



CHARTBOOK Market Comment

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Market Comment

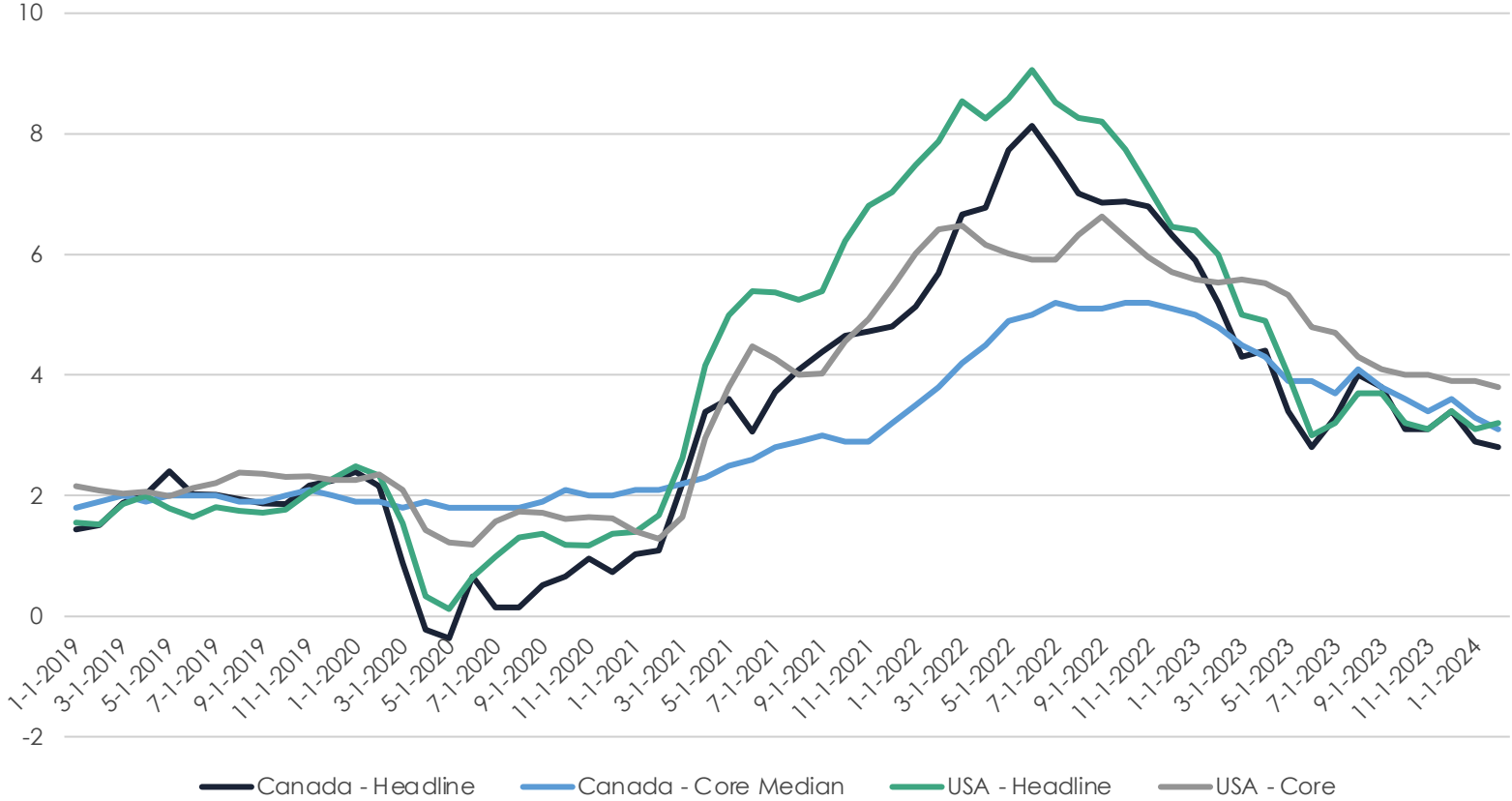
Global market performance was generally strong and broad in the first quarter of 2024, with bonds being a notable exception. Stock markets generally performed well, as did alternative assets like gold and cryptocurrency. GDP growth continues to be very strong in the US, recently registering 3.4% annualized growth for the fourth quarter of 2023. The Canadian economy, which has been sluggish for most of 2022 and 2023, has bounced back in 2024 to date, registering monthly growth of 0.6% in each of January and February. A widely anticipated recession has yet to arrive even as interest rates have risen dramatically in an attempt to slow down the economy and temper inflation.

