REVIEW AND COMMENTARY
1st QUARTER – 2024

Amid continued conflicts in Ukraine and the Gaza strip, North American equity markets moved positively in the quarter. The U.S. and Canadian economies remain strong and while inflation has slowed, progress in this area has been insufficient to warrant a reduction of interest rates by the Canadian and U.S. Central Banks. The SP TSX Total Return returned 6.6% (CDN) over the quarter while the SP500 (USD) Total Return returned over 10.6%.

Leadership in these two indexes was quite different. Tech stocks continued to dominate the SP500 and Nasdaq, but the number of companies providing the leadership was more concentrated than in 2023. While Nvidia, Amazon, and Meta lead markets higher, other stalwarts such as Apple and Tesla posted losses. Meanwhile, the most dominant sector in the SPTSX Composite was the Energy sector. Canadian Natural Resources and Suncor were two of the top three leading contributors to the SP/TSX total quarterly gain. And 7 of the top 15 contributors to the SPTSX quarterly total return were from the Financial Sector.

Towards the end of 2023, many Bay and Wall Street economists expected numerous cuts in interest rates in 2024. While we are only a quarter of the way through, to date the strength in consumer spending has left little room to ease rates. Chairman Powell of the U.S. Federal Reserve claims that while rate cuts may happen, more data is needed before action is taken. ‘Higher for longer ‘may hold true for interest rates. While equities in general may weaken on this news, a strong economy, in most cases, translates to greater profitability and higher equity prices. However, there are adjustment periods which appear to be what current equities are experiencing.

SIM’s 2024 annual forecast did predict moderating of interest rates but less than consensus. While we were constructive on oil pricing, there has been an important under current in the market that may be quite telling of the future direction of the global economy. Prices of other major commodities are following oil which year to date (YTD), has appreciated by just under 20%. Gold has been strong adding just under 10% YTD. Possibly more salient is copper prices which have been trending positively for several months. Historically, copper has been a reliable leading economic indicator so recent strength in prices suggests that the chances of any protracted economic weakness, other than an unexpected event, are diminishing. If this does follow, ‘higher for longer’ concerns may pressure equity prices further in the near term.

The world continues to struggle with geo-political aggression. Russia, Hezbollah, are front and center and tensions are resonating louder closer to home. US aid packages to Ukraine are being held up by a divided Republican party who look like they are no closer to keeping a majority in the Congress as several of Representatives are retiring in frustration with the small faction that are posturing towards another change of the Speaker.

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The pressures on the Biden Administration to seek peace in the Middle East were intensified by the allegedly unintentional killing of World Central Kitchen volunteers by the IDF. Tensions are heightened not only by the upcoming US Federal Election but the continued prosecution of the Republican nominee in three different criminal cases. To make matters worse, he appears to be inciting his supporters to be ready to confront any unfavourable outcome of his criminal trials (or the election) with violence.

So, while concerns abound, the underlying economies in North America are sound and indicators suggest the global economy is improving. Of course, the person sitting in the US Whitehouse come this November can be equally influential on the direction of the equity markets but so can a handful of global leaders. To be preoccupied with potential negative outcomes is no more useful than ignoring them. Maintain a broad, long-term perspective and stay invested.