



# CHARTBOOK

## Market Comment

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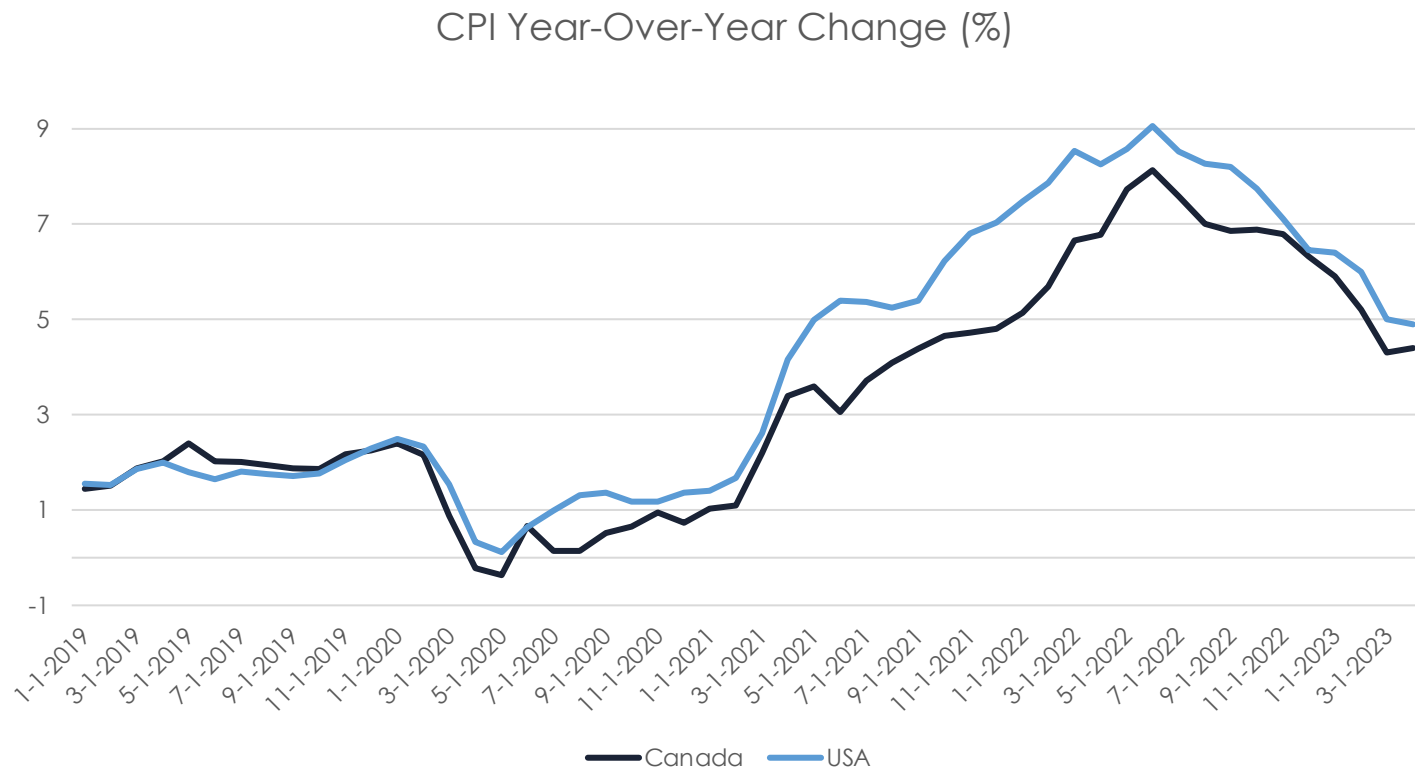
# Market Comment

May was dominated by news of the US debt ceiling negotiations and inflation data that came in higher than expectations. Debt ceiling negotiations were ultimately resolved when President Biden and Speaker McCarthy reached an agreement over the weekend, pending passage through the House and Senate. Investors can now, once again, focus their attention on the outlook for inflation and interest rates.

