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CHARTBOOK
Market Comment

Prepared by OceanFront Investment Counsel Inc.

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Chartbook Market Comment: March 2024

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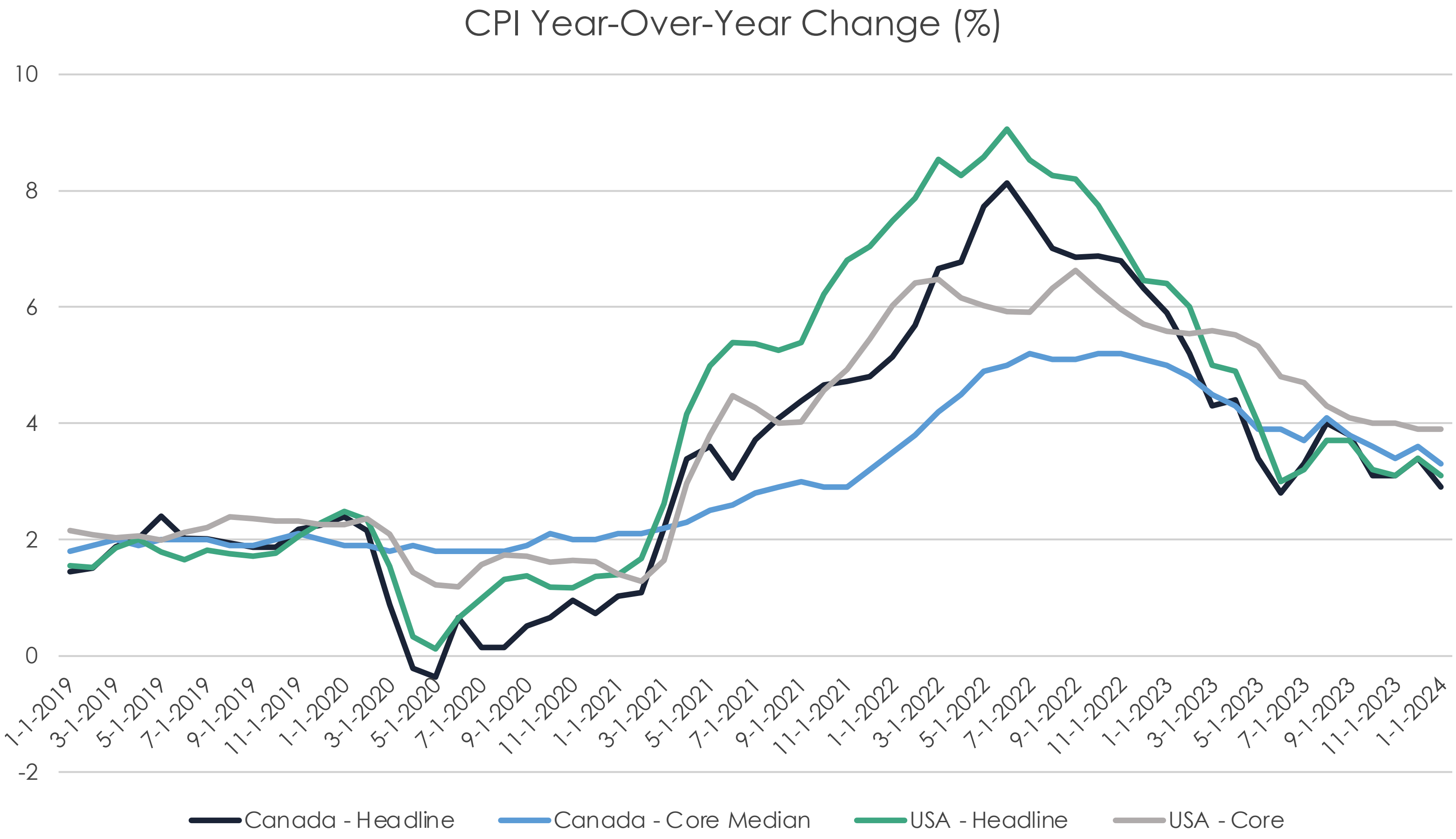
Market Comment

Investors continue to keenly watch central banks to gain insight on the future path of interest rates. This has led to very elevated volatility in rates and bond yields. There had been a disconnect between market expectations of future interest rates and guidance from central banks. This has now largely been resolved, as market expectations have adjusted higher toward the central bank forecasts.

