HARBOURFRONT
WEALTH MANAGEMENT

WATERMARK PRIVATE PORTFOLIOS

APRIL 2024 COMMENTARY

Market Review in Minutes

Equities

- The S&P 500 in Canadian dollars and the S&P/TSX Composite both logged their first monthly loss of 2.62% and 1.82%, respectively, since October 2023. The markets' pullback was attributed to heighted geopolitical tensions and high valuations that left little room for tolerance for companies to report disappointing earnings or weak future revenue/earnings guidance.
- **Leaders:** In this environment characterized by inflation concerns, the commodity-heavy S&P/TSX Composite fared better than the teach-heavy S&P 500, as energy and material companies outperformed other sectors:
  - In the US, the utilities rose by 1.65% this month. It was the only sector that was positive for the month and because it only accounts for 2% of the S&P 500, it was not clearly not enough to lift the S&P 500 to positive territory.
  - In Canada, the materials and energy sectors, consisting of about 29% of the S&P/TSX Composite combined, posted positive monthly gains of 5.90% and 1.08%, respectively. Canada's strong commodity sector exposure continues to reflect its cyclicality.
- **Laggards:** With a strong inflation print and robust economic conditions in the USA, it appears that interest rates could stay "higher for longer" therefore, hurting companies and sectors that are most sensitive to interest rates:
  - Aside from Alphabet Inc and Tesla, most of the mega-cap technology companies, which currently make up over 25% of the S&P 500, ended lower for the month:
    - Despite an earnings beat, Microsoft, Meta Platforms, and Netflix ended the month lower as the companies reported weaker future revenue guidance.
    - Amazon beat on revenue and earnings expectations; however, it still ended lower for the month.
    - Apple and NVIDIA posted negative monthly returns. They are expected to report earnings on May 2, 2024 and May 22, 2024, respectively.
  - In Canada, the financial sector and industrial sector, consisting of about 31% and 14% of the S&P/TSX Composite, respectively, weighed the Canadian equity market down.
- Outside of Canada and US, the global equity market posted a monthly loss.

As at April 30, 2024	Monthly % Total Return	YTD % Total Return
Canadian Bonds *FTSE Canada Universe Bond Index*	-2.00%	-3.20%
Canadian Equities *S&P/TSX Composite Index*	-1.82%	4.68%
US Equities S&P 500, in C$	-2.62%	10.48%
Gold	2.88%	11.15%
Oil *West Texas Intermediate Crude*	-1.49%	14.35%
Canadian Dollar	-1.71%	-3.83%

Market Review in Minutes (Continued)

Fixed Income

- Economic data pointing to inflation persisting led to a spike in US interest rates this month with rates of all maturities rising. The long-term 20+ Year Treasury Bond ETF had its largest monthly loss of 6.46% in April since September 2023.
- The Canadian Universe Bond fell by 2% in April as Canadian bond yields rose in tandem with the US Treasury yields.
- With both stocks and bonds down at the same time, we observe how correlations increase between public markets when inflation is high and/or persistent.

Commodities

- Crude oil finished the month above $80. Oil prices continued to be supported by supply concerns as geopolitical tensions heightened in the Middle East and by growing global demand as China's economic activity recovers.
- Gold finished the month strong, logging a 2.88% gain for the second consecutive month and ending the month close to $2,300. Though they do not always move in tandem with each other, gold mining companies posted a positive gain this month as well.
- The US Dollar appreciated by 1.77% against the Canadian Dollar in April, continuing to reflect a general flight-to-quality.