The Bank of Canada and the Federal Reserve have each been steadfast in their approach to the battle against inflation, urging caution in declaring victory too early. That has proved to be prudent so far, as inflation in Canada unexpectedly rose in April after a steady decline since last summer.

This has led interest rate expectations to adjust slightly higher. In Canada, it is looking less likely that we will see lower rates by the end of the year. However, the trend in inflation remains firmly downward and we are likely to see significantly lower readings of inflation in the coming months simply due to math, as the peak inflation readings of last summer drop off the one-year measurement period.

# Inflation



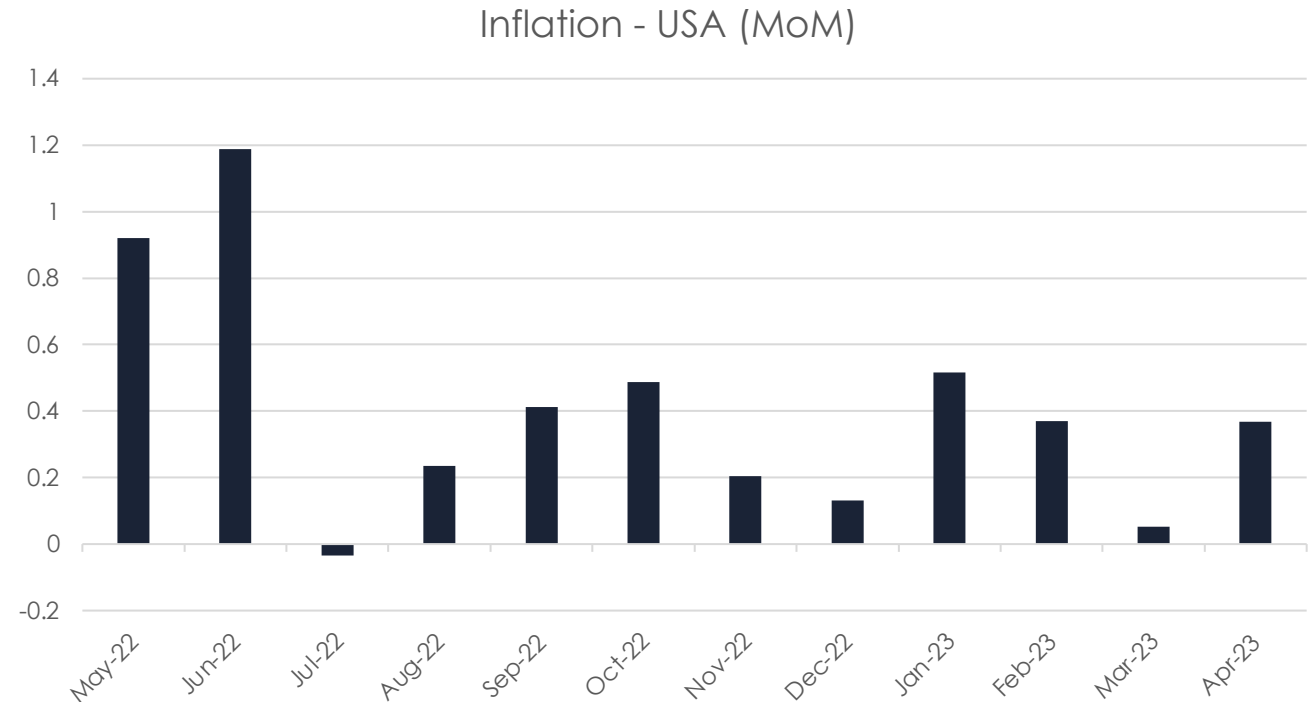
The most recent data showed inflation at 4.4% YoY in Canada and 4.9% YoY in the USA. Canada saw an unexpected rise in inflation last month, an unwelcome development.