A major theme in markets lately has been Artificial Intelligence. Companies like Open AI with their product ChatGPT have been all over the news. What does this mean for investors? It's unclear what the long-term impact of AI on markets will be, but it is clearly a hot area of the market right now. Many of today's big players in the AI space are major household names, including Microsoft, Nvidia, Apple and others. These companies represent a substantial weight in the S&P500 index, so investors that own S&P500 index products already have significant exposure to the AI theme and have been earning returns from the strong recent performance of these stocks and others.

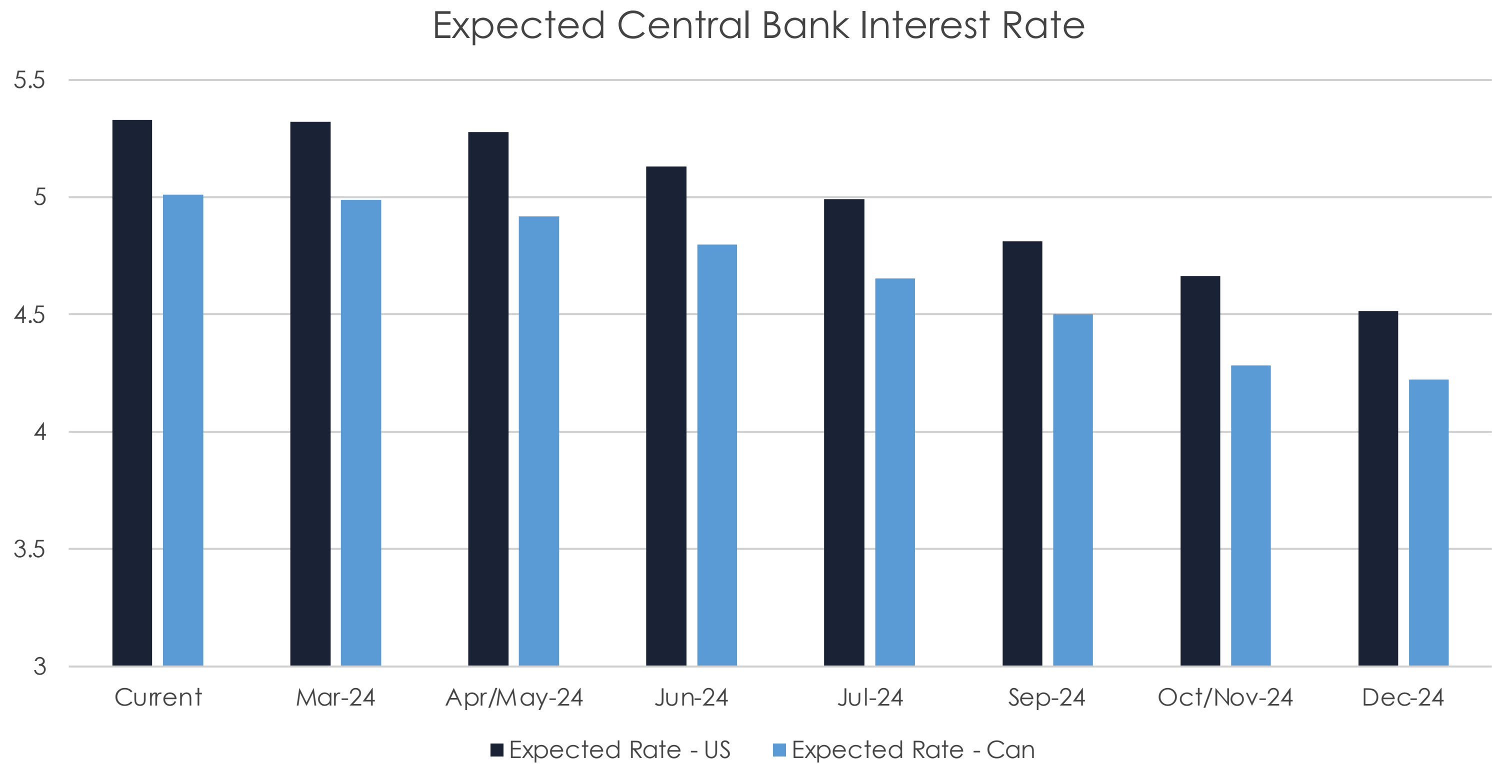
Inflation



CPI inflation has remained relatively steady month-to-month lately, fluctuating between 3% and 4%.

