



CHARTBOOK Market Comment

Prepared by OceanFront Investment Counsel Inc.

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Market Comment

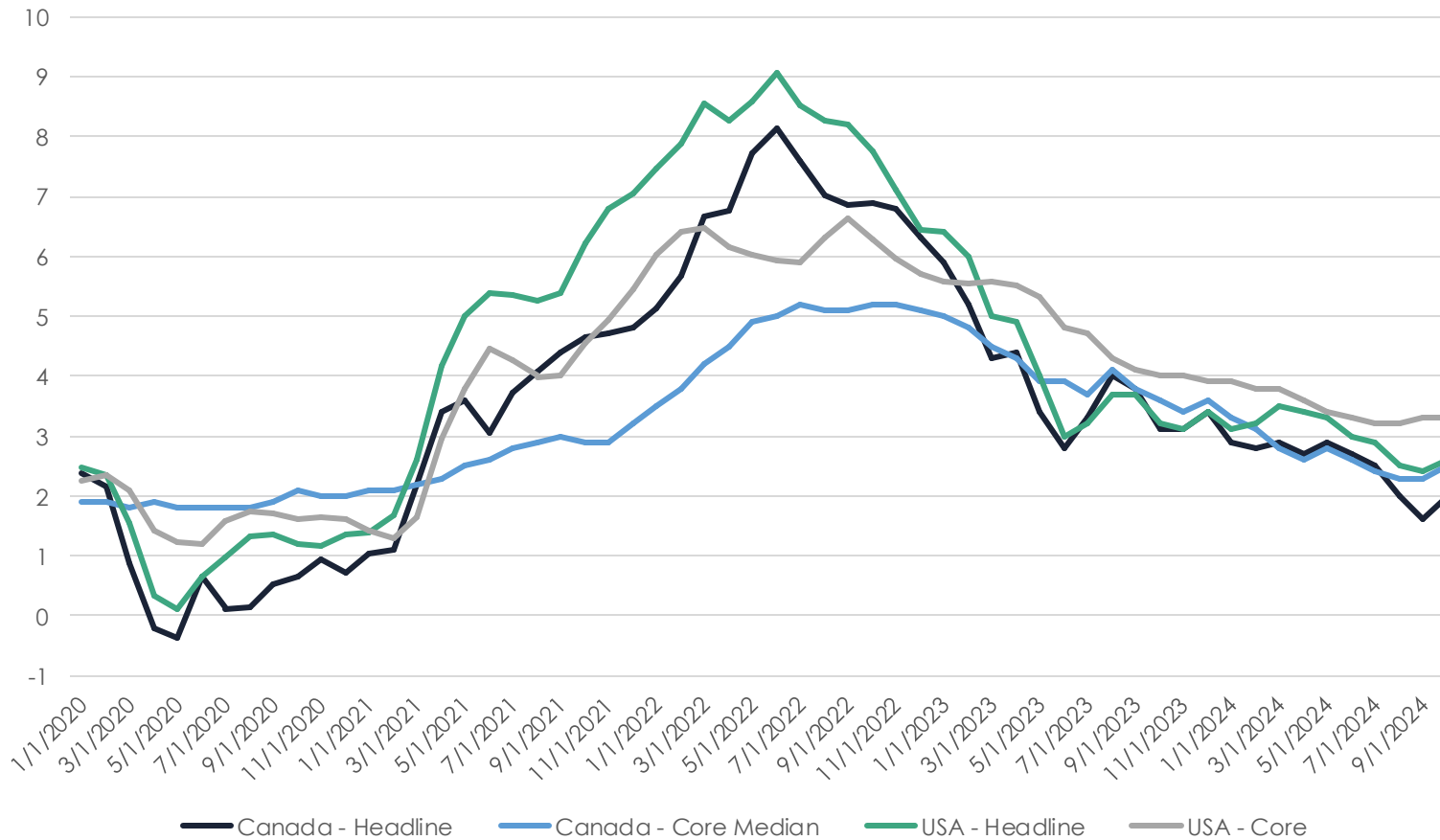
Markets have been enjoying a post-election sugar high, as many stock indices around the world continue to make new all-time highs despite slow economic growth in some countries. Investors had a “Back to the Future” moment as President Elect Trump threatened tariffs on imports from Canada and Mexico, a reminder of the 2016-2020 market where any social media post from the president could cause market volatility and a glimpse into the future.

