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INVESTMENT COUNSEL INC.

CHARTBOOK
Market Comment

Prepared by OceanFront Investment Counsel Inc.

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Market Comment

2024 was a fantastic year to be an investor. Interest rates began to fall, as did inflation, and earnings growth was solid. Economic growth was generally strong in developed economies, although many lagged the impressive growth of the US economy. Stock markets shrugged off many of the concerns held by investors such as a possible resurgence in inflation, uncertainty around the US election, and more to close the year with an impressive return.

Years like 2024 are a good reminder that the long-term average return for stocks (about 7%-10% depending on the market) rarely actually occurs. Instead, annual returns tend to fluctuate in a wide range. In order to earn that long-term average return, or something similar, an investor needs to hold for the long-term. There will be many bumps along the way in the form of volatility, and once every few years we can reasonably expect stock markets to have a significant negative return or a bear market decline of over 20%.

For prudent investors, these expectations are all built-in to their long-term financial plan. Owning a globally diversified portfolio of stocks, bonds and other assets is the best method we know to manage risk. Portfolios that contain assets with complementary properties, like stocks and bonds typically have, serve to counteract some of the volatility that these assets exhibit individually.

As we look ahead to 2025, we know that the best way to prepare for the uncertainties ahead is a well thought out, long-term financial plan.

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2024 Returns – Select Assets

Stock Indices	2024 Total Return
S&P/TSX (Canada)	21.65%
S&P 500 (USA)	25.02%
Nasdaq 100 (USA)	25.88%
Dow Jones (USA)	14.99%
TSX Dividend Aristocrats Index (Canada)	20.92%
Bloomberg Magnificent 7 Index (USA)	67.34%
Shanghai Composite Index (China)	16.17%
Hang Seng Index (Hong Kong)	22.90%
Nikkei Index (Japan)	21.27%
FTSE 100 (UK)	9.59%
Stoxx 50 (Euro Area)	11.90%

Bond Indices	2024 Total Return
Bloomberg US Aggregate Bond Index	1.25%
Bloomberg Canada Aggregate Bond Index	4.03%

Other Assets	2024 Total Return
Gold	26.19%
Bitcoin (BTC/USD)	120.46%
WTI Light Crude Oil	9.93%

Note: returns are total (including dividends), in local currency terms (unhedged).

It was great year across the board. Bitcoin was a big winner, posting a return of 120%. The Bloomberg Index of the US large cap “Magnificent 7” stocks, led by Nvidia, returned 67%.

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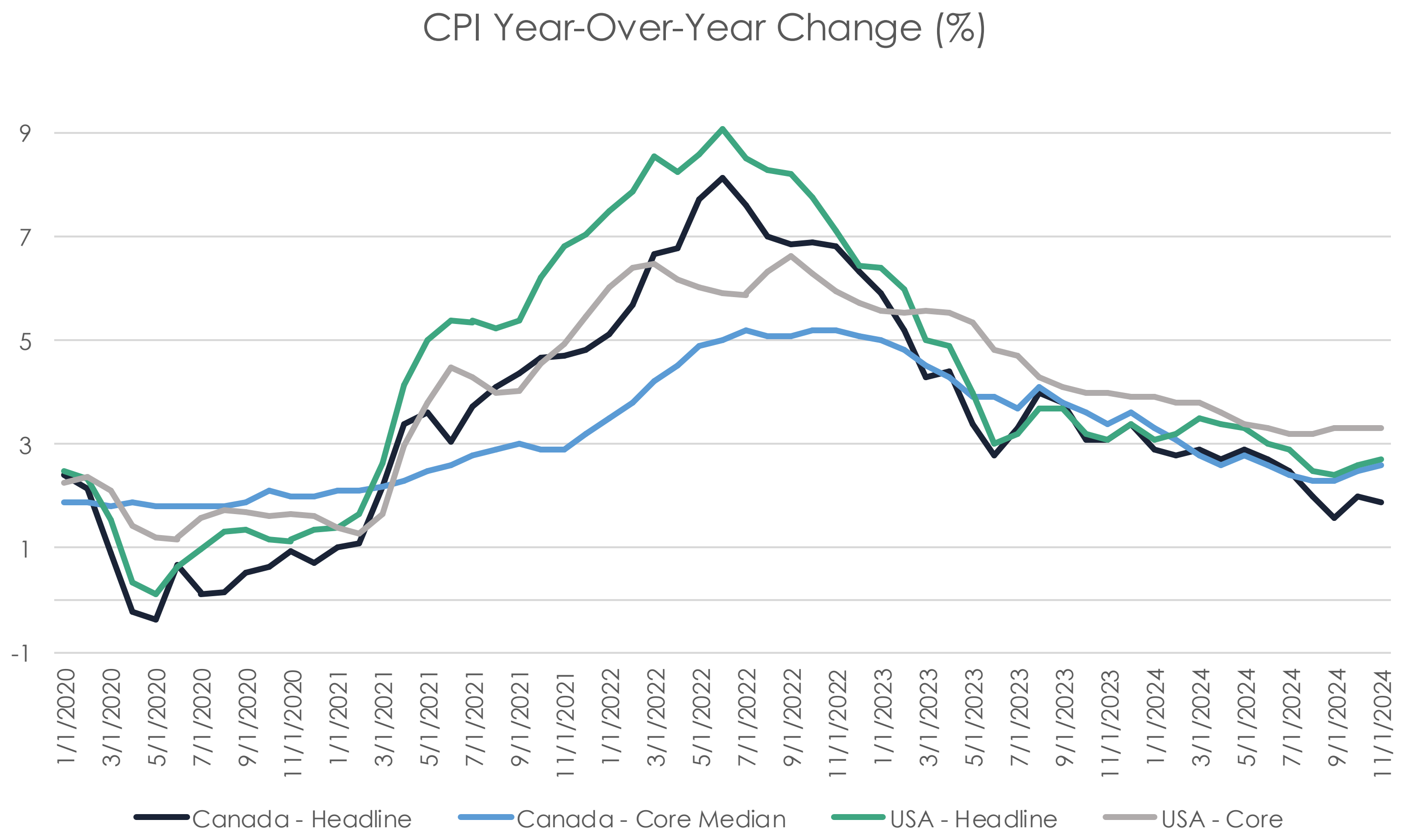
Inflation



"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.

