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CHARTBOOK
Market Comment

Prepared by OceanFront Investment Counsel Inc.

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Market Comment

The first rate cut from the Federal Reserve has arrived in a big way, as the Fed announced a jumbo 0.5% cut to its Fed Funds rate in September. Both the Fed and the Bank of Canada appear confident that inflation has been quelled and are now focused on other areas of the economy, like employment. Environments of declining interest rates typically have been strong tailwinds for both stock and bond returns, however, periods where interest rates have been cut due to economic recessions have generally seen poor short-term returns for stocks.

Although rates are lower than they were a few months ago, they still remain in what would be considered "restrictive" rather than "stimulative" territory. Given sluggish growth and quickly rising unemployment in Canada, a good argument can be made that rates should already be in stimulative territory now, which would be in the 2%-2.5% range. The US economy has proved to be significantly stronger and more resilient than the Canadian economy. For this reason, we are likely to see interest rates settle at a higher level in the US than in Canada, which could see the Canadian Dollar come under some pressure.

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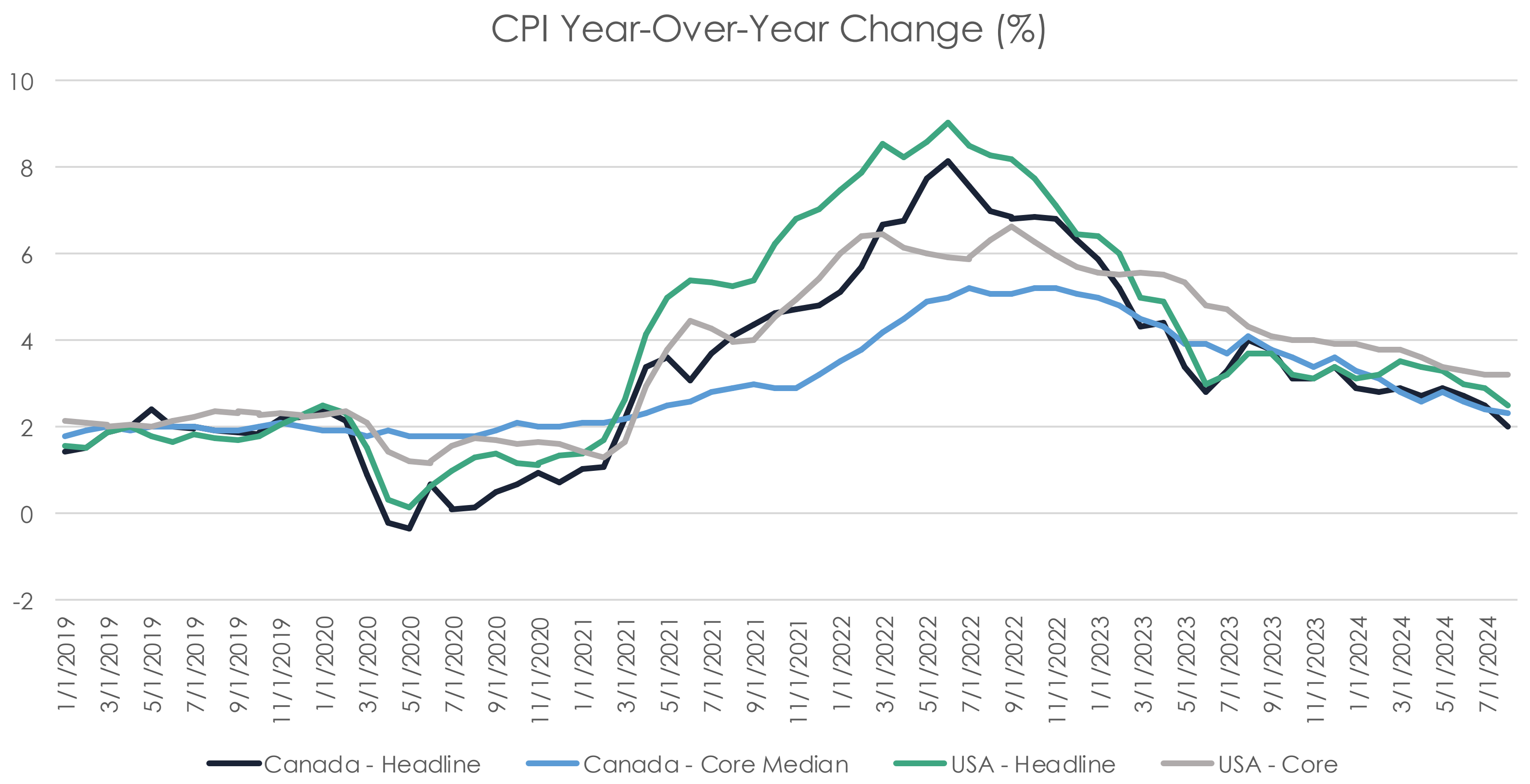
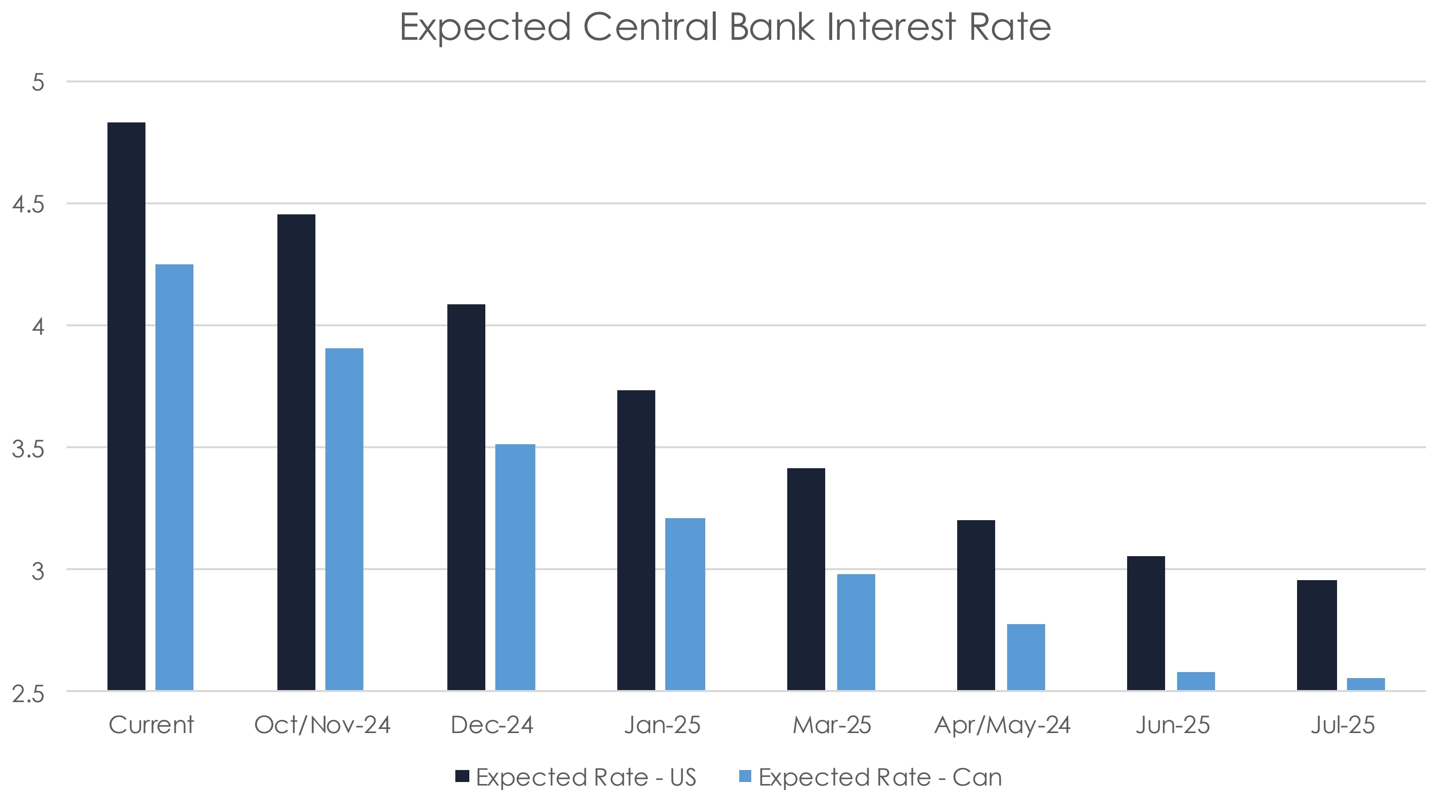
Inflation



CPI inflation continues to decline. Headline inflation in Canada hit 2% in August, while core inflation was slightly higher. This is now well within the Bank of Canada's target inflation range.