The Bank of Canada meets next week where it is basically a coinflip as to whether they will cut 25 bps or 50 bps. The bank is caught in a bit of a dilemma where further significant interest rate cuts appear to be necessary to help stimulate growth but would hurt an already very weak Canadian Dollar. As the interest rate differential between the US and Canada widens, the US becomes an increasingly attractive destination for capital.

Just as inflation appeared to be under control and interest rates on the decline, economic and foreign policy from the incoming Trump administration threatens the progress that has been made in these areas. If significant tariffs are imposed and/or tit-for-tat trade disputes begin, it's likely to raise the cost of many goods as international trade declines.

Inflation

CPI Year-Over-Year Change (%)

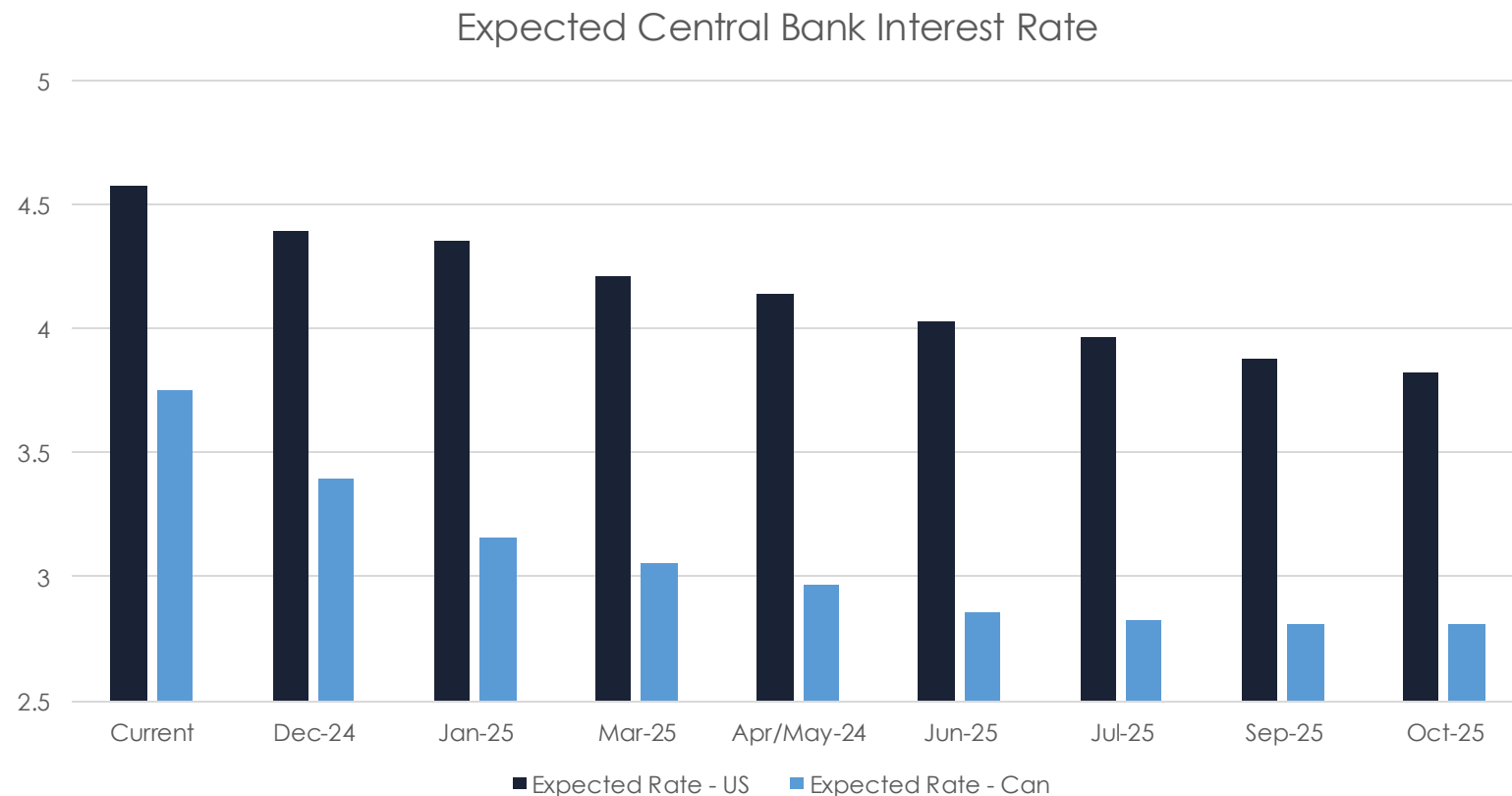


CPI inflation is hovering around the low-mid 2% range in Canada and mid 2% to low 3% range in the US.