CPI inflation is hovering around the low-mid 2% range in Canada and mid 2% to low 3% range in the US, where it has been stickier than it has in Canada.

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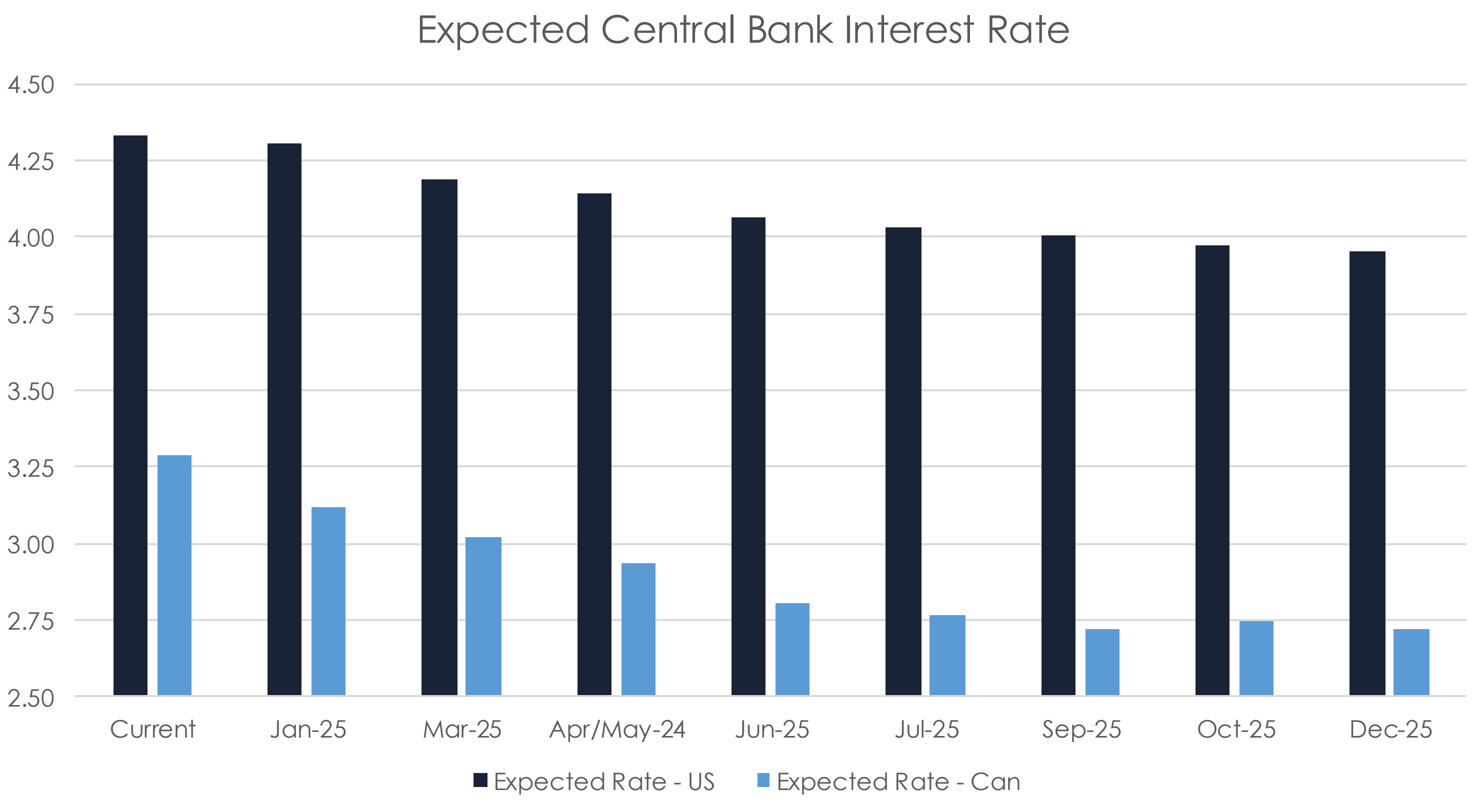
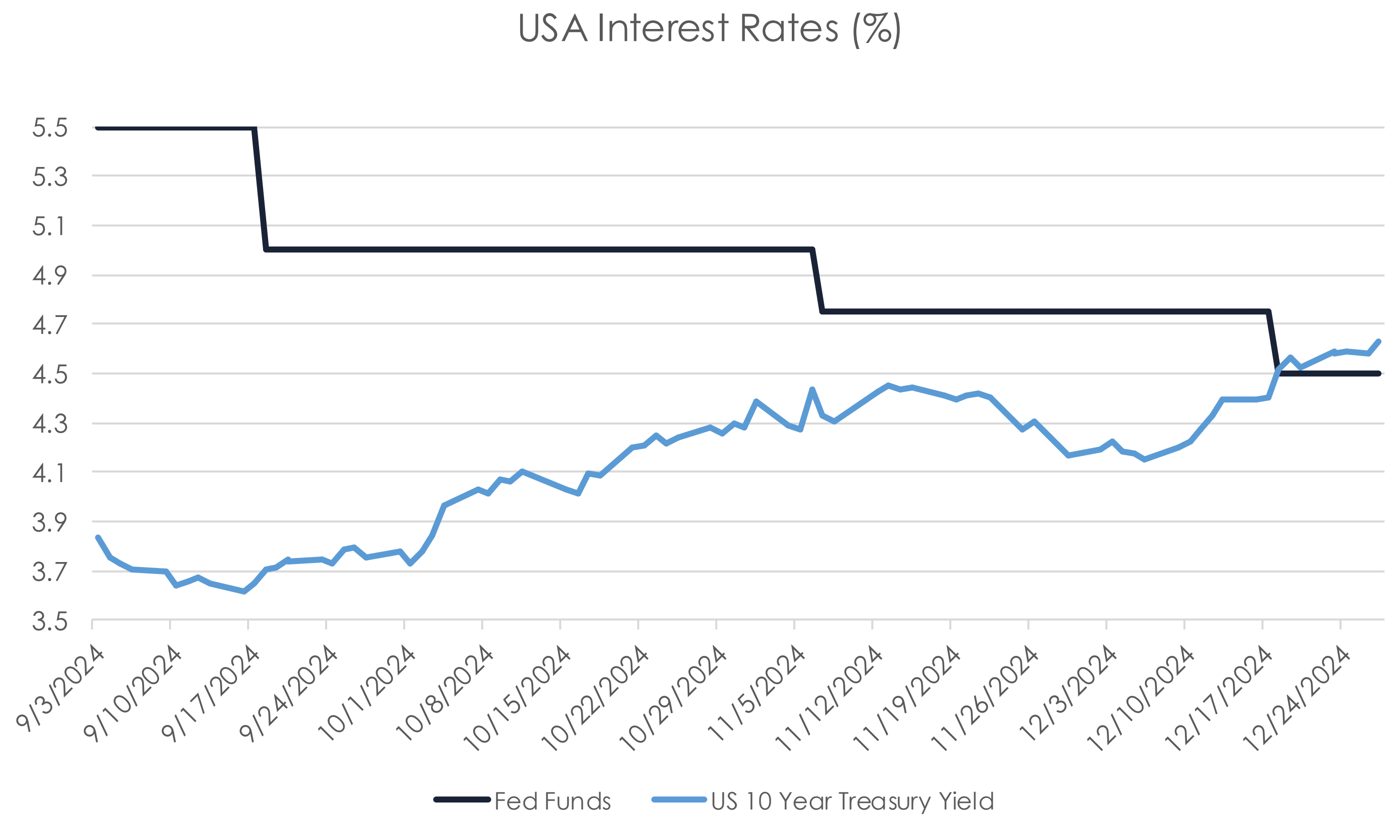
Interest Rate Expectations