Interest Rate Expectations

Market expectations of interest rates now project the Bank of Canada and Federal Reserve policy rates to decline between 0.75%-1% by the end of the year.



Data: Overnight Index Swap markets as of March 4, 2024

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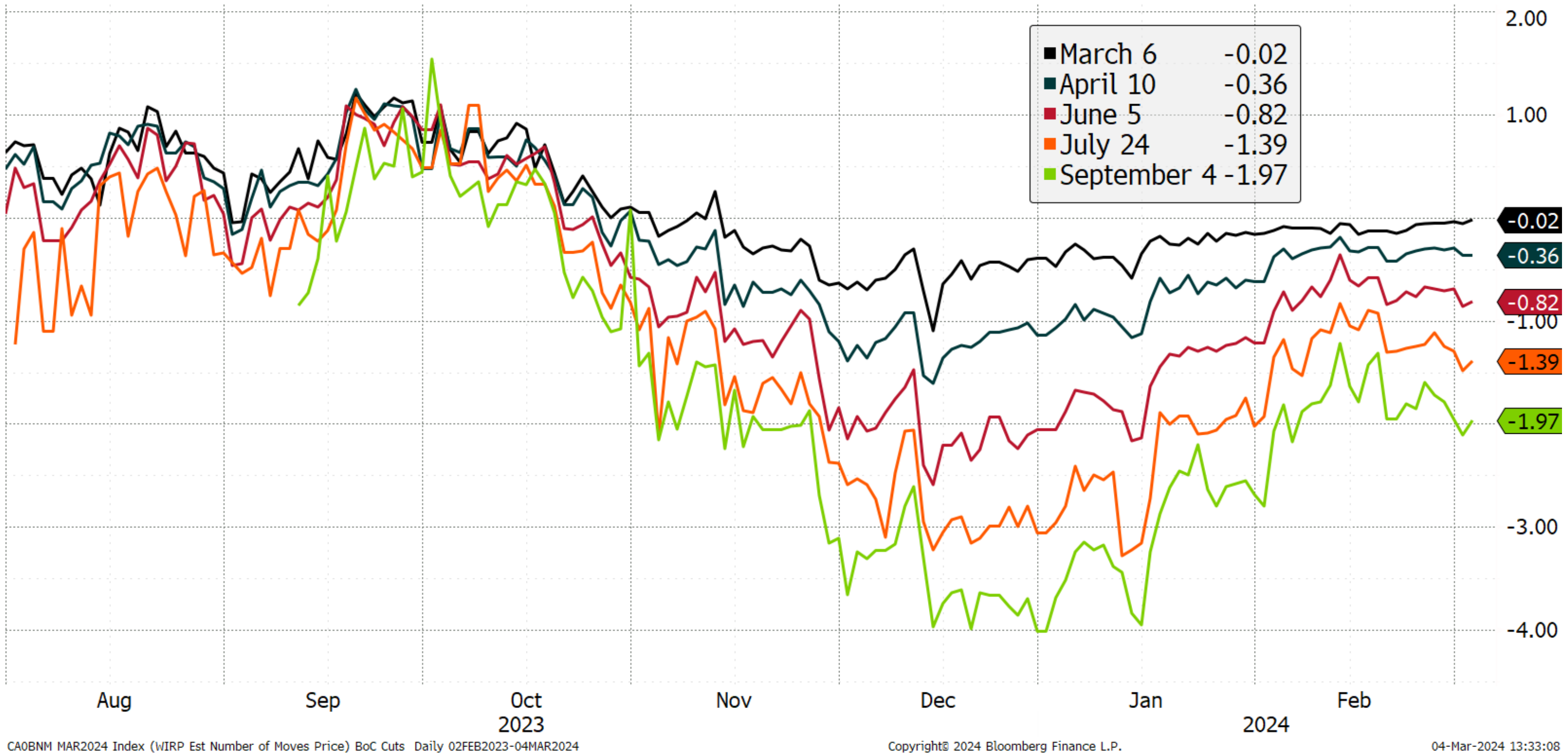
Interest Rate Expectations