“Headline” inflation refers to measures that include all components. Measures of “Core” inflation exclude certain outlier components which have high variability month-to-month or year-to-year.

By July 2025, central bank policy interest rates are expected to fall to about 2.75% in Canada and 3.5% in the US.

Interest Rate Expectations



Data: Overnight Index Swap markets as of December 2, 2024

Government Bond Yields

Government of Canada Bond Yields (%)



Bond yields had a sharp reversal in mid November following the uptrend since September. It's unclear what the trend is from here and this will be an important market to watch.

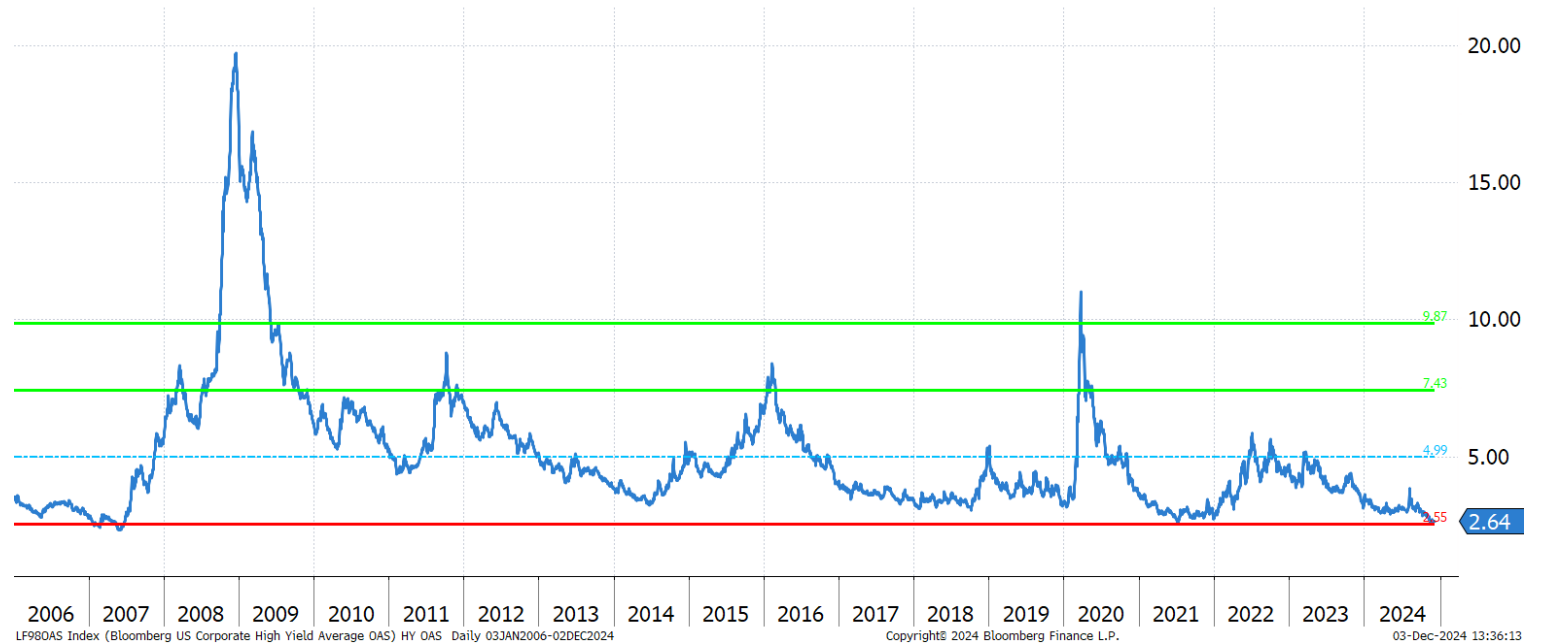
High Yield Bonds

This chart shows the yield spread of US Corporate High Yield bonds relative to US Government Bonds. The horizontal blue line shows the average spread while the red and green lines show standard deviations above and below the mean.

The current level, about one standard deviation below the mean, shows that High Yield Bonds are relatively expensive, since the difference in yield to low-risk government bonds is quite small.