By December 2025, central bank policy interest rates are expected to fall to about 2.75% in Canada and 4.0% in the US. This is reflective of the strength of the two economies, where in the US economic growth has been much stronger than it has in Canada. This contributes to the relatively higher inflation in the US and thus higher interest rates to temper inflation.



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

Government Bond Yields



Short term interest rates have been declining as central banks lower their policy rates, but longer term rates have been moving higher. The yield on the US 10 Year Treasury Bond has been steadily increasing, recently surpassing the Fed Funds rate.

Should this trend continue, financial conditions could become more restrictive even as the Federal Reserve cuts rates.

 Source: Bloomberg, OceanFront Investment Counsel Inc.

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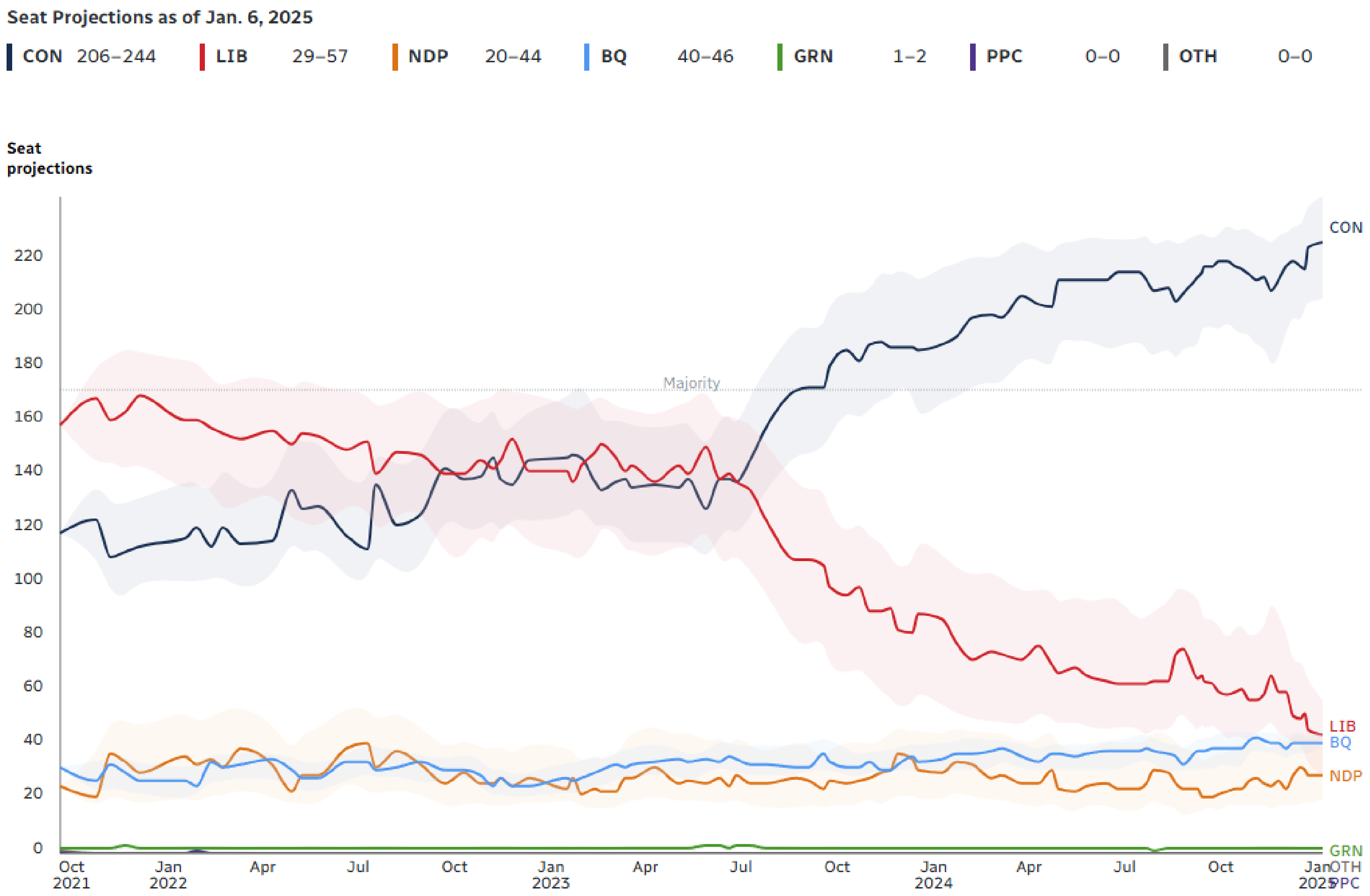
Canadian Election Polls



Prime Minister Justin Trudeau announced on Monday that he is stepping down as Prime Minister and Liberal Party leader. This follows a huge decline in popularity of Trudeau and the Liberals, which has seen them fall well behind the Conservatives in the polling averages.