# Inflation - USA

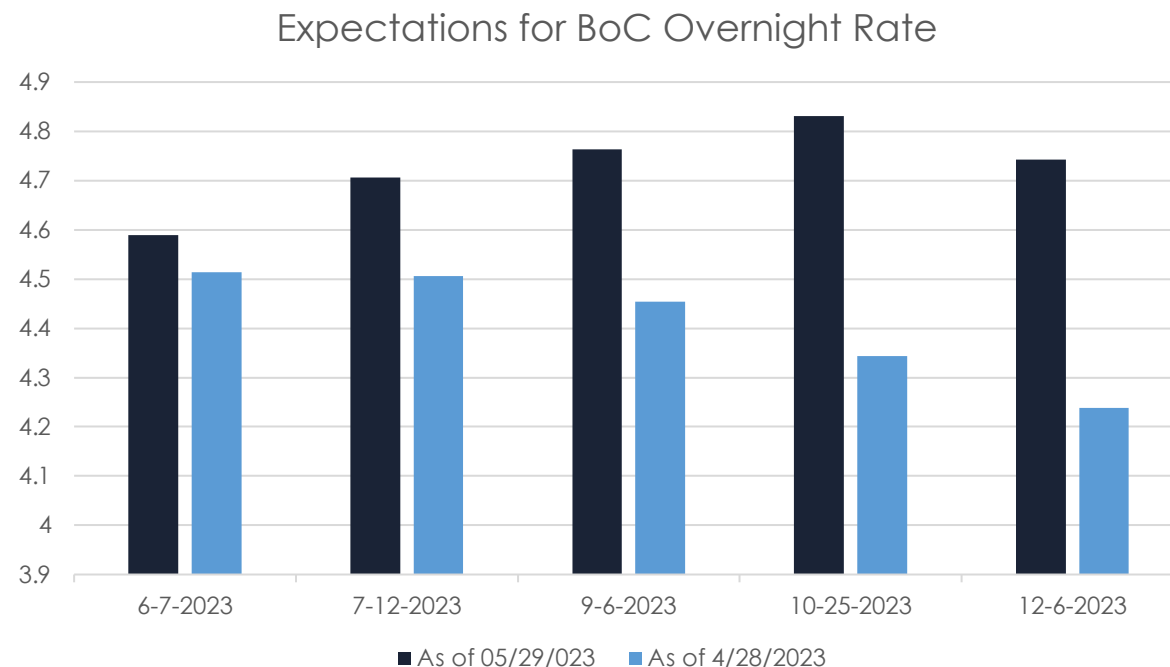
Looking at month-over-month inflation in the USA rather than year-over-year, we see that May and June of 2022 each had very outsized inflation numbers compared to more recent months. These two months will be dropped from the annual inflation calculation when the data for May and June of 2023 is printed.

If May and June 2023 monthly inflation is similar to more recent months at around 0.4%, the annual number for May will read in the low-to-mid 4% range, and June will read in the mid 3% range, approaching the Federal Reserve's long run target of 2%. However, risks to the upside will remain.



