



**HARBOURFRONT**  
WEALTH MANAGEMENT

**WATERMARK  
PRIVATE PORTFOLIOS  
AUGUST 2024 COMMENTARY**



**TRUE INDEPENDENCE™**

# Market Review in Minutes

## Equities

- Global stock markets had a volatile August. The S&P 500 fell about 8% earlier in the month but rallied back to finish the month higher by +2.43%. However, since the US dollar depreciated by 2.28%, the S&P 500 in Canadian dollars ended August slightly down by 0.11%. The S&P/TSX Composite ended August higher by +1.22%.
- Leaders:** The tech-heavy S&P 500 outperformed the S&P/TSX Composite in August as major tech companies bounced back and recovered after selling off from mid-July to early August.
  - Mega cap earnings in August:**
    - Amazon ended the month lower as it beat earnings expectations but reported weaker-than-expected revenue and weaker revenue forecasts.
    - Meta Platforms and Apple ended the month higher as they beat earnings and revenue expectations.
    - NVIDIA Corp dropped after announcing higher-than-expected earnings and revenue; however, it still ended the month higher by +2.02%.
  - In the US, the S&P 500 Consumer Staples was the strongest performing sector; however, it was the Health Care sector that contributed the most to the S&P 500's gain in August, representing about 12% of the S&P 500 and posting a gain of +5.10%. The Information Technology sector was the third largest contributor to the S&P 500 despite only being up by +1.25%.
  - In Canada, the Information Technology sector posted the strongest gain, which helped contribute to the gain of the TSX Composite Index. However, it was the Financials sector that contributed the most to the S&P/TSX Composite's gain, as it comprises around 30% of the Index.
- Laggards:** In the US, Energy was the worst performing sector, but it was Consumer Discretionary that contributed the least to the S&P 500's gain. In Canada, Consumer Staples performed the worst; however, it was the Industrials that weighed down the S&P/TSX Composite, as the Industrials comprises of about 14% of the Index.
- Outside of Canada and the US, global equity markets finished the month higher.

As at August 31, 2024	Monthly % Total Return	YTD % Total Return
<b>Canadian Bonds</b> <i>FTSE Canada Universe Bond Index</i>	0.33%	2.32%
<b>Canadian Equities</b> <i>S&amp;P/TSX Composite Index</i>	1.22%	13.65%
<b>US Equities</b> S&P 500, in C\$	-0.11%	21.83%
<b>Gold</b>	2.21%	22.00%
<b>Oil</b> <i>West Texas Intermediate Crude</i>	-5.60%	2.65%
<b>Canadian Dollar</b>	2.32%	-1.82%

# Market Review in Minutes (Continued)

## Fixed Income

- The fixed income market saw another month of volatility as market participants absorbed key economic data. We saw interest rates fall during the month, across all maturities, as market participants anticipate rate cuts from major central banks.
- The Canadian Universe Bond posted its fourth consecutive monthly gain, ending slightly higher by +0.33%.

## Commodities

- Crude oil fell by 5.60% this month, with the price of the commodity ending around \$73. OPEC downgraded their global oil demand growth forecasts from 2024 and 2025 for the first time since July 2023.
- Gold logged another strong month, recording a +2.21% gain in August, and making another all-time high of \$2,570.40 during the month.
- The US dollar depreciated by 2.28% against the Canadian dollar in August as the US Federal Reserve confirmed that it will have its first rate cut in September.

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<b>Canadian Dollar</b>	2.32%	-1.82%

# Notable Monthly Highlights

## USA – The US Federal Reserve announced it is ready to cut interest rates in September

- During its annual Jackson Hole conference in late August, the US Federal Reserve announced that it is now comfortable lowering interest rates in September.
- Economic data this month indicated that the US is showing continued signs of easing inflation and a cooling labour market. The Fed continues to be data dependent, monitoring the labour market, inflation, and consumer expenditures:
  - Retail sales was strong in July, gaining 1% for the month, higher than the expected 0.3% gain.
  - The US Fed's preferred measure in determining monetary policy, the core personal consumption expenditures (PCE), increased by 0.2% MoM in July, which was in line with consensus.
  - The headline figure for CPI inflation slowed to 2.9% YoY in July, which was lower than the 3% expected. The core inflation rate in July eased to 3.2% YoY, down from the previous period but in line with expectations.
  - The unemployment rate ticked up again to 4.3% in July vs the expected 4.1%, reflecting continued signs of a cooling labour market.