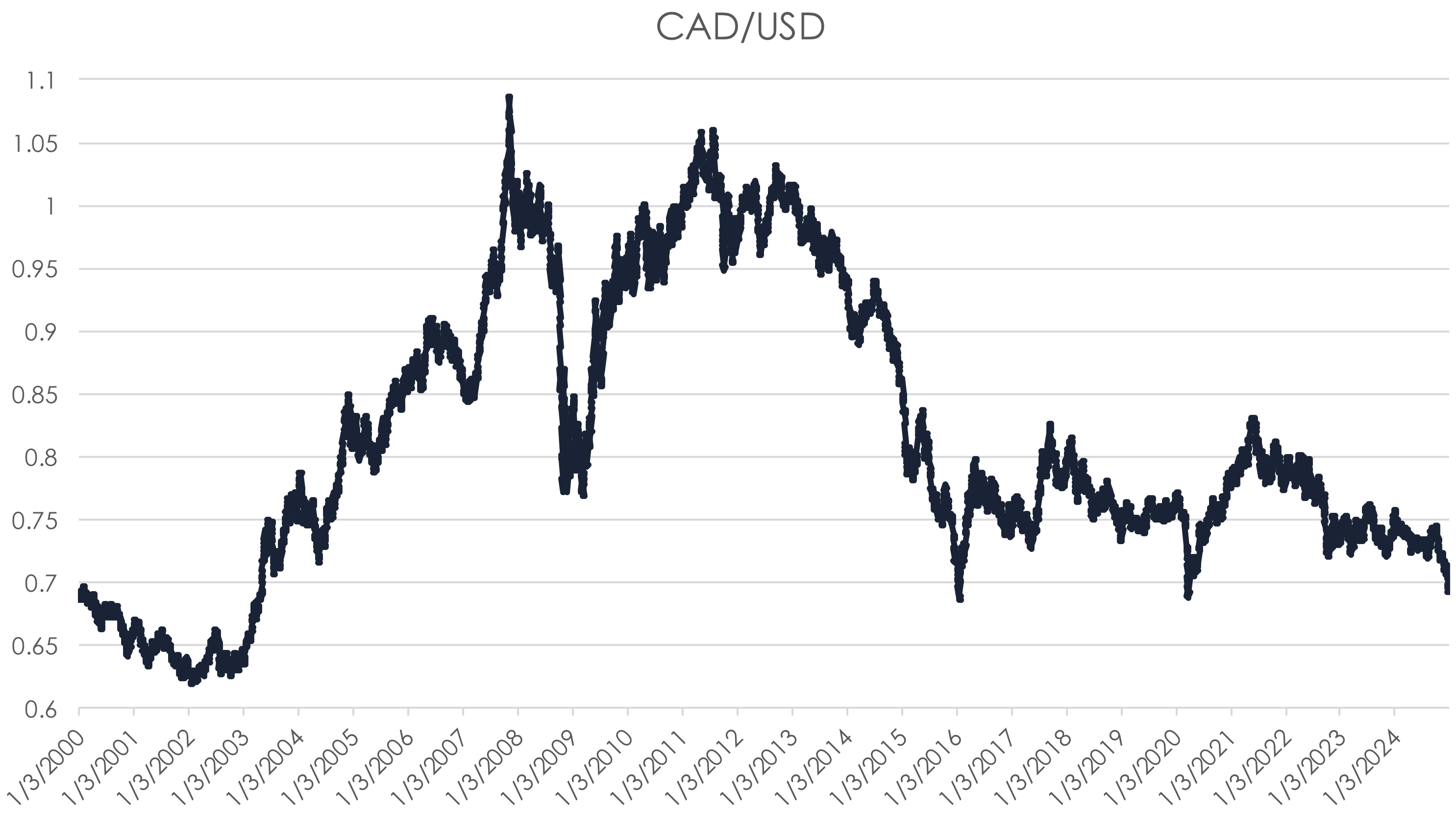
The Conservatives are widely expected to win the upcoming federal election, due no later than late October 2025, with party leader Pierre Poilievre likely to become Canada's next Prime Minister.

Poilievre is expected to enact policies to cut government spending to reduce taxes and the fiscal deficit, while reducing regulations to spur growth. He is in favour of building out of the housing crisis, saying that there is no physical or geographic reason why Canada should have a housing shortage.

There has been somewhat of a rebuke of the Liberals from markets lately, where the Canadian Dollar rose on the news of Trudeau's resignation, and sold off along with Canadian Government bonds when the size of the deficit was announced.

 Source: CBC, OceanFront Investment Counsel Inc.

Canadian Dollar



The Canadian Dollar is near an eight-year low relative to the US Dollar. There are many reasons for this including, but not limited to:

- Interest rate differential between the two countries, where US rates are much more attractive for capital
- Relative strength of the economies, where GDP growth is significantly higher in the US
- Political instability in Canada, where the unpopular Liberals are expected to lose the upcoming election, and large fiscal deficit spending
- Concerns about economic policies of the incoming Trump administration and the implications for Canada

Amongst the uncertainty one thing is clear, there is a lot of fear embedded in the price of this market, and the last two times we reached this level the Canadian Dollar rallied higher.