Interest Rate Expectations

By July 2025, central bank policy interest rates are expected to fall to about 2.5% in Canada and 3% in the US.



Data: Overnight Index Swap markets as of September 24, 2024

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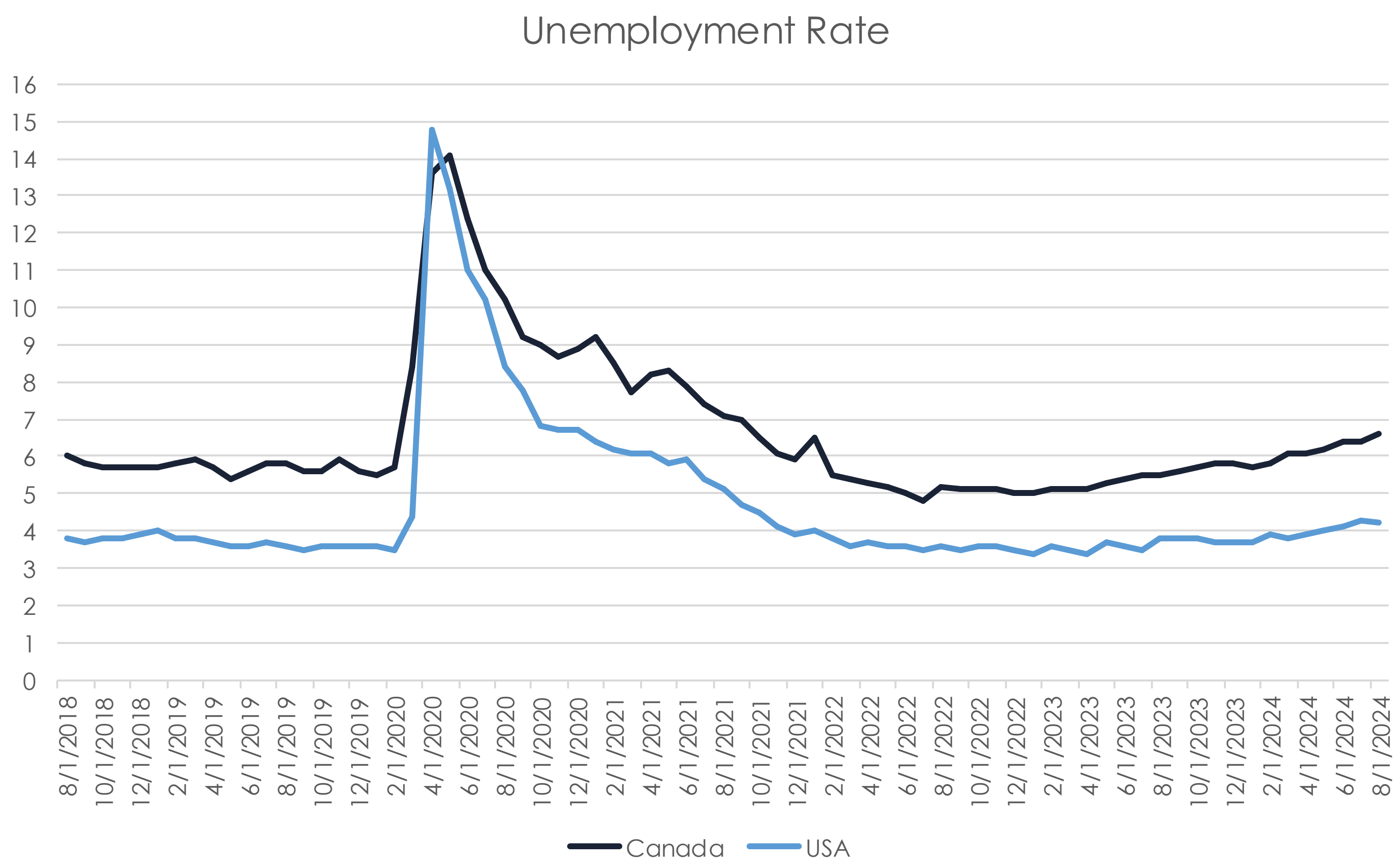
Employment



Unemployment has risen about 1.6% from the lows in Canada, to 6.6% as of the last reading in August. In the US, employment is substantially stronger, with unemployment at just 4.2% and appearing to be plateauing, while unemployment continues to rise in Canada.