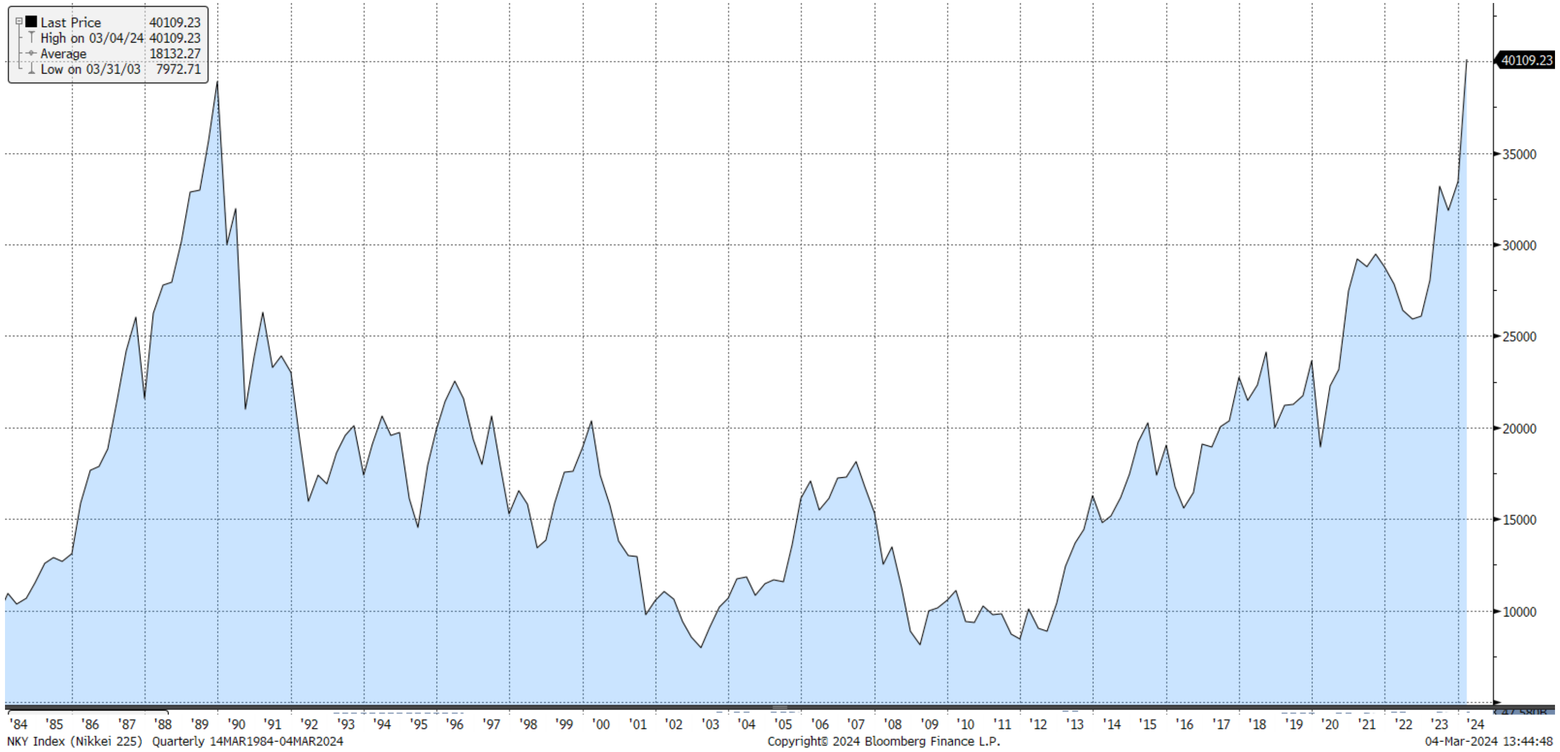
Interest rate volatility has been very high of late. This volatility is also present in interest rate expectations. The chart shows how the expectations of the Bank of Canada policy rate have changed over the past several months. Each line represents interest rate expectations for a particular BoC meeting date.

For example, for the September 4, 2024 BoC meeting, markets are now expecting 2 rate cuts between now and that meeting (the chart value reads 1.97 cuts). As recently as January of 2024, the expectation was for 4 rate cuts by that same meeting, while back in October of 2023 the expectation was for an additional interest rate hike. This shows how rapidly expectations have adjusted and fluctuated of late.