The Bank of Canada and Federal Reserve continue to signal that rate cuts are coming. Inflation has continued to gradually decline, so we can expect the first cut to come in the summer or fall this year. The magnitude of the rate cuts will depend on the path of future inflation data.

In theory, these expected rate cuts should be a boon to asset prices on a broad basis. In particular, bond prices should benefit as rates decline. Currently, most investment grade bond yields in Canada are in the 4%-5% range. A further boost to that yield in the form of declining interest rates would make for a very attractive return for that asset class.

Inflation

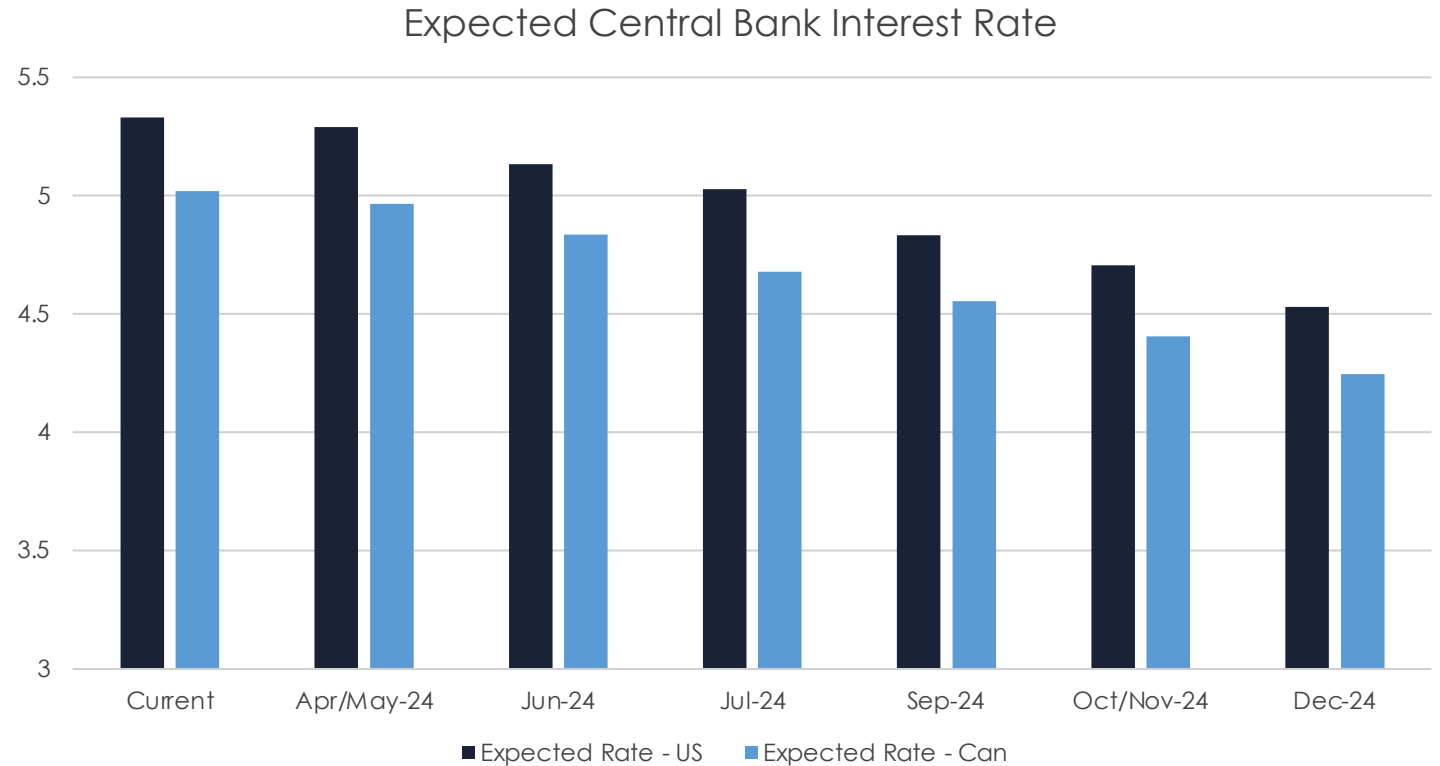
CPI Year-Over-Year Change (%)



Most measures of inflation appear to be in gradual decline with fluctuations around the 3%-4% range.