Usually signs of trouble emerge in this market before volatility emerges in stock markets and there is no sign of that yet.

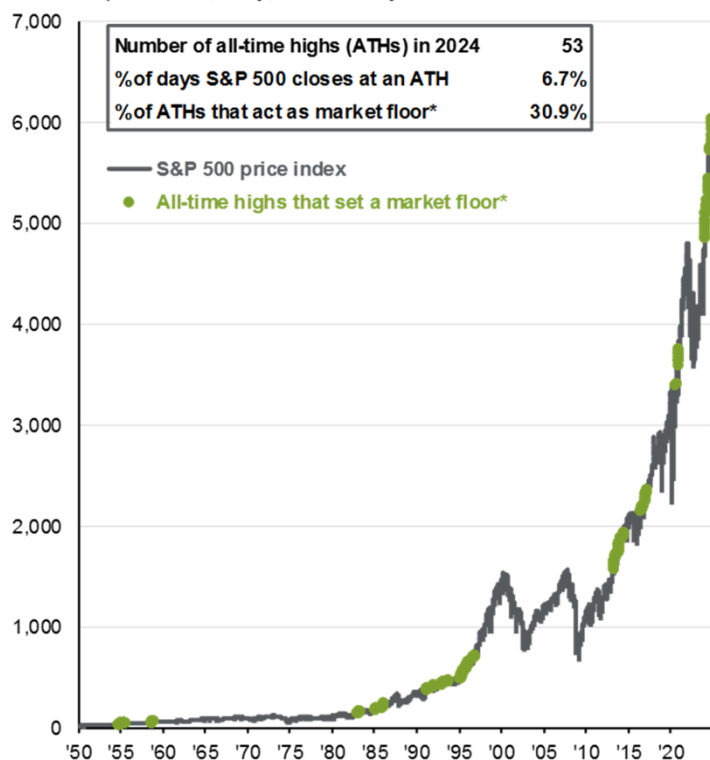
US Corporate High Yield OAS



Investing at All-Time Highs

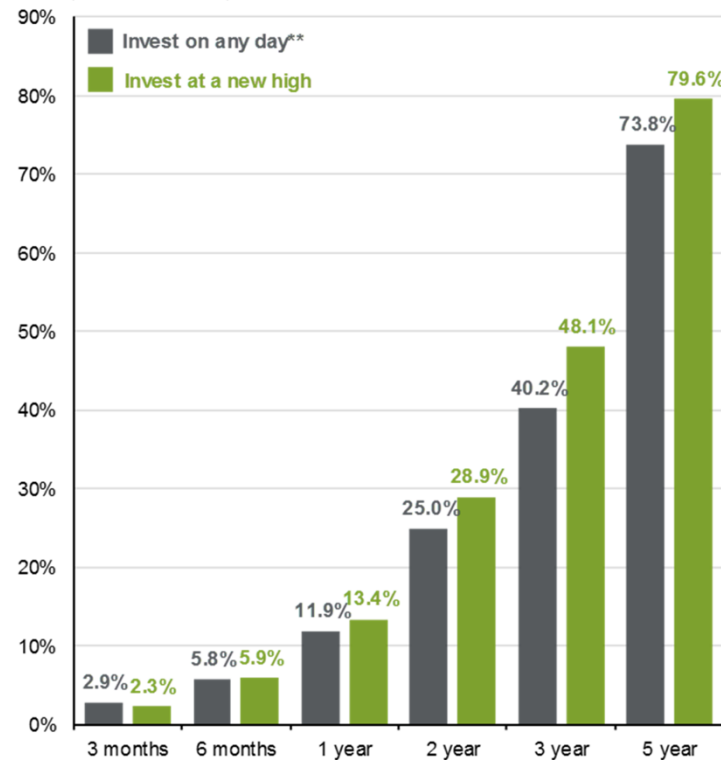
All-time highs and market floors

S&P 500 price index, daily, 1950 - today



Average cumulative S&P 500 total returns

Jan. 1, 1988 - Dec. 31, 2023



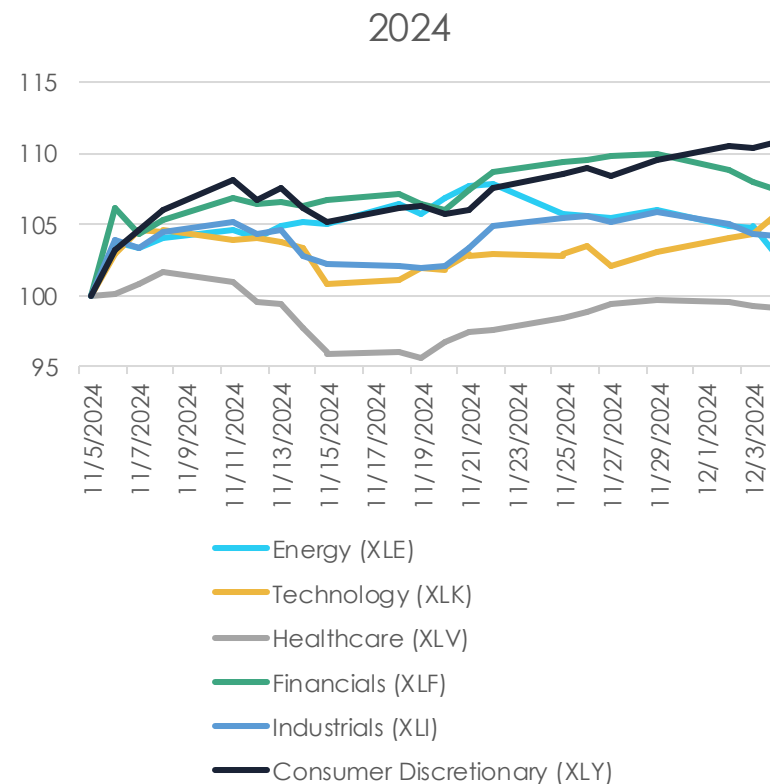
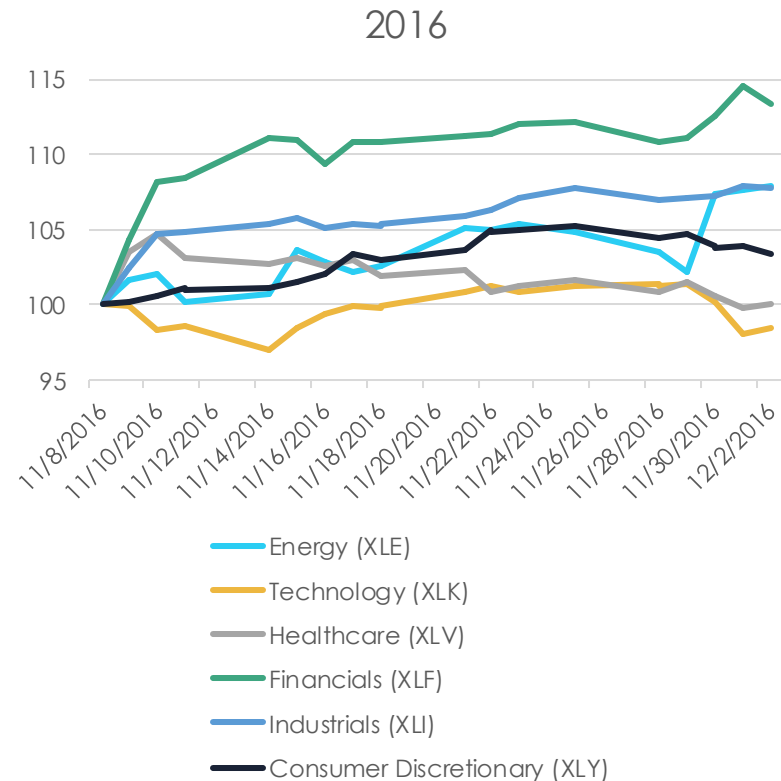
Data from 1950 – November 30, 2024.

History tells us that investing in stocks when stock markets are at all-time high levels tends to be a great time to invest.

The first chart shows the number of times a new all-time high set a new floor for the market, never falling by more than 5% below that level again. It shows that this occurred at 30.9% of all-time highs in the data.

The second chart shows the performance of investing at an all-time high versus investing on any day over various holding periods. Other than the shortest period of 3 months, investing at an all-time high outperformed.

Sector Performance



Data as of Dec. 4, 2024

What market trends will emerge from the Trump election victory? We can look at sector performance since the election for clues.

Like 2016, the financial sector saw a big jump in the days immediately after the election, but it has been less pronounced in 2024 than in 2016. Markets are likely expecting the Trump administration to cut regulations on the financial sector here.

The energy sector was a benefactor each time, while healthcare has been a laggard both in 2016 and 2024.

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