economic growth.

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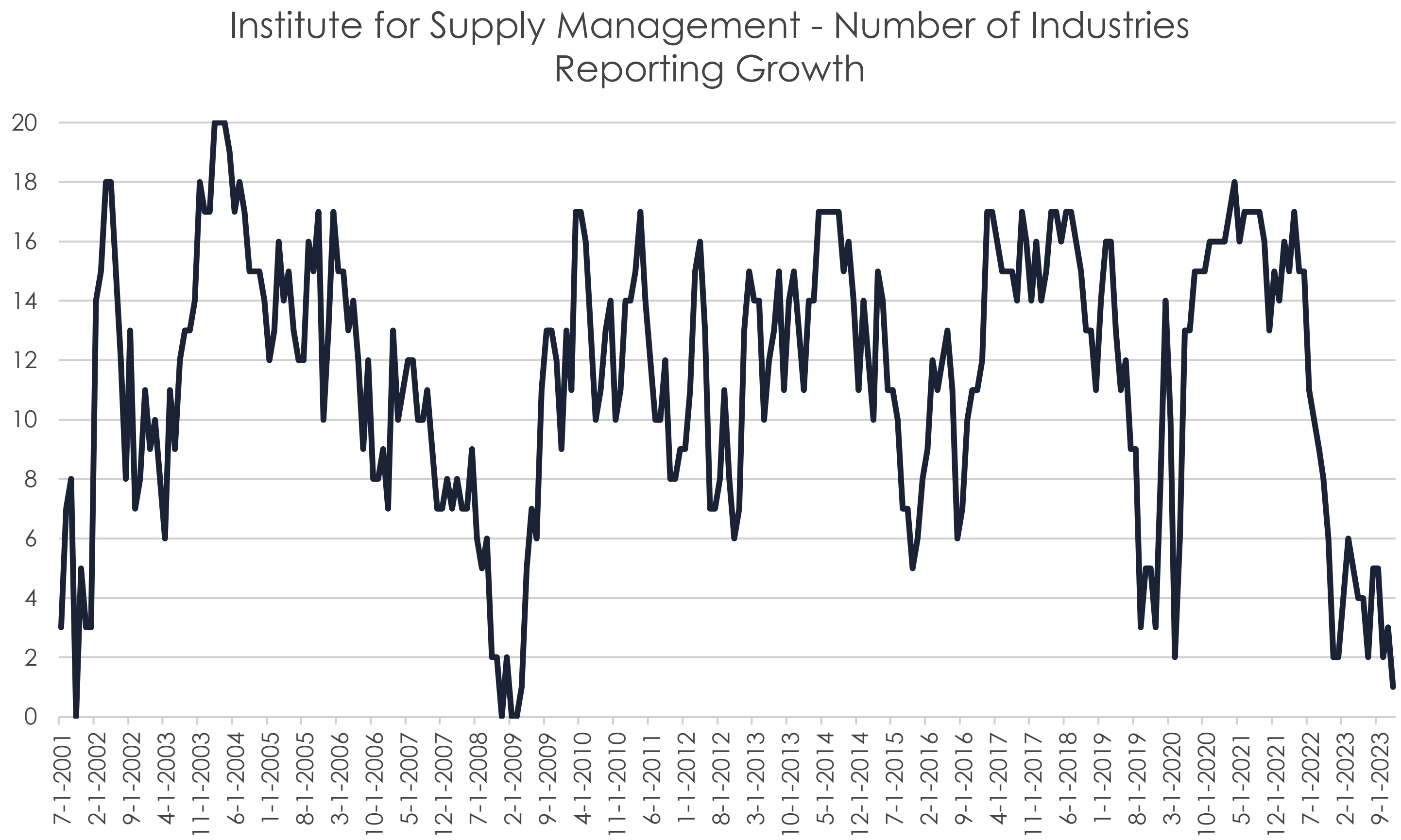
 Source: Statistics Canada, RBC Economics Research, OceanFront Investment Counsel Inc.

Institute for Supply Management

The Institute for Supply Management's recent survey showed only 1 industry reporting growth. This is on par with weak economic periods including the recessions of 2008-2009 and 2000-2001.