# Interest Rate Expectations - Canada

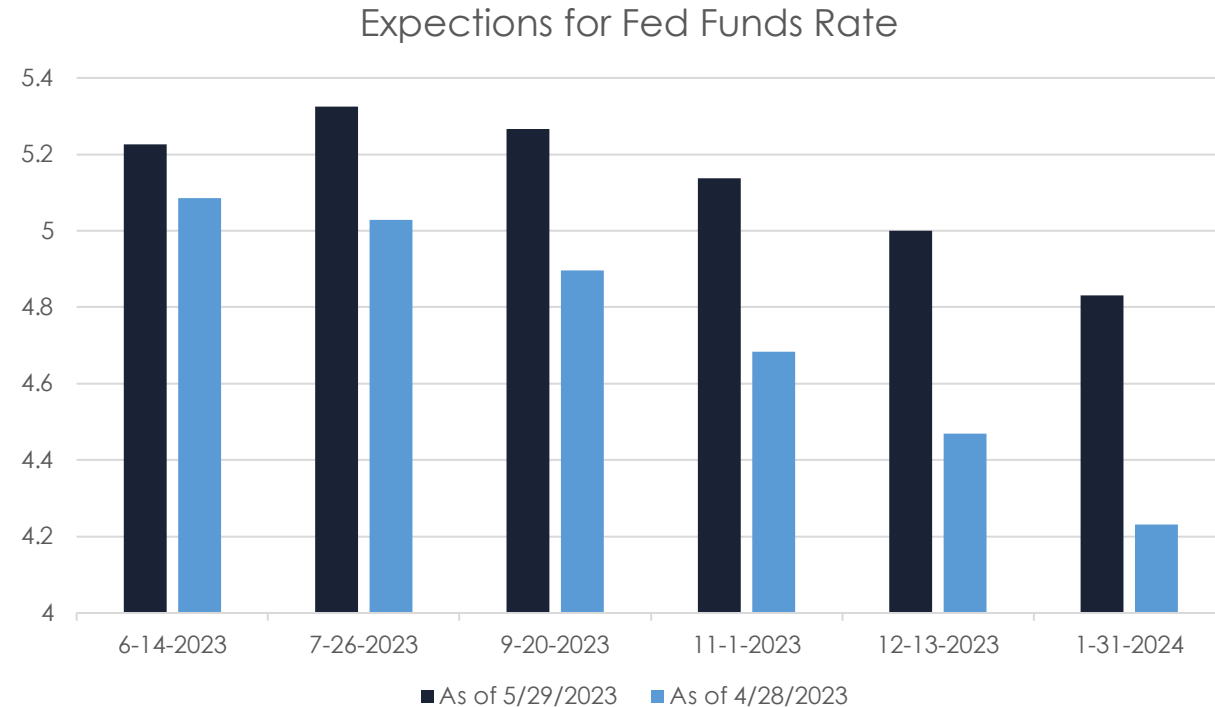
The outlook for the Bank of Canada's overnight rate has changed due to higher than expected inflation. The light blue bars show the market's expectation for the rate as of one month ago, where it was expected to decline to the end of 2023. Current expectations (dark blue bars) now see it as more likely that the rate increases by the end of 2023.



Data as of May 29, 2023

# Interest Rate Expectations - USA

Expectations for the Federal Reserve's Fed Funds rate have also adjusted to the upside. The current expectations (dark blue bars) are significantly higher than expectations were one month ago (light blue bars).