Interest Rate Expectations

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

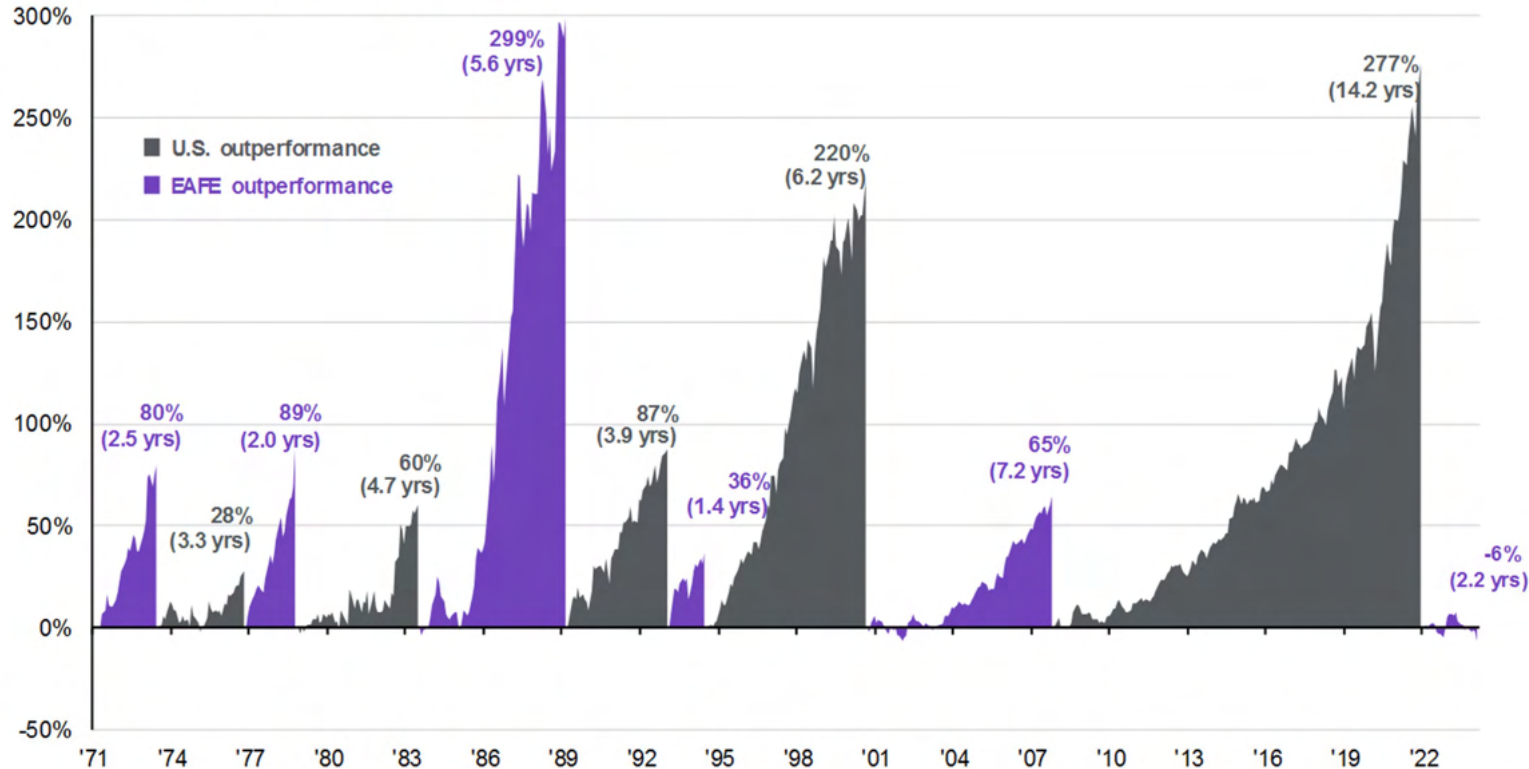


Data: Overnight Index Swap markets as of March 27, 2024

US Stocks versus EAFE Stocks

MSCI EAFE and MSCI USA relative performance

U.S. dollar, total return, cumulative outperformance



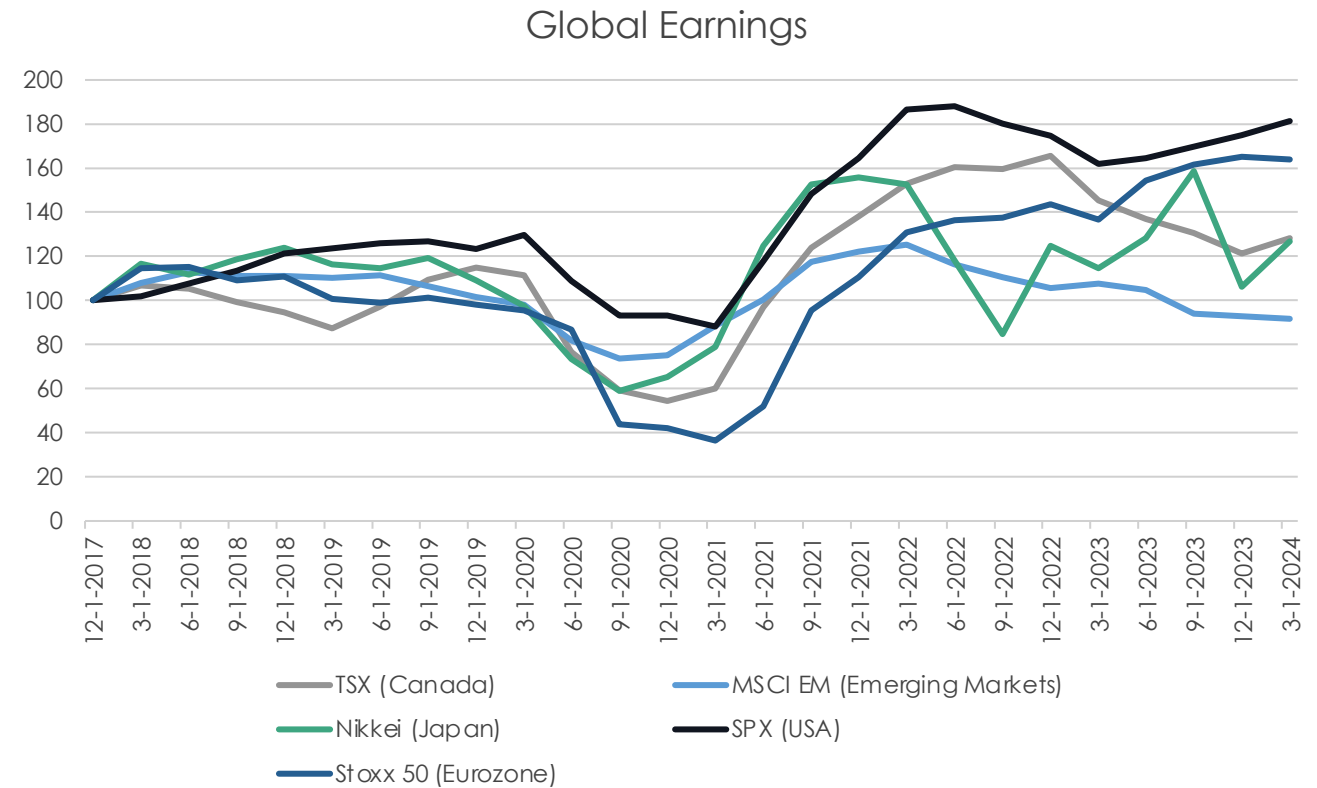
Markets tend to move in cycles and trends. Geographically, markets of certain regions tend to outperform others for periods of time before eventually being overtaken when the trend changes.

JP Morgan Asset Management has a model that tracks cycles of performance between the US and EAFE (Europe, Asia, Far East). In the model, a region must outperform the other for a trailing 12-month period to be considered the outperformer.

US stocks have been dominant for over a decade now. They've been so dominant that the current cycle of outperformance for EAFE shows a negative return! This is because EAFE outperformed USA for a short period around 2022 but USA has since recovered that loss. At this rate, the model will shift back to the USA's favour soon.

Earnings

Earnings are the main driver of stock performance historically. The chart shows the underlying earnings of companies in the stock indices of several developed markets since 2017. As you can see, the US is the clear leader, followed closely by Europe. Based on this data, it is no surprise that US stocks have outperformed over this period.