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Notable Monthly Highlights

USA – The US Federal Reserve maintained its policy rate during its May 1st meeting

- The US Federal Reserve expectedly held rates steady at 5.25%-5.50%. According to CME FedWatch Tool, there is almost a 90% chance that the US Fed will maintain its current target rate in June and almost a 70% chance that the target rate will remain unchanged in July. At the beginning of the year, the market was expecting six rate cuts by the end of 2024 but now, the investors are expecting that the US Fed will implement its first rate cut in September.
- As the USA's economy continues to grow and inflation remains sticky, the US Federal Reserve reiterated its stance that it is in no rush to cut rates:
  - Labour market continued to be strong in the USA as it added 303K jobs in March and blew past expectations, while unemployment rate fell to 3.8% vs the 3.9% consensus.
  - The US ISM Manufacturing Purchasing Managers Index (PMI) reading also rebounded to 50.3% in March, a level that was not seen since October 2022. A reading above 50 is indicative that manufacturing activity is expanding.
  - Inflation is proving to be sticky as the headline figure for CPI inflation print came in higher at 3.5% YoY in March vs the market consensus of 3.4%. The core inflation was also higher than expected at 3.8% in March vs the 3.7% expected.
  - The US Fed's preferred measure in determining monetary policy, the core personal consumption expenditures (PCE), came in above expectations at 2.8% YoY vs 2.6% expected.

Notable Monthly Highlights (Continued)

Canada – The next fiscal budget was released and the BOC maintained its overnight policy rate at 5%

- The federal government's 2024 budget was released during the month. Highlights include:
  - **New tax policy**: The inclusion rate on capital gains realized during the year above $250,000 by individuals, and on all capital-gains realized by corporations and trusts, went from 50% taxable to 66.5% taxable, effective June 25, 2024.
  - **Housing supply goal:** Build 3.87 million new homes by 2031, which includes a minimum of 2 million net new homes on top of the 1.87 million homes that are already expected to be built by 2031.
- Once again, the Bank of Canada (BOC) held its policy rate at 5% for the 7th time. Canada's economic conditions have been slowing recently:
  - In March, Canada's headline CPI inflation print came in at 2.9% YoY, a slight uptick from the previous month's 2.8% YoY change, but still in line with the BOC's forecast of 3% in the first half of 2024. The inflation print was elevated due to the rise transportation and shelter costs. Canada's core inflation rate fell to 2% YoY, the lowest level since March 2021.
  - The labour market has been cooling as the unemployment rate moved up to 6.1% YoY, higher than the expected rate of 5.9%. However, wage growth remains strong.
  - Retail sales in February fell by 0.1% MoM, missing the expectations of a 0.1% MoM gain.

World – China and Japan also left benchmark interest rates unchanged

- Like Canada and USA, China has kept its benchmark lending rates unchanged. China's economy expanded more than expected with GDP growth of 5.3% YoY vs the expected 5%; however, there were several other economic concerns, such as property investment, retails sales, and industrial output, suggesting that China's economic recovery could still be choppy.
- The Bank of Japan left benchmark interest rates unchanged, causing the Japanese Yen to fall to a 34-year low.

Watermark Private Portfolios Outlook and Positioning

- With global equities selling off this month, our defensive portfolio positioning and allocation to private assets have helped us fare better than the benchmarks.
- The S&P 500 is hovering on a key technical level at 5,100. If it falls below here, we expect to see the US equity market pull back to 4,800. However, should the 5,100 level hold, then we are likely to see buyers step in and drive the S&P 500 to new highs.