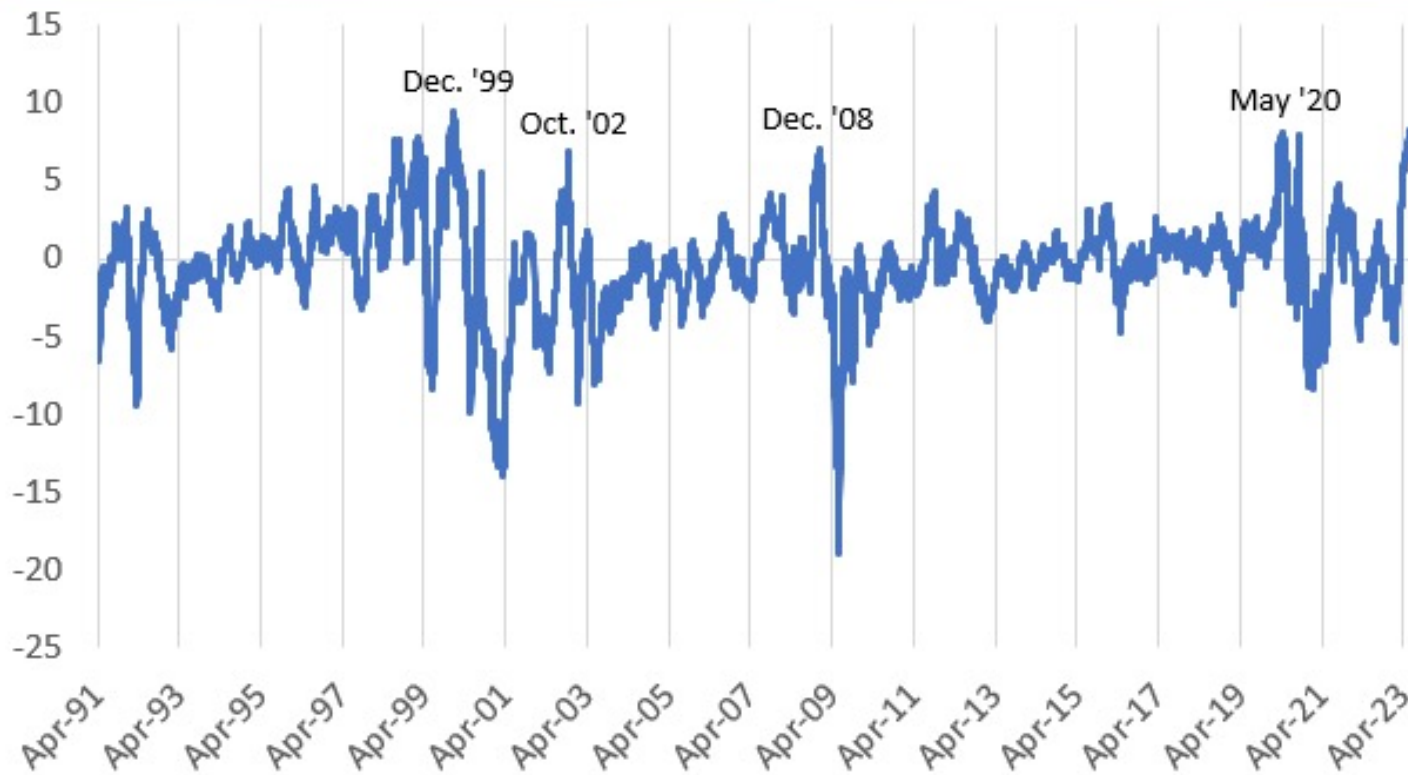


Data as of May 29, 2023



# Large Cap Outperformance