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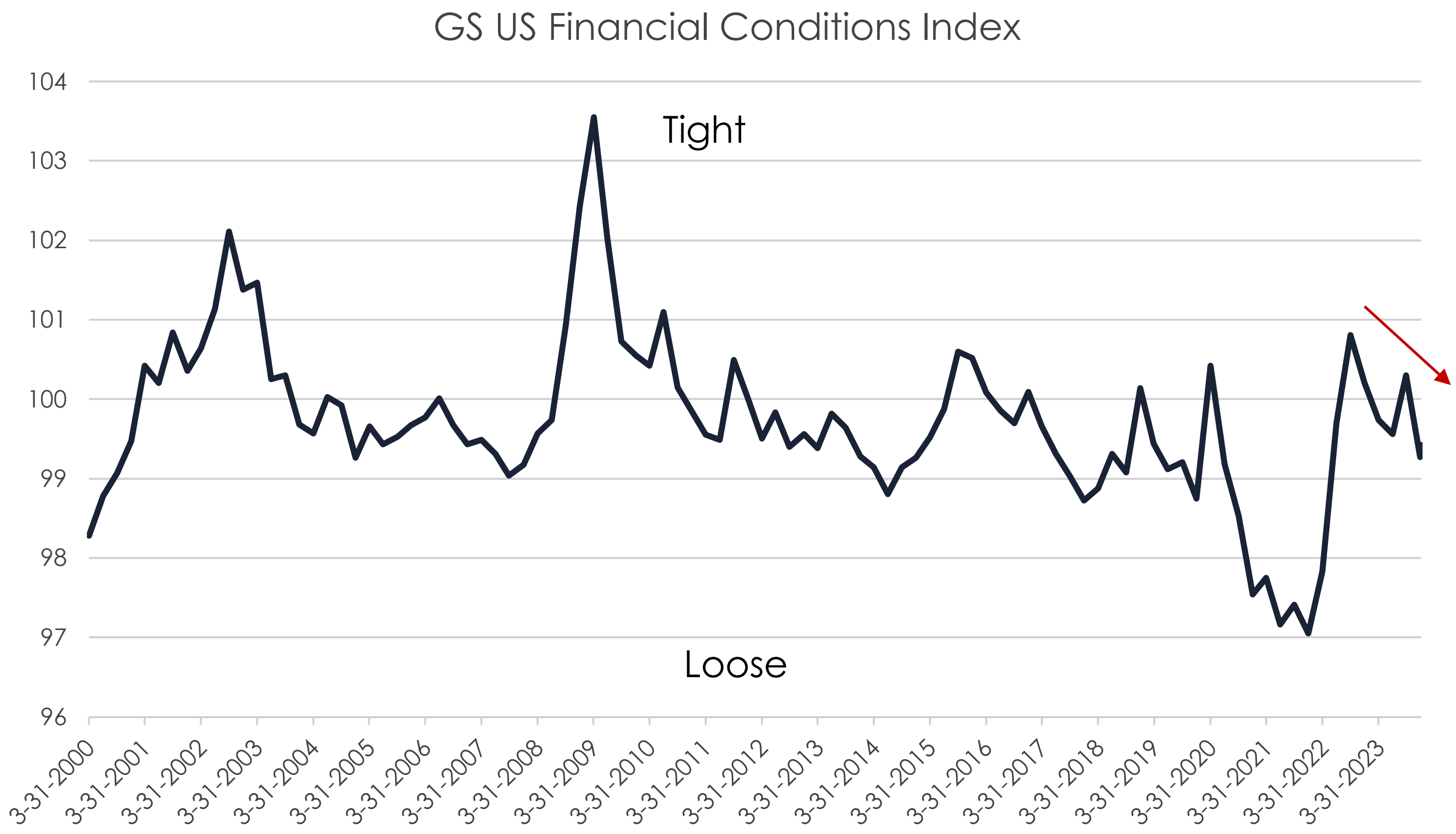
Financial Conditions



Even though the Fed is yet to cut rates, financial conditions have been loosening, in large part due to bond yields falling substantially over the latter part of 2023.

This has been a tail wind for asset prices of late.

S&P500

The S&P500 has reached its old pre-bear market high following a very bumpy ride for investors the past two years.

The most recent rally, which began in late 2023, has coincided with a rapid loosening of financial conditions, as shown on the previous slide, which is no coincidence.

Given the weakness in some areas of the economy but the strength in stocks seen here, it seems that either stocks are rallying on looser financial conditions and/or expecting the current economic weakness to lead to a period of stronger growth ahead.