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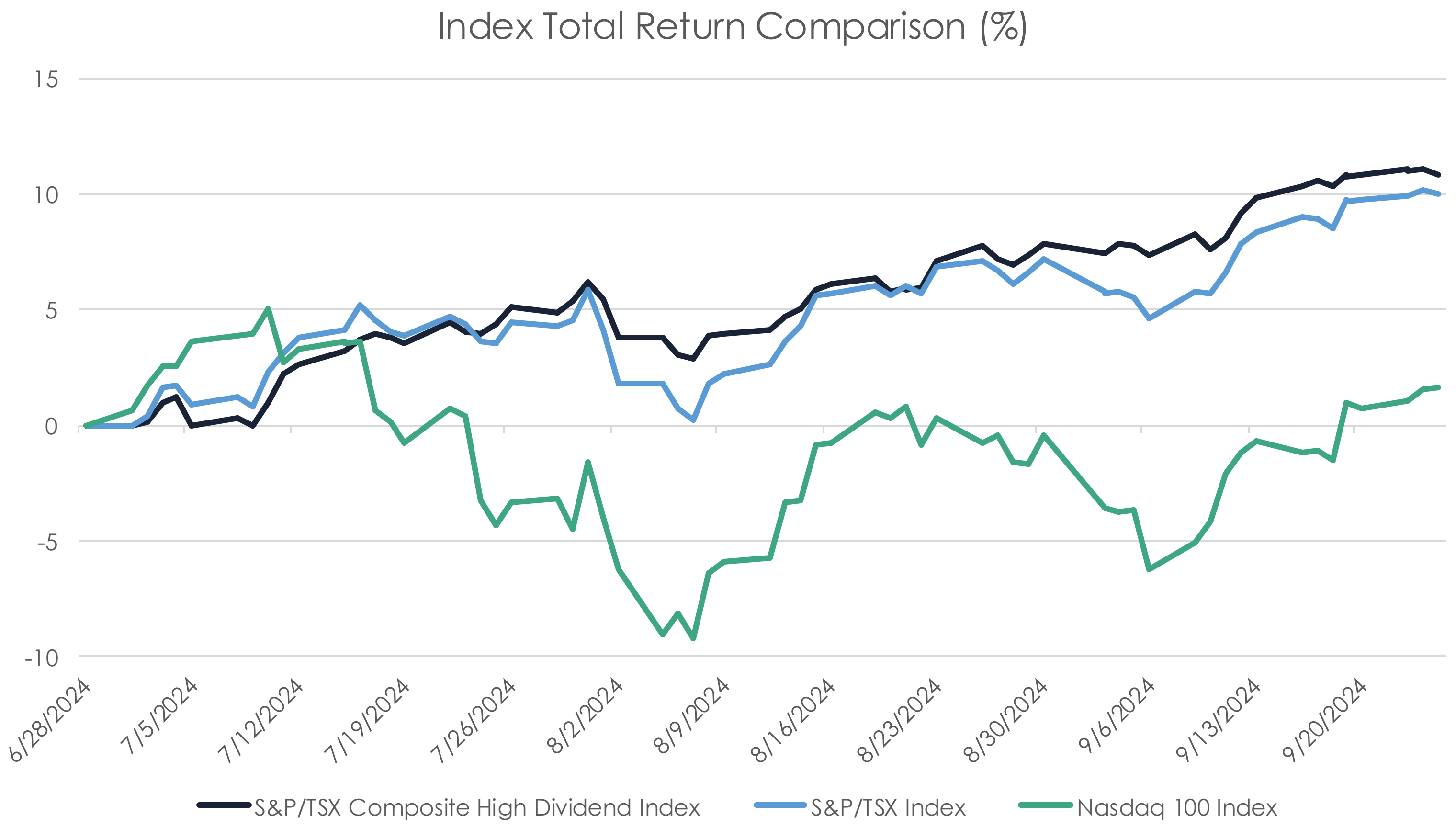
Dividend Investing

Since short-term interest rates began to fall significantly in July, dividend paying stocks have generally outperformed their peers. The S&P/TSX Composite High Dividend Index has outperformed the broad S&P/TSX Index by about 1%, while the US tech-heavy Nasdaq 100 index has lagged substantially.