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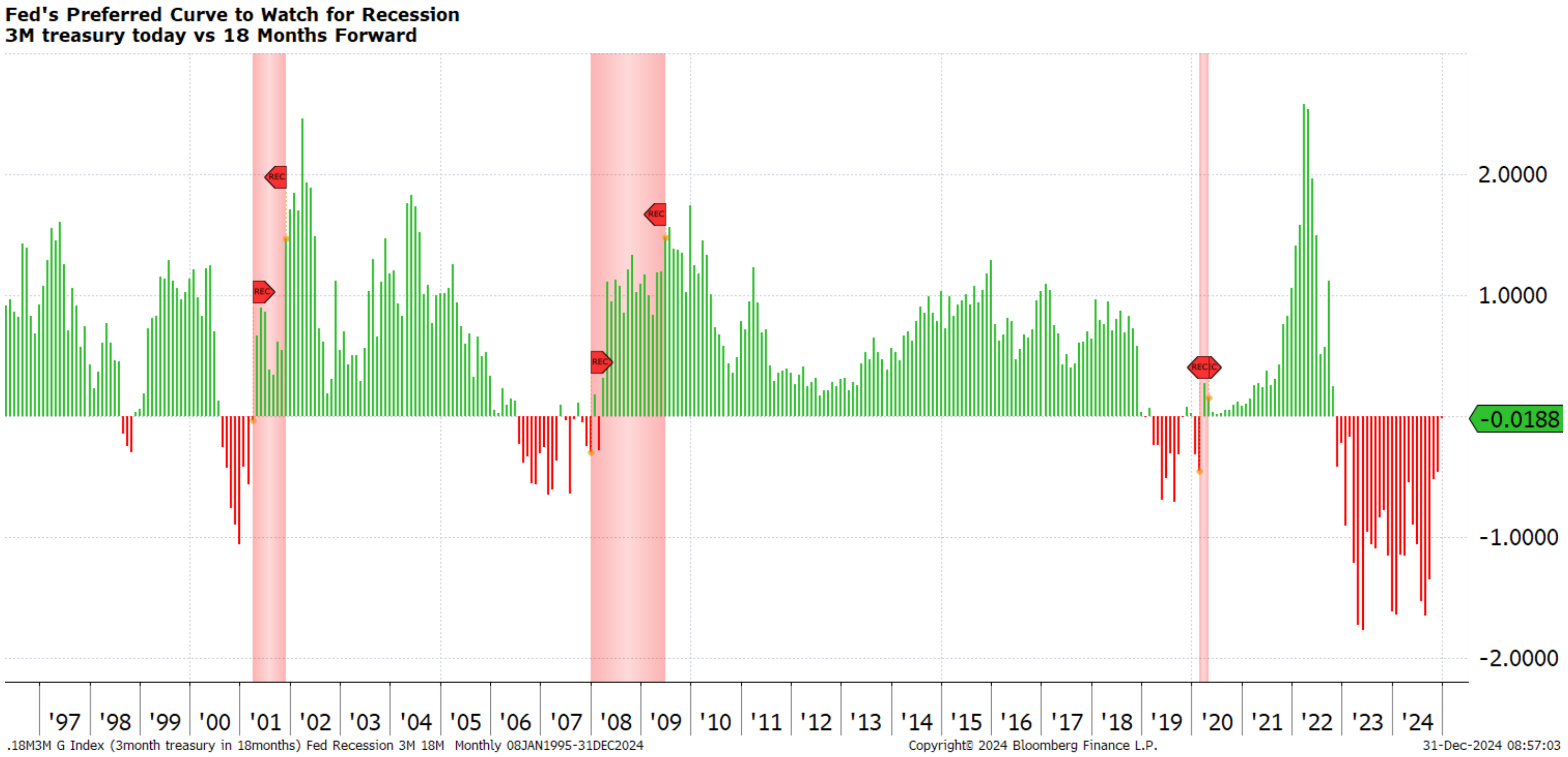
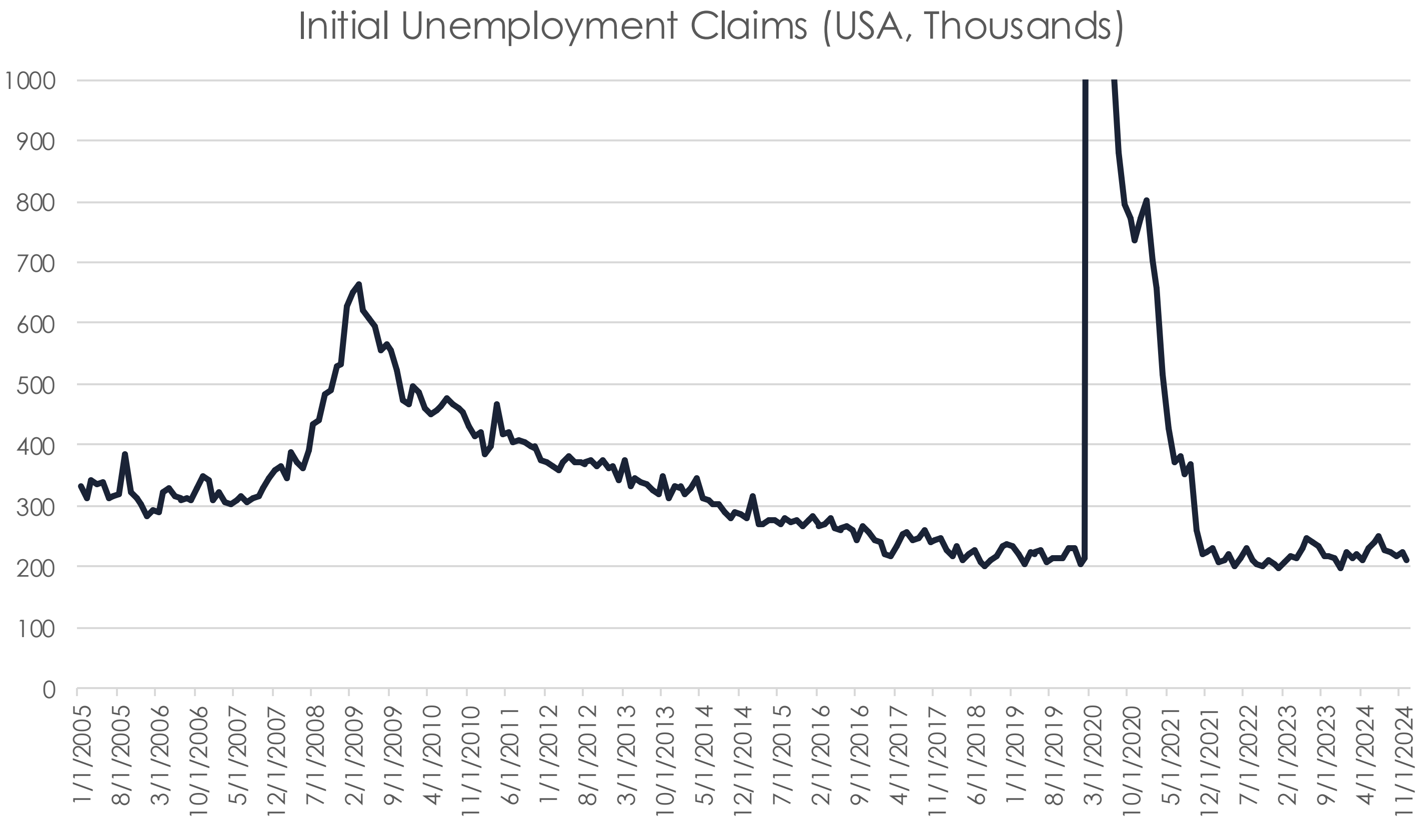
Recession Model

The Federal Reserve maintains a recession prediction model based on the spread between short term treasury security yields and expected future short term yields.