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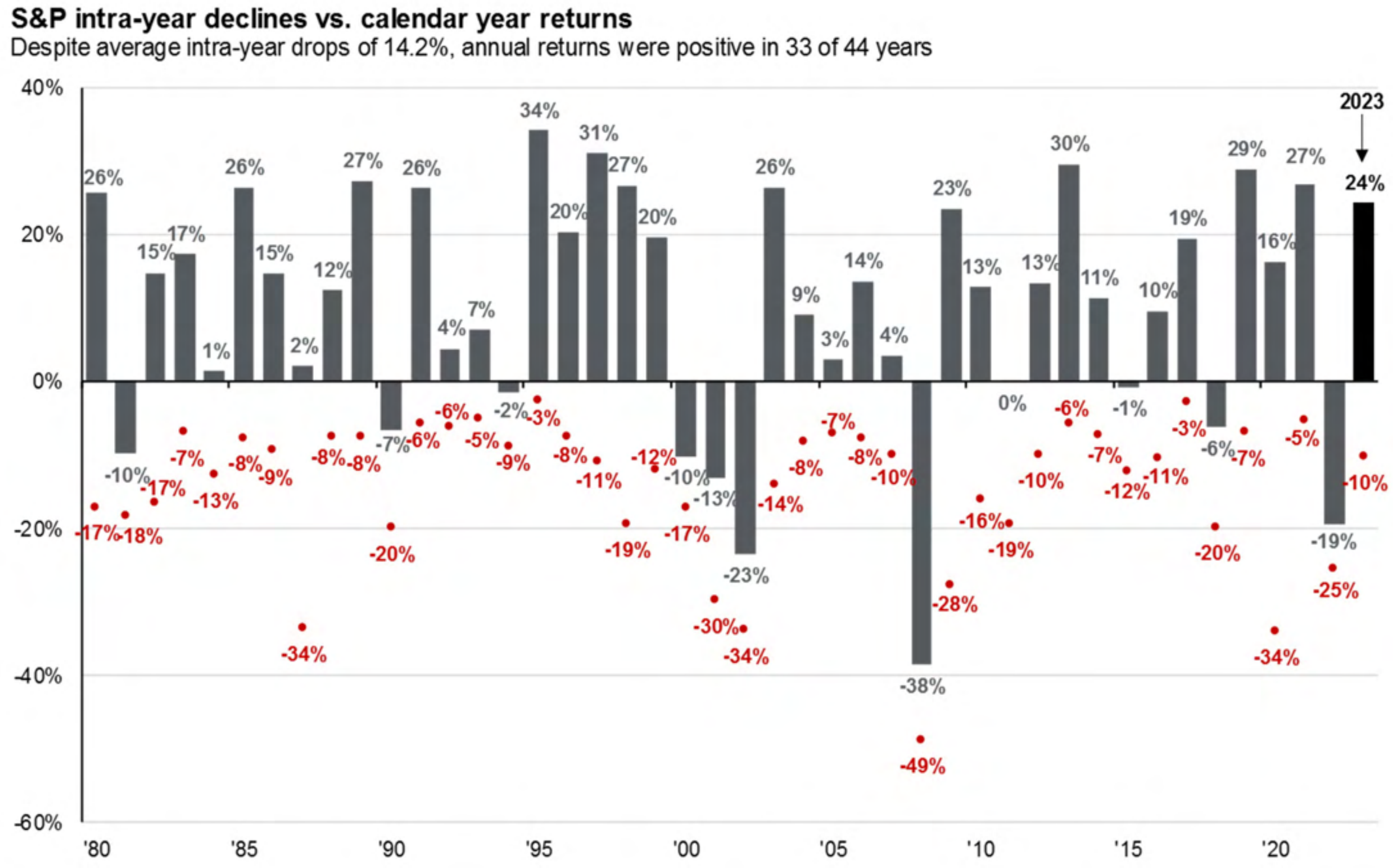
Calendar Year Returns and Declines



This chart shows the annual USD returns of the S&P500 (black/grey bars) and the largest decline during each year (red dots). The S&P500 returned 24% in USD terms in 2023, following a 19% loss in 2022. This is a good illustration of the volatility inherent in stock investing.