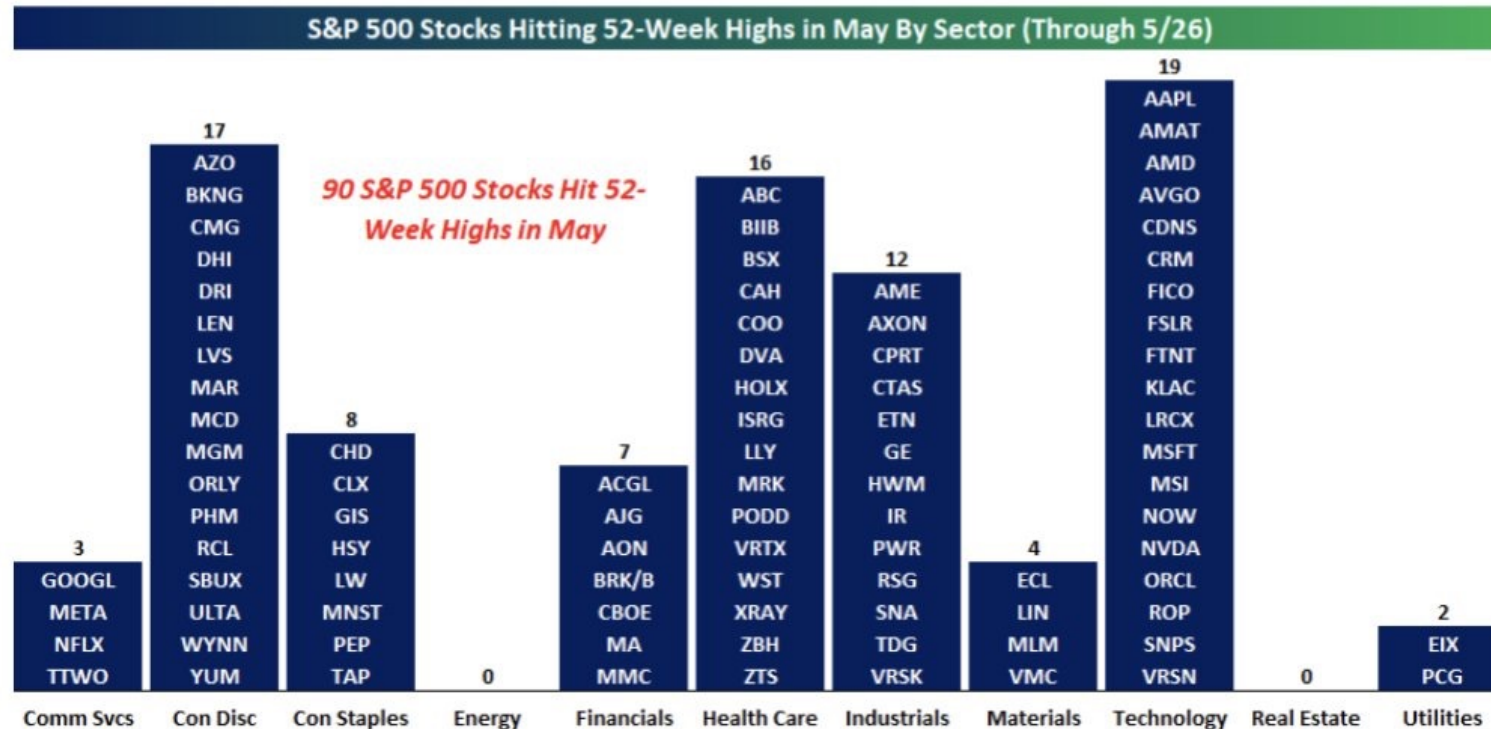
3-Mth Performance Spread (ppts): S&P 500 vs. S&P 500 Equalweight