It has been a reliable indicator in the past and has shown a “recession signal” since 2023. An official recession has yet to materialize, despite the prediction of the model. This begs the question, is it a false signal or an early signal this time around?



Initial Unemployment Claims



Note: chart intentionally cuts off the 2020 spike in claims for better visibility of the current data.

Claims for unemployment benefits from recently laid off workers tend to be a good leading indicator for the direction of the economy. At the present time, claims are at a very low level and not exhibiting signs of distress.

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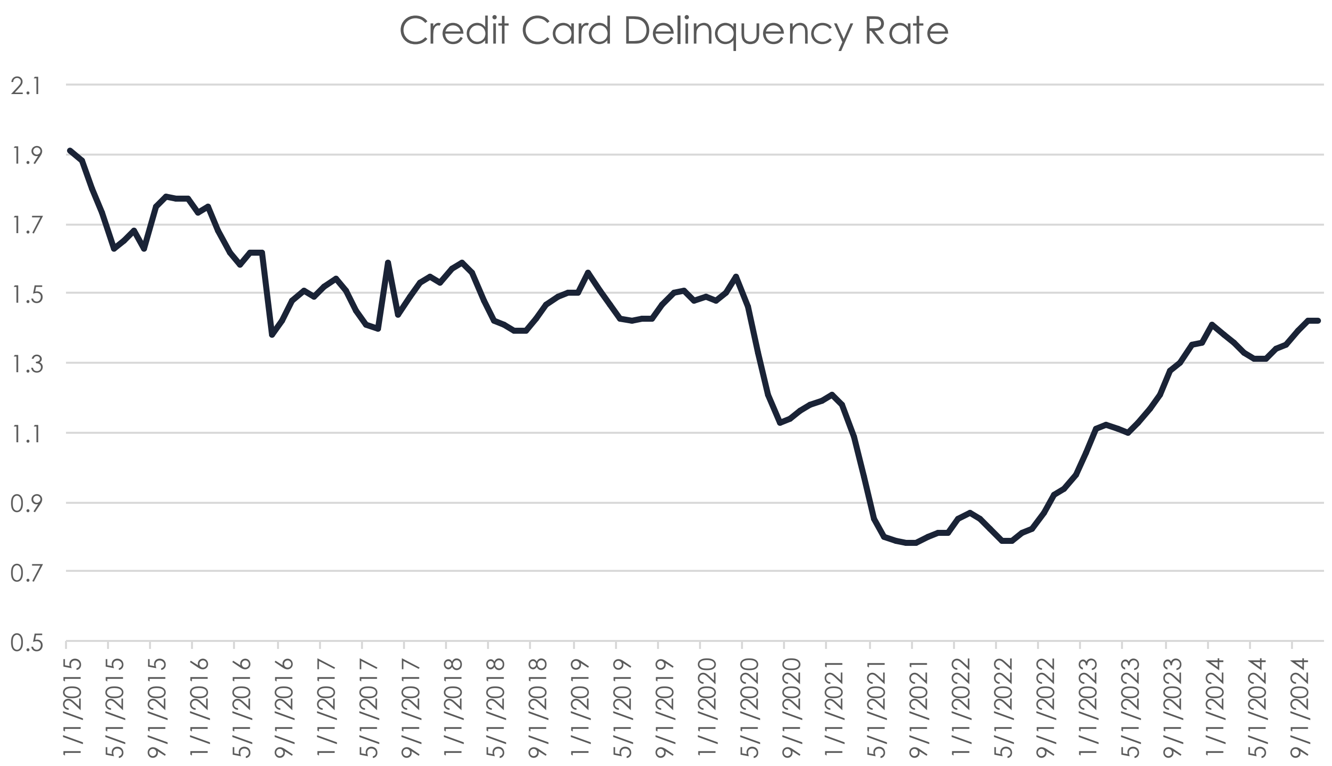
Credit Card Delinquencies



Data as of Dec. 31, 2024

A potential crack in the finances of US consumers has emerged, as credit card delinquencies have reached their highest rate since early 2020. US consumers had been able to increase their savings during COVID due to lower interest rates and pandemic benefits, among other reasons. Perhaps this is a sign that consumer savings are depleted.