As interest rates fall and dividend yields stay relatively constant, the dividend becomes more attractive, which tends to lead to price appreciate of dividend paying stocks.



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Returns After First Fed Cut

Not All First Cuts Are The Same

S&P 500 Returns After First Cut The Past 10 Cycles

			S&P 500 Index Future Returns			
Date of First Cut	Type of Cut	Size of First Cut	1 Month	3 Months	6 Months	12 Months
9/27/1984	Normalization	0.25%	-1.0%	-0.7%	7.5%	8.6%
10/22/1987	Panic (Crash of '87)	0.25%	-2.5%	-0.7%	4.8%	13.9%
6/5/1989	Normalization	0.50%	-0.4%	9.8%	8.9%	14.1%
7/13/1990	Recession	0.50%	-8.1%	-19.8%	-14.2%	3.5%
7/6/1995	Normalization	0.25%	0.9%	5.0%	11.5%	21.4%
9/29/1998	Panic (Russian Ruble and LTCM crisis)	0.25%	1.8%	18.4%	22.6%	20.9%
1/3/2001	Recession	0.50%	0.1%	-18.1%	-9.5%	-14.3%
9/18/2007	Recession	0.50%	1.4%	-4.9%	-14.6%	-23.9%
7/31/2019	Normalization	0.25%	-1.9%	1.9%	10.2%	8.9%
3/3/2020	Panic (COVID)	0.50%	-17.7%	2.6%	16.5%	27.2%
		Average	-2.7%	-0.7%	4.4%	8.0%
		Median	-0.7%	0.6%	8.2%	11.4%
		% Higher	40.0%	50.0%	70.0%	80.0%
Normalization Cut						
Average			-0.6%	4.0%	9.5%	13.2%
Median			-0.7%	3.4%	9.5%	11.5%
% Higher			25.0%	75.0%	100.0%	100.0%
Panic Cut						
Average			-0.3%	8.8%	13.7%	17.4%
Median			-0.3%	8.8%	13.7%	17.4%
% Higher			50.0%	50.0%	100.0%	100.0%
Recession Cut						
Average			-2.2%	-14.3%	-12.8%	-11.6%
Median			0.1%	-18.1%	-14.2%	-14.3%
% Higher			66.7%	0.0%	0.0%	33.3%

Source: Carson Investment Research, FactSet, Bloomberg 01/25/2024 (1984 - Current)
@ryandetrick

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Following the first rate cut of the beginning of a cycle of rate cuts from the Federal Reserve, stocks tend to perform quite well over the following 12 months provided the economy is not in recession.

This cutting cycle can be characterized as “normalization” of interest rates, where rates have been kept higher than the neutral rate of interest in order to cool off inflation. In other such cases in the chart, average stock returns 12 months later were 13.2%.