The S&P500 is a market-capitalization weighted index, which means that the larger companies have a higher weight in the index than smaller companies do. If we look at the relative performance of the S&P500 versus an equally weighted version of the S&P500 where each stock has the same weight, the equal weighted index has been dramatically under-performing. This is because the largest companies have generally been performing better than their peers.

The chart shows that the difference in performance of the 2 versions of the index is at an extreme level that is likely unsustainable.

# S&P500 Leading Stocks



The stocks leading the S&P500 have not been limited to just the select few mega-capitalization companies like Apple, Google and Microsoft. As the chart shows, there are 90 stocks that made a new 52 week high in May 2023.

If the Apples and Googles of the world return to the pack in a period of underperformance, it would also be a big drag on the performance of the S&P500 due to their size.

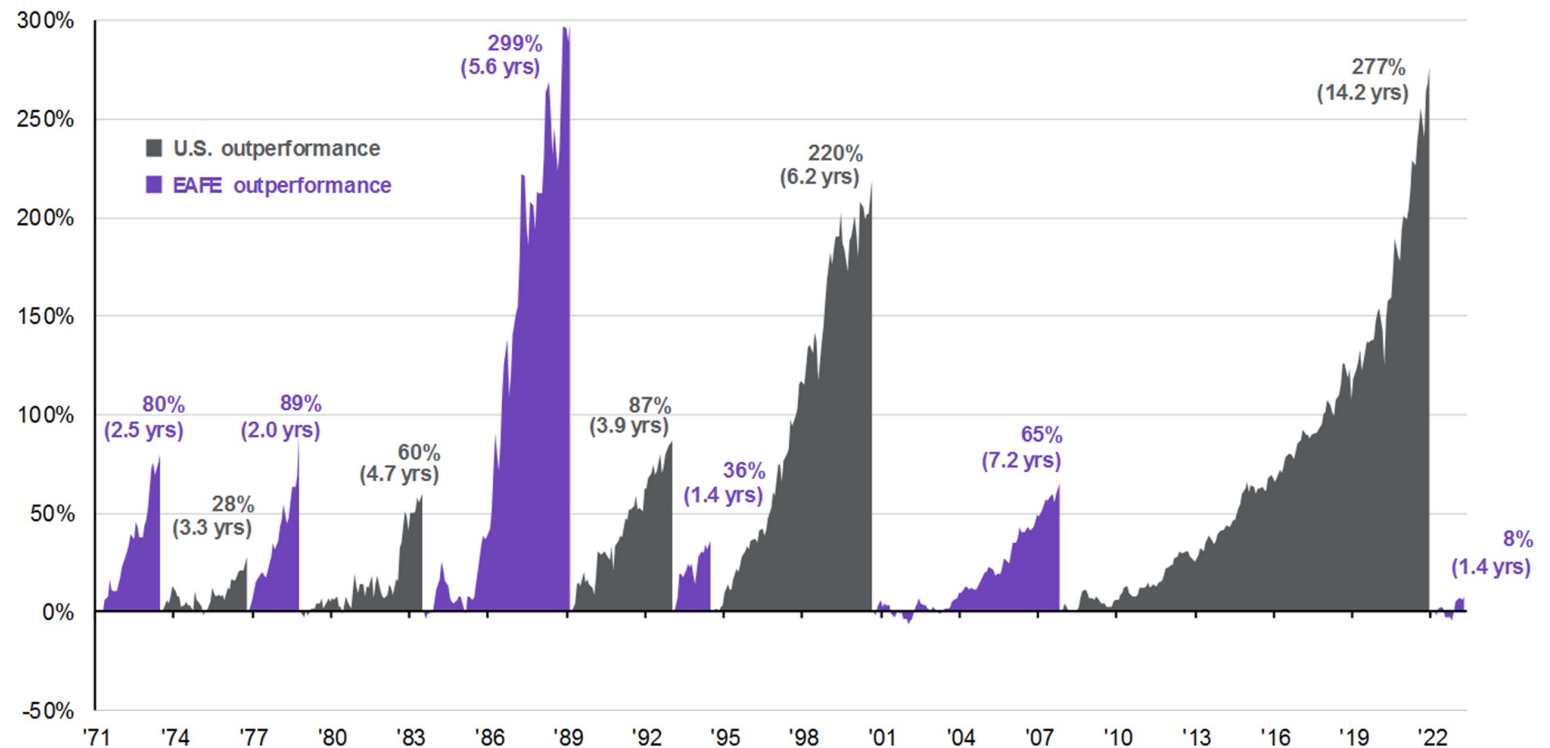
Active management and stock selection are likely to be more important now than they have been in recent memory, where simply owning an index fund paid attractive returns.

# USA vs. International Stocks

Stock markets tend to move in cycles, with certain regions outperforming others for extended periods of time. Most recently, the past decade saw huge outperformance of US stocks. Based on JP Morgan's model, this cycle has now turned and a cycle of international stocks outperforming US stocks has begun.

## MSCI EAFE and MSCI USA relative performance

U.S. dollar, total return, cumulative outperformance





# Nikkei Index

Nikkei 225 Index (Japan)



Japanese stocks experienced one of the larger bubbles in history in the 1980's and the Nikkei 225 Index has still not surpassed its bubble high over 30 years later. However, Japanese stocks have been great performers of late, recently surpassing their 2021 highs.

Japanese investors that were not internationally diversified in their stock portfolios have likely experienced very sub-par returns for 3 decades.

# Time in the Market

The longer your holding period, the more likely you are to experience a positive return on a stock market investment. Based on the data in the chart, this appears true across different geographical regions. The shorter the time-frame, the more likely that volatility and short-term noise can result in a negative return, but every 15 and 20 year period in this study had a positive return.

Time is a great asset for any investor.

**% of Time Stocks Are Up: 1970-2023**

Time Frame	World ex-US	S&P 500
Monthly	59.4%	63.4%
One Year	70.4%	80.0%
5 Years	91.9%	90.5%
10 Years	99.6%	95.4%
15 Years	100.0%	100.0%
20 Years	100.0%	100.0%

Data: Returns 2.0

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