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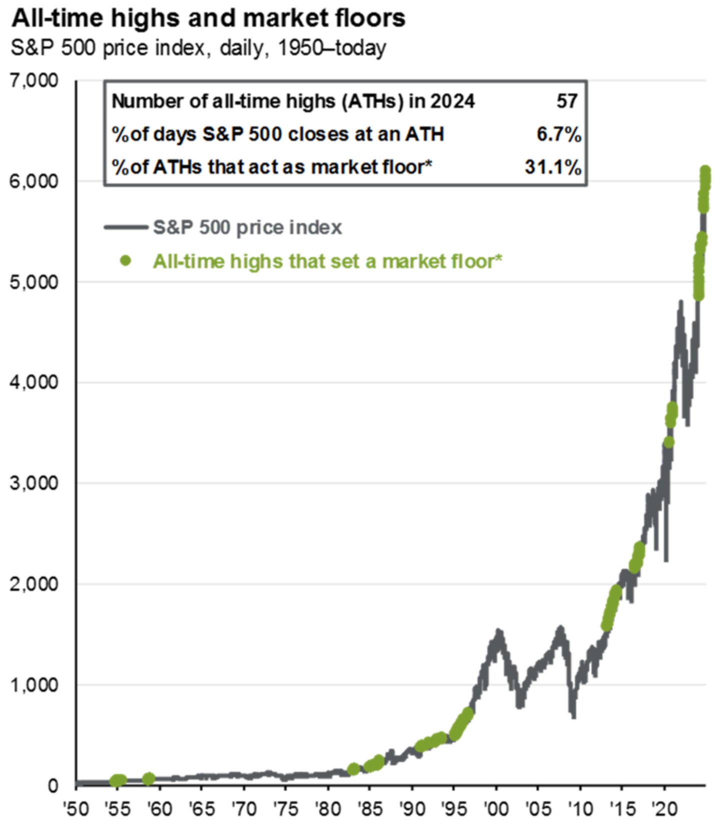
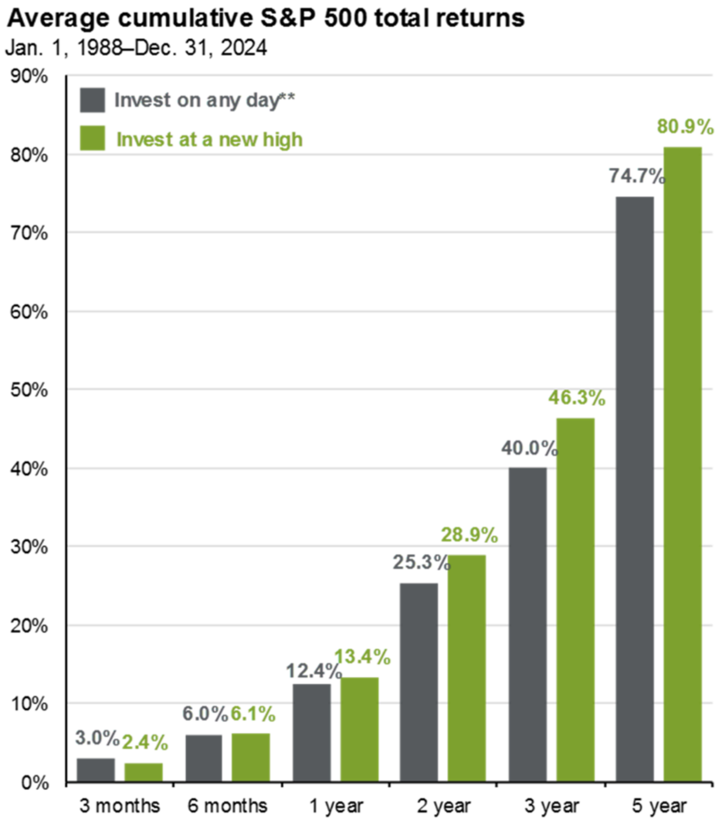
Investing at All-Time Highs





Data as of December 31, 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 31.1% 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.

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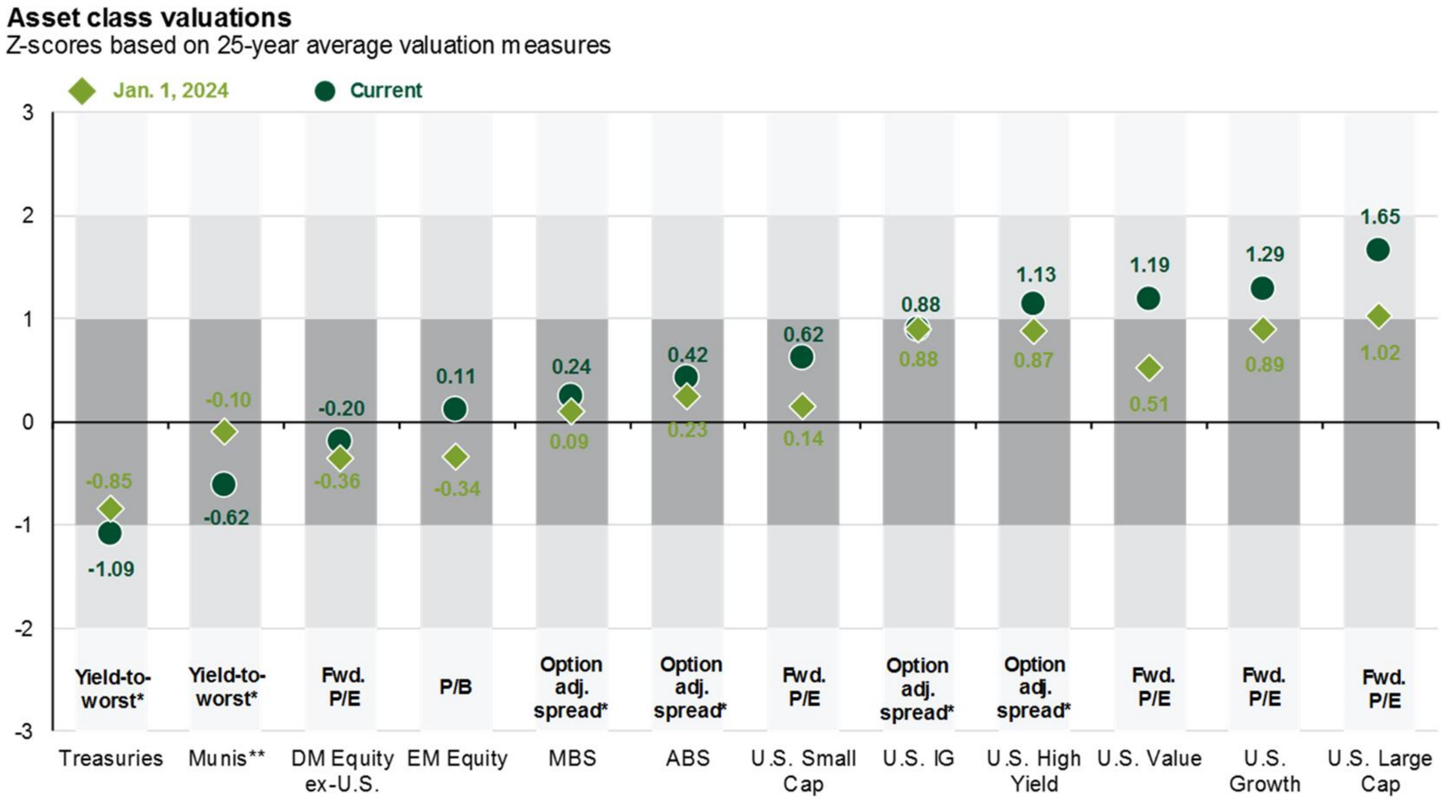
Valuations



Data as of December 31, 2024

This chart shows measures of valuations across different asset classes relative to the 25 year average of each asset class. We see a wide discrepancy in relative valuations here. For example, US Large Cap stocks (the S&P500) are 1.65 standard deviations higher than their long term average, while Developed Market Equity excluding the US ("DM Equity Ex-US" in the chart) is slightly below its long term average.