 Source: Bloomberg, OceanFront Investment Counsel Inc.

Japanese Stocks

If you are an investor that bought Japanese stocks near the highs of the market in 1989, you may have just broken even on your investment, 35 years later. In hindsight Japanese stocks were clearly in a bubble back then. The chart underscores the risks of investing at inopportune times when investors are euphoric, but also the resilience of stocks over the long-term.

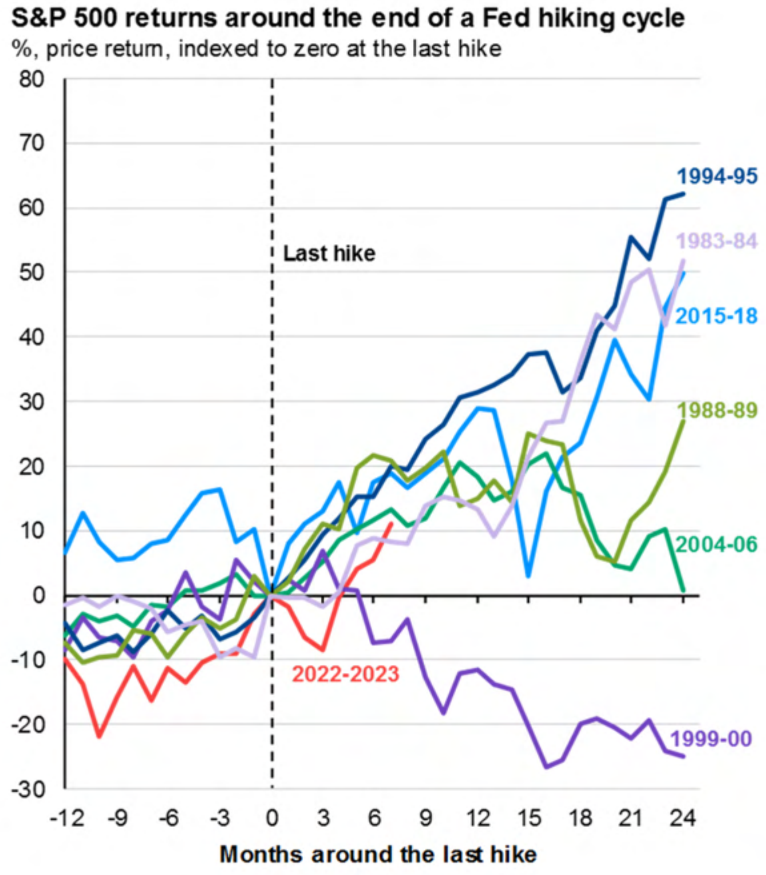


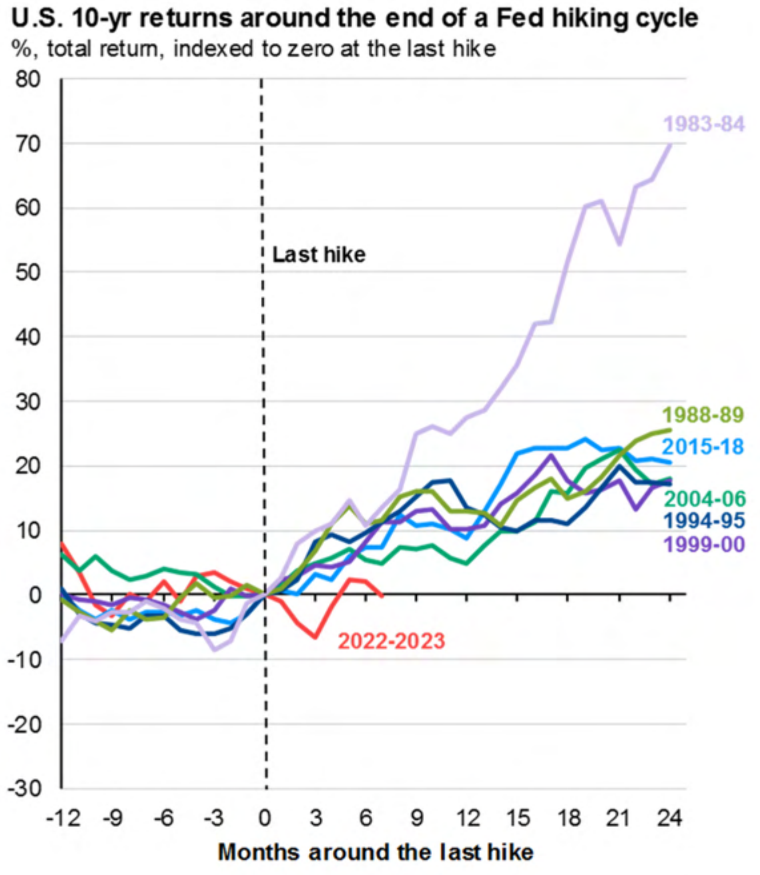
Returns and Rate Hike Cycles