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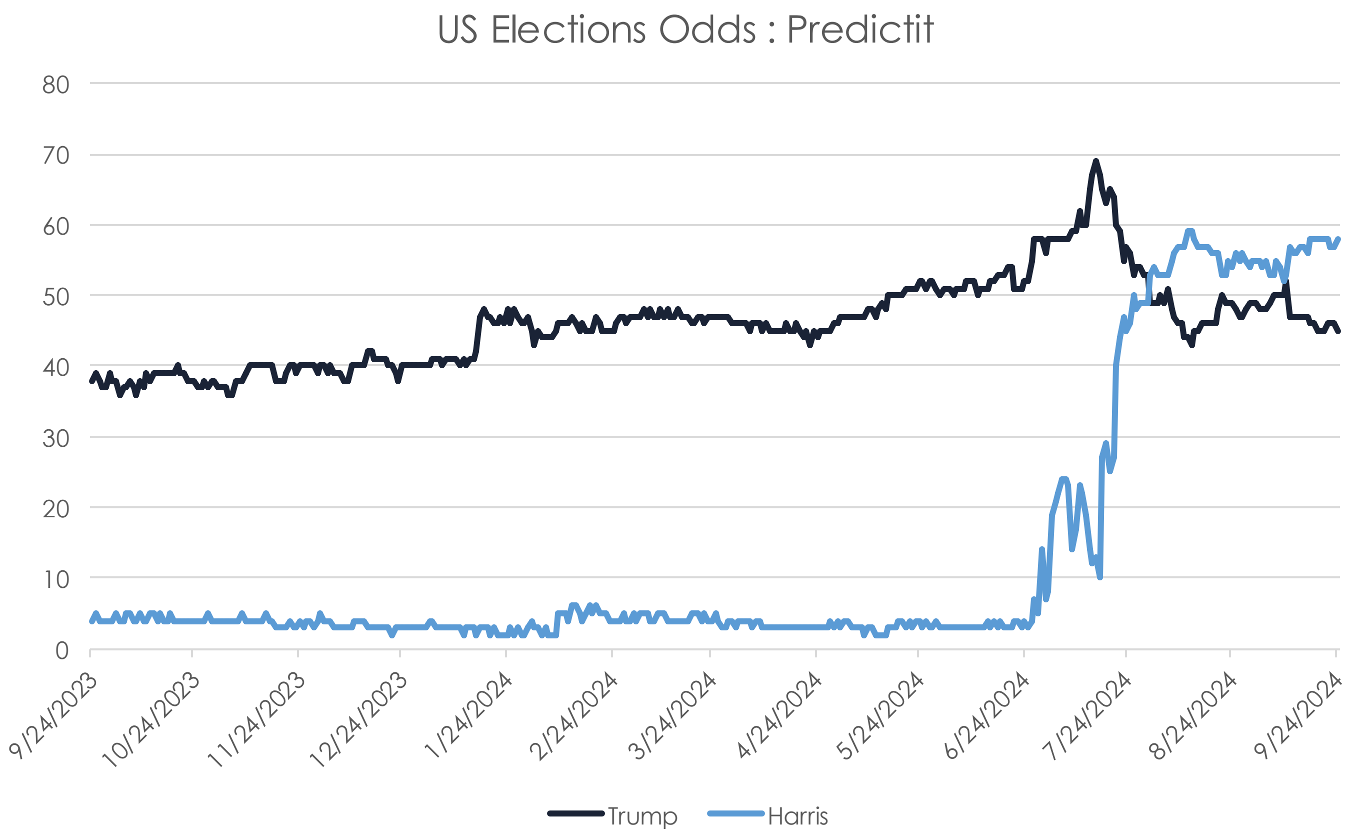
US Election Odds



Data as of Sept. 24, 2024.

In the Predictit election betting markets, the odds have shifted dramatically in favour of Kamala Harris.

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US Election Prediction Model

Election Year	S&P500 % Return (Jul 31- Oct 31)	Incumbent Party	Democrat	Republican	Prediction	Correct Prediction?
1944	0.6	Democrat	FDR	Dewey	Re-election	Yes
1948	4.4	Democrat	Truman	Dewey	Re-election	Yes
1952	-3.5	Democrat	Stevenson	Eisenhower	Replacement	Yes
1956	-7.7	Republican	Stevenson	Eisenhower	Replacement	No
1960	-3.8	Republican	Kennedy	Nixon	Replacement	Yes
1964	2.0	Democrat	Johnson	Goldwater	Re-election	Yes
1968	5.8	Democrat	Humphrey	Nixon	Re-election	No
1972	3.9	Republican	McGovern	Nixon	Re-election	Yes
1976	-0.5	Republican	Carter	Ford	Replacement	Yes
1980	4.8	Democrat	Carter	Reagan	Re-election	No
1984	10.2	Republican	Mondale	Reagan	Re-election	Yes
1988	2.6	Republican	Dukakis	Bush	Re-election	Yes
1992	-1.3	Republican	Clinton	Bush	Replacement	Yes
1996	10.2	Democrat	Clinton	Dole	Re-election	Yes
2000	-0.1	Democrat	Gore	Bush	Replacement	Yes
2004	2.6	Republican	Kerry	Bush	Re-election	Yes
2008	-23.6	Republican	Obama	McCain	Replacement	Yes
2012	2.4	Democrat	Obama	Romney	Re-election	Yes
2016	-2.2	Democrat	Clinton	Trump	Replacement	Yes
2020	-0.04	Republican	Biden	Trump	Replacement	Yes