	Underweight	Target	Overweight	March 2024	April 2024
Equities		●		Public equities have risen again this month as all US sectors posted positive gains and contributed to the rise in the US large cap index. We continue to believe that valuation and sentiment have been lifted and that a short/mid-term pullback is warranted to reduce the overbought or bullish sentiment. In addition, the risks of persistent inflation, geopolitical risks, and a deep inverted yield curve are still present.	Public equities have fallen for the first time this year and for the first time since October 2023. We continue to believe that there still may be some downside in the equity market and have started trimming some portfolios to prepare for deploying the proceeds back into equities. We continue to monitor the risks of persistent inflation, geopolitical risks, and the deep inverted yield curve.
Fixed Income		●		No changes. We have left our public fixed income weighting unchanged. Although we continue to believe rates have peaked and the Bank of Canada is likely done raising rates, we continue to be in the camp of persistent inflation and that interest rate cuts are likely to occur later in the year. Given the mixed economic data, we don't foresee a rate cut in April.	Although inflation has been treading towards the Bank of Canada's target, we are still in the camp of persistent inflation as the same inflationary pressures still exist. Geopolitical risks are still high, which could keep inflation high. In the USA, the labour market has been resilient and consumer spending and inflation have been strong. Thus, we see the central bankers will be in no rush to cut rates.
Private Credit		●		No changes. We are maintaining our long-term allocation to private credit as we still believe increased regulation and the tightening of bank lending conditions are pushing borrowers to look for alternative options, specifically private market lenders.	No changes. We are maintaining our long-term allocation to private credit as we still believe increased regulation and the tightening of bank lending conditions are pushing borrowers to look for alternative options, specifically private market lenders.
Private Real Estate		●		No changes. We are maintaining a long-term allocation to private real estate as Canada hits new records with its housing supply deficit.	No changes. We are maintaining a long-term allocation to private real estate despite Canada's announcement on its plan to increase housing availability to help close the housing supply deficit.

Changes in Portfolio Positioning Over the Past Month

In the Enhanced Maximum Growth Plus, Low-Cost Balanced & Low-Cost Growth Plus Portfolios:

- We sold iShares Core S&P 500 Index ETF (CAD-Hedged)

In the Enhanced Conservative Plus Portfolios:

- We trimmed iShares Core Canadian Short Term Corporate Bond ETF
- We added to the Dynamic Active Enhanced Yield ETF

In the Enhanced Conservative and Growth Core Portfolios:

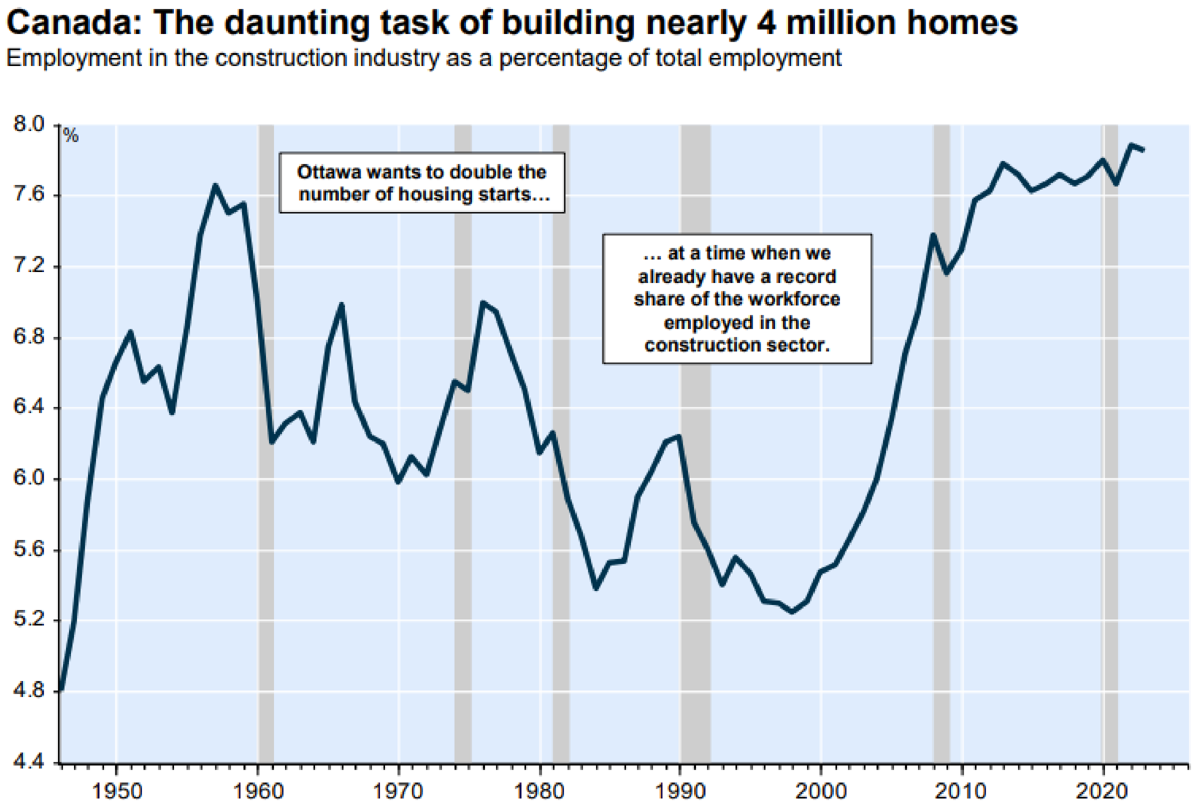
- We sold iShares Conservative Balanced ETF
- We bought Dynamic Active Enhanced Yield ETF