In fact, most of the assets in this chart that appear expensive are the US assets. The US economy has proven to be strong and resilient compared to its peers, which has contributed to US assets being valued at a premium. However, due to this premium, other asset classes are becoming more attractive.

 Source: Bloomberg, BLS, CME, FactSet, MSCI, Russell, Standard & Poor's, J.P. Morgan Asset Management.

U.S. Large Cap: S&P 500, U.S. Small Cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, U.S. Value: Russell 1000 Value, U.S. Growth: Russell 1000 Growth, U.S. High Yield: J.P. Morgan Domestic High Yield Index, U.S. Core Bond: Bloomberg US Aggregate, Treasuries: Bloomberg U.S. Aggregate Government – Treasury, Munis: Bloomberg Municipal Bond. *Averages for U.S. High Yield and U.S. Small Cap are since January 1999 and November 1998, respectively, due to limited data availability. **Yield-to-worst and spread-to-worst are inversely related to fixed income prices. ***Munis yield-to-worst is based on the tax-equivalent yield-to-worst assuming a top-income tax bracket rate of 37% plus a Medicare tax rate of 3.8%.

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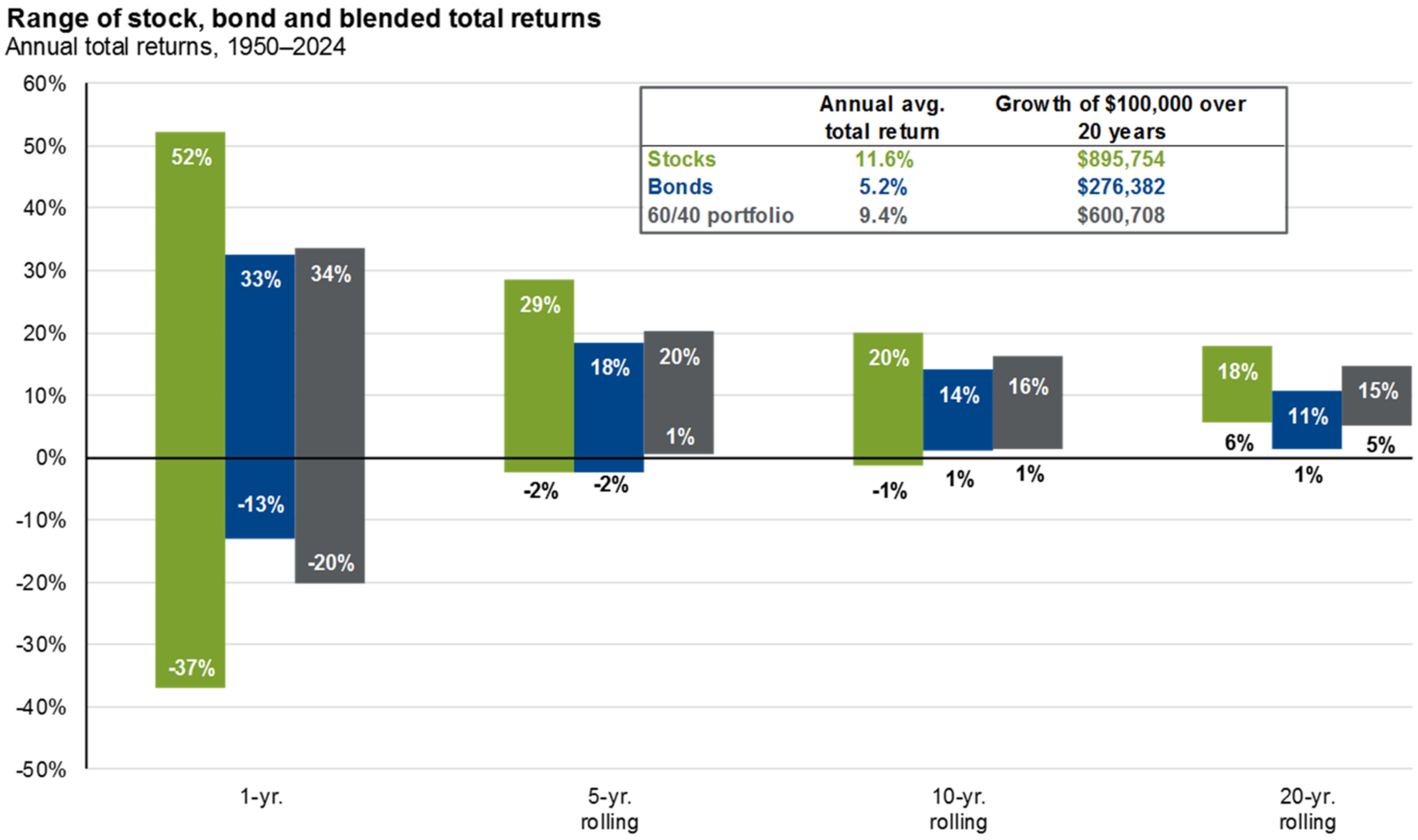
Volatility of Returns over Time



The longer your investment time horizon, the more predictable the return you earn can be. This chart shows how the range of return becomes smaller as the time horizon lengthens.

For example, in stocks, the range of 1-year historical returns in -37% to 52%, while the range of rolling 20-year average annual returns is 6% to 18%.

This shows the benefit of having a long-term financial plan and sticking with it.

 |Source: Bloomberg, FactSet, Federal Reserve, Standard & Poor's, Strategas/Ibbotson, J.P. Morgan Asset Management.

Returns shown are based on calendar year returns from 1950 to 2024. Bonds represent Strategas/Ibbotson for periods prior to 1976 and the Bloomberg Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2024.

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