The price return of the S&P500 from July 31 to October 31 in election years has been a strong indicator of the presidential election outcome, correctly predicting 17 of the last 20 election outcomes. As of September 23, 2024, the return since July 31, 2024 on the S&P500 is 3.6%, which would predict a win for Harris if it remains positive until October 31.

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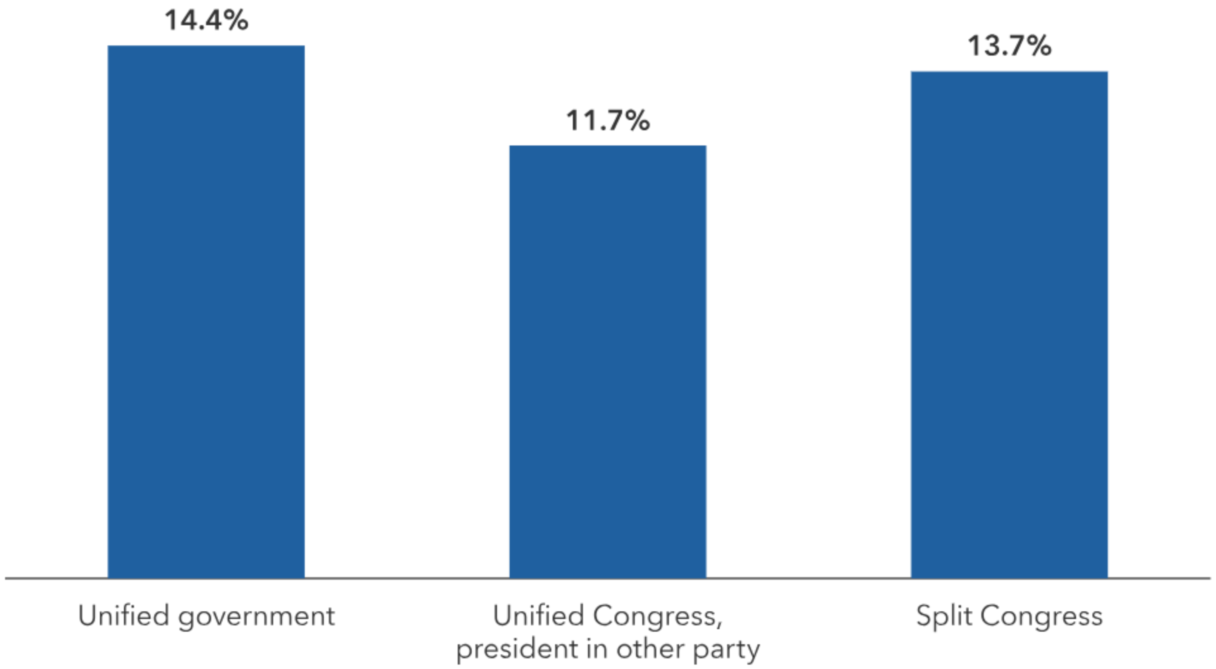
Returns In Different Government Regimes

S&P 500 Index – Average annual total return (1933-2023)



Sources: Capital Group, Office of the Clerk – U.S. House of Representatives, Senate.gov, Standard & Poor's. "Unified government" indicates White House, House and Senate are controlled by the same political party. "Unified Congress, president in other party" indicates House and Senate are controlled by the same party, but the White House is controlled by a different party. "Split Congress" indicates House and Senate are controlled by different parties, regardless of the White House control. Data excludes 2001 due to Senator Jeffords switching parties midyear. As of December 31, 2023. Past results are not predictive of results in future periods. Returns are in USD.

This chart shows the performance of the S&P500 under different government regimes in the US. As you can see, over this long data set of 90 years, on average stocks have performed well under all regimes.