Did You Know?

Canada released its federal budget this month and had plans to build 3.87 million new homes by 2031. As seen in the chart by National Bank of Canada Financial Markets, construction employment as a percentage of total employment is close to 8%, the highest level seen since the 1940s.

Our opinion:

We agree with National Bank that the goal of building nearly 4 million homes by 2031 is highly ambitious as Canada's building approval process continues to be an ongoing challenge. While Canada's goal is to combat shelter inflation by increasing the number of houses, this will likely lead to other construction projects, such as the need for new roads, hospitals, police departments, and schools. Thus, increasing activity in construction will likely fuel inflation in the medium term as wages and materials rise.



Source: NBF Economics and Strategy (data via Statistics Canada)

Key Economic Indicators

	Inflation Rate		Interest Rate		Unemployment Rate		GDP Annual Growth Rate		Stock Market Valuation (Forward P/E)	
	Last	Chg.	Last	Chg.	Last	Chg.	Last	Chg.	Last	Chg.
USA	3.50%	▲	5.50%	▬	3.80%	▼	3.00%	▼	20.3	▼
Canada	2.90%	▲	5.00%	▬	6.10%	▲	0.93%	▲	14.1	▼
China	0.10%	▼	3.45%	▬	5.20%	▼	5.30%	▲	9.7	▲
Japan	2.70%	▼	0.10%	▬	2.60%	▲	1.20%	▼	15.4	▼
United Kingdom	3.20%	▼	5.25%	▬	4.20%	▲	-0.20%	▼	11.5	▲

Source: Trading Economics

US Sector & Canadian Sector Monthly Performance

USA	1 Month Total Return
S&P 500 Utilities (Sector)	1.65%
S&P 500 Energy (Sector)	-0.76%
S&P 500 Consumer Staples (Sector)	-0.89%
S&P 500 Communication Services (Sector)	-2.08%
S&P 500 Industrials (Sector)	-3.58%
S&P 500	-4.08%
S&P 500 Financials (Sector) Total Return	-4.18%
S&P 500 Consumer Discretionary (Sector)	-4.33%
S&P 500 Materials (Sector)	-4.59%
S&P 500 Health Care (Sector) Total Return	-5.08%
S&P 500 Information Technology (Sector)	-5.43%
S&P 500 Real Estate (Sector)	-8.50%

Canada	1 Month Total Return
S&P/TSX Composite Materials (Sector)	5.90%
S&P/TSX Composite Energy (Sector)	1.08%
S&P/TSX Composite Consumer Staples (Sector)	-0.77%
S&P/TSX Composite Consumer Discretionary (Sector)	-0.88%
S&P/TSX Composite Index	-1.82%
S&P/TSX Composite Financials (Sector)	-2.82%
S&P/TSX Composite Utilities (Sector)	-3.32%
S&P/TSX Composite Health Care (Sector)	-5.29%
S&P/TSX Composite Information Technology (Sector)	-5.81%
S&P/TSX Composite Industrials (Sector)	-6.11%
S&P/TSX Composite Real Estate (Sector)	-6.83%

Source: YCharts

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