As we are either at or very near the end of the rate-hiking cycle from central banks, let's look at some historical precedents for how markets have reacted to this event in the past.

The first chart shows S&P500 returns were positive 24 months after the last rate hike in 5 of the 6 scenarios.

The second chart shows returns on the US 10-Year Treasury Bond, as a proxy for the bond market, which were positive in each of the 6 scenarios examined.





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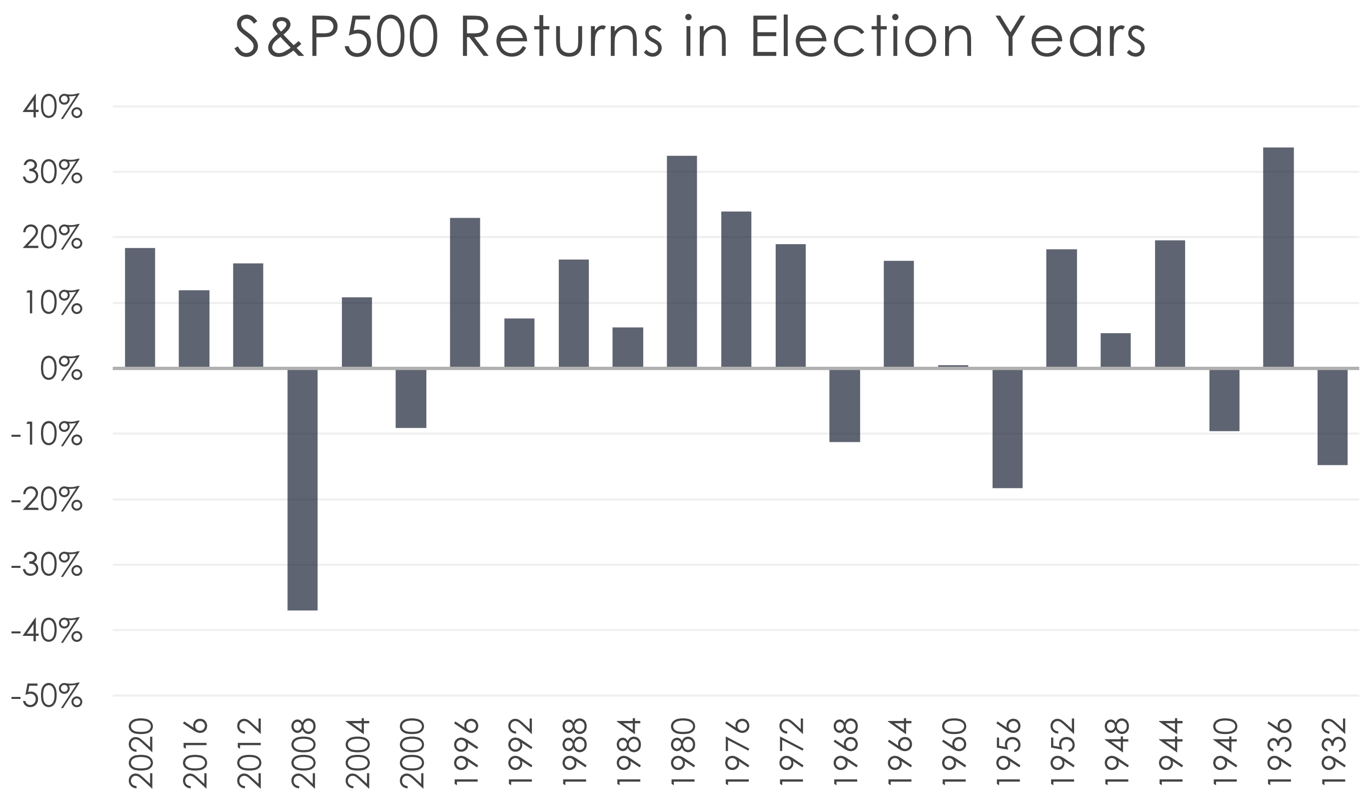
US Election Year Returns