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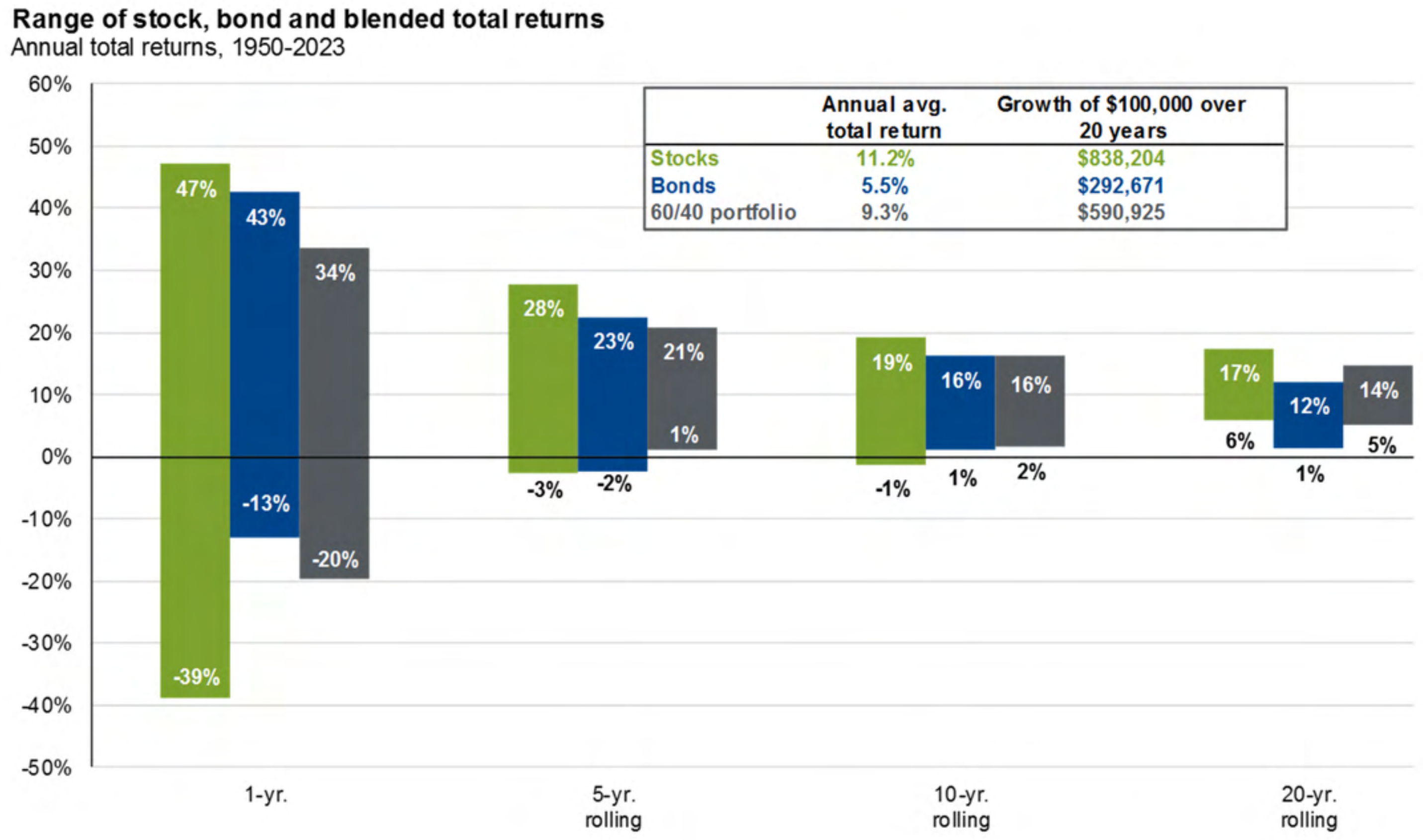
Volatility Over Time Horizon



Nobody enjoys volatility, but it is the cost of admission for stock investors and to a lesser extent bond investors, who have seen bonds experience much higher volatility in recent years than the historical norm.

This chart shows the range of historical returns over periods of 1 year, 5 years, 10 years and 20 years. You can see that the range of returns experienced over the 1-year period is far wider than the longer time periods. The longer the period is, the more predictable the return is. This is why it is wise for long term investors to try to tune out the short-term volatility in markets.

 Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management, OceanFront Investment Counsel Inc.
Returns shown are based on calendar year returns from 1950 to 2023. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2023.

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