*Indexed at 100 as of December 31, 2017

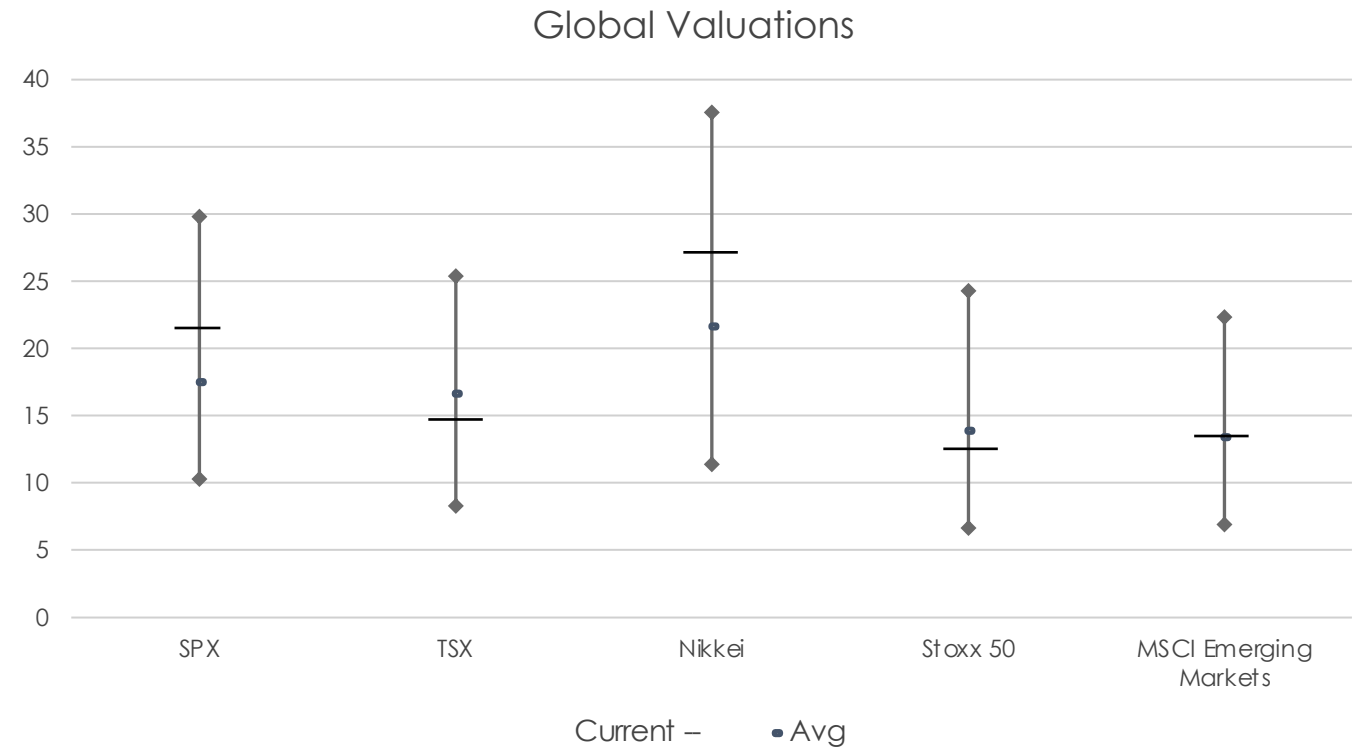
When evaluating stocks, earnings are one important piece of the puzzle. Another very important piece is how much a prospective shareholder must pay for those earnings. This is called valuation.

A common valuation metric is the Price-Earnings, or "PE" multiple. Using this metric, we can compare valuations across regions.

In the chart, the vertical lines show the range of valuations for each market since May 31, 2024. The dash shows the current valuation and the dot shows the average. You can see that US (SPX) and Japanese (Nikkei) stock valuations are relatively high, while Canadian (TSX), European (Stoxx 50) and Emerging Markets are average to below average.

If we are to see the dominance of US stocks come to an end, it will likely be because the disparity in valuations with other regions became too big to overcome.

Price-Earnings Multiples



Data from May, 31 2004 – March 27, 2024

European Stocks

Have you heard of the Magnificent 7 stocks, or the former FANG/FAANG stocks? These are names that have been given to a group of some of the top performing US stocks. The notoriety these stocks have gained may make it seem like the best performing stocks are exclusive to the US, but that isn't quite the case.

Top performing stocks can be found all over the place. Morningstar recently did a study of some of the top performing European stocks and put them into an index they called the Mag 7 Europe. The performance of the Mag 7 Europe was similar to that of the Mag 7 US, with each outperforming the broad European market by a huge amount.

It pays to take a global approach to investing and look at the entire landscape for opportunities.

Europe and Magnificent 7 Stocks vs the Stoxx 600



Foreign Holders of US Debt

With deficit spending prevalent in many economies and interest rates at relatively high levels, it begs the question of whether these debt levels are sustainable.

% of US Debt Held by Foreign & International Investors



Closing Comments

As we see many markets reach or approach new highs, it is common to experience some feelings of FOMO, or “Fear of Missing Out”. It can be especially easy to feel FOMO when focusing on specific sectors or individual stocks. Broad diversification is, first and foremost, a risk management tool that is focused on reducing volatility while also capturing superior long-term returns.

We will leave you with some words of wisdom from seasoned investors.

“The best way to measure your investing success is not by whether you’re beating the market but by whether you’ve put in place a financial plan and a behavioral discipline that are likely to get you where you want to go.”

- *Benjamin Graham*

“The stock market is a device for transferring money from the impatient to the patient.”

- *Warren Buffet*

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