Average Return: 7.8%
% of Positive Annual Returns: 74%

2024 is a US election year, where voters will select a new President in November. Looking back at returns in election years dating back to 1932, election returns were positive 74% of the time and had an average annual return of 7.8%.

 | Source: Bloomberg, OceanFront Investment Counsel Inc.

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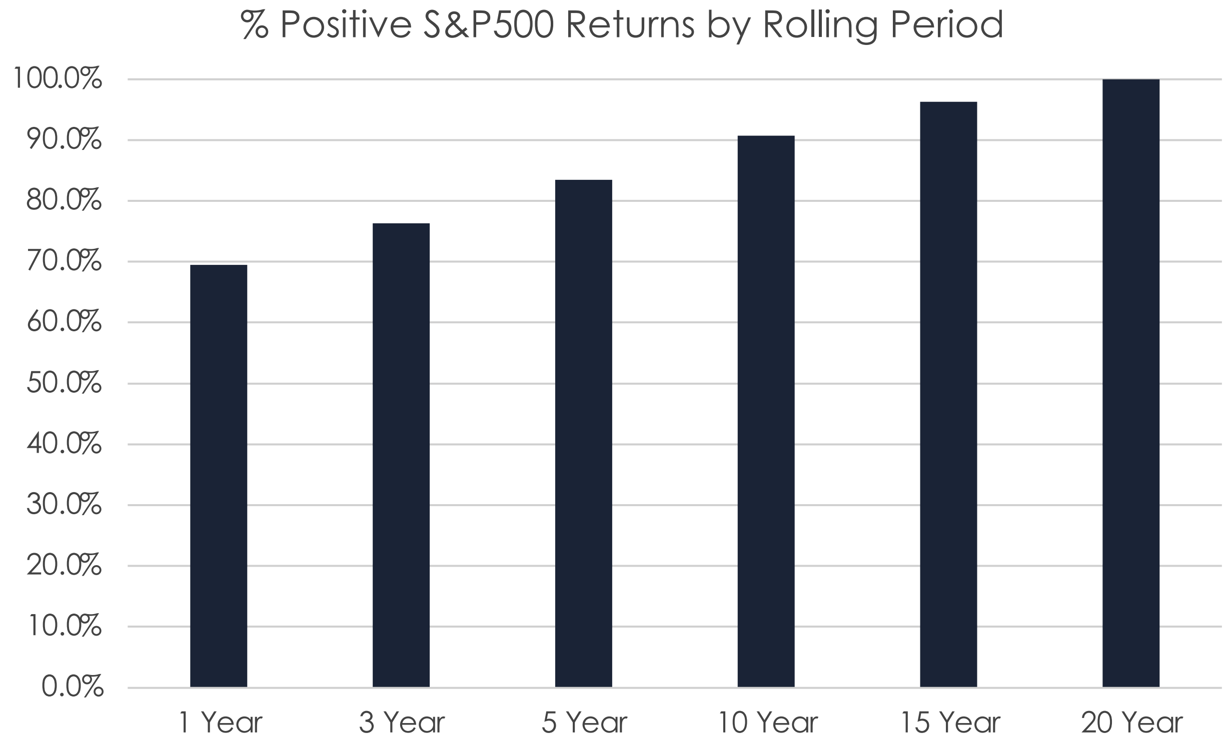
S&P500 Returns Over Time

Stocks are a volatile asset class. In a given year there can be a lot of uncertainty and volatility, but over the long-term the uncertainty is lower than in the short-term. Looking at rolling calendar year returns of the S&P500 dating back to 1928, one-year returns are positive about 70% of the time. The longer the holding period in the data, the more likely the return is to be positive. Each rolling 20-year period in the data examined was positive.



*Calendar year return data since 1928

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