There is a vast number of factors that influence stock markets, the government being just one of them, and over the long-term stocks tend to perform well.

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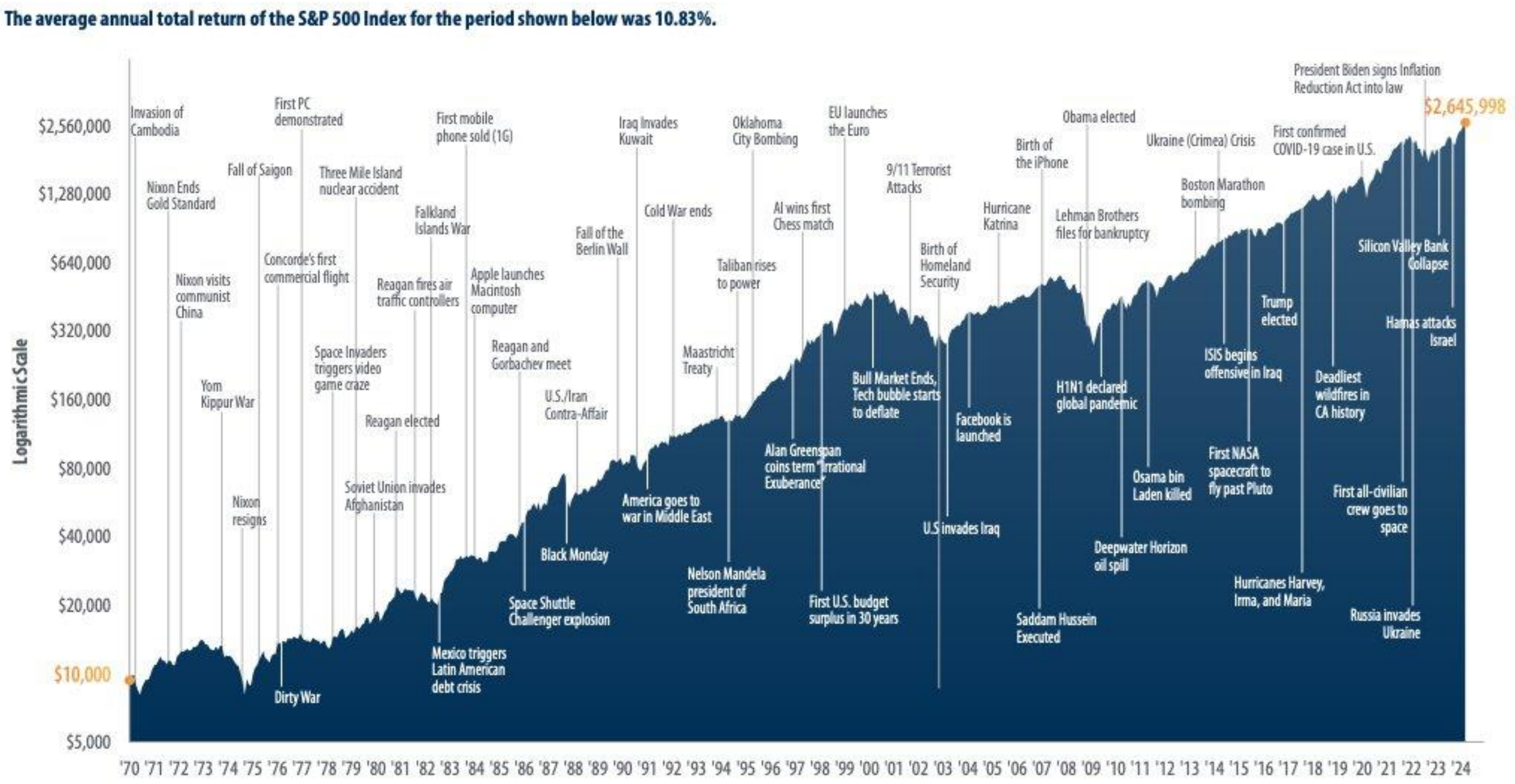
There's Always a Reason to Sell



There's usually a crisis somewhere that can be frightening for investors, or a reason to sell and sit in the safety of low-risk assets and wait for the danger to pass. Over the long term, markets tend to overcome and march on to new highs.

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