# Notable Monthly Highlights (Continued)

## Canada – The Bank of Canada will release its interest rate policy decision on September 4th

- According to most market participants and economists, the Bank of Canada is expected to cut its overnight rate by 25 basis points from 4.5% to 4.25% in September, with more rate cuts expected later in October and December.
- The Canadian economy is displaying continued signs of slowdown. The Bank of Canada continues to monitor the progress of inflation moving closer to the 2% target and continues to monitor economic data.
  - Retail sales in June dropped by 0.3% YoY, which came in line with expectations.
  - Although the unemployment rate came in at 6.4% YoY in July, lower than the 6.5% expected, Canada's labour market continues to show signs of softening.
  - In July, Canada's headline CPI inflation came in line with expectations at 2.5% YoY and down from 2.7% in the previous period. Canada's core inflation rate also fell to 1.7% YoY, down from 1.9% YoY in the previous month.

## World – China's central bank held interest rates this month, while the European Central Bank is expected to cut rates in September

- China's path to recovery still appears rocky. The property sector remains a major concern in China. In addition, unemployment rates ticked up slightly higher from the previous period and above consensus, while inflation rate came in hotter-than-expected in July. China's central bank left its key lending rates unchanged at 3.35%, as was widely anticipated by markets.
- The European Central Bank's (ECB)'s next meeting is September 12, 2024, and it continues to monitor economic data to see if another rate cut is welcome. Market participants are expecting a rate cut in September as inflation is easing, economic growth is stalling, and wage growth is softening.

# Watermark Private Portfolios Outlook and Positioning

- Last month, we indicated if market breadth continues to improve and we see broadening out of sectors, the equity markets should continue to go higher. Although we saw massive volatility swings in the equities this month, markets have recovered from the declines that occurred earlier in the month and the major equity indices finished positive for the month.
- We continue to monitor valuation levels, earnings announcements, actions of major central banks, and economic data. Currently, we believe that equities are slightly overvalued and growth in the US is slowing down; therefore, we continue to hold high-quality global companies that operate in different sectors of the economy.

	Underweight	Target	Overweight	July 2024	August 2024
Equities			●	<ul style="list-style-type: none"> <li>• This month, we saw a decline in the mega cap tech stocks. As valuations appeared stretched in these stocks, it took very little to disappoint investors during earnings announcements, sending these stocks lower during the month. Meanwhile, small and mid-cap US equities rallied along with the other large cap sectors that were non-tech.</li> <li>• We continue to hold equity investments that are global in nature and utilize options for downside protection.</li> <li>• We continue to monitor risks to the global economy and more specifically, the US economy.</li> </ul>	<ul style="list-style-type: none"> <li>• The market sold off early in the month when the Bank of Japan surprised markets and increased interest rates, sending the cost of borrowing in Japan higher and increasing the value of the Yen. Many hedge funds borrow in Japan (low interest rates and declining currency), so the surprise interest rate hike rattled markets when these hedge funds had to rebalance their risk (sell stocks).</li> <li>• After the initial decline, equity markets have recovered their losses and some companies have put in new highs.</li> <li>• Holding high quality equity investments across all sectors has benefitted your portfolios this month. Our core holding, Dynamic Active Enhanced Yield Covered Options ETF, fell 2.73% from the peak of the S&amp;P 500 on July 16 to the bottom of S&amp;P 500 on August 6, whereas the S&amp;P 500 fell 7.50% and TSX Composite Index fell 4.31% during that period.</li> <li>• On August 8, we believed the worst of the sell-off was behind us and trimmed the Dynamic Active Enhanced Yield Covered Options ETF to allocate those proceeds into Vanguard All-Equity ETF Portfolio to participate in the broad market rally.</li> <li>• We continue to hold equity investments that are global in nature and utilize options for downside protection.</li> </ul>

# Watermark Private Portfolios Outlook and Positioning

	Underweight	Target	Overweight	July 2024	August 2024
Fixed Income	●			<ul style="list-style-type: none"> <li>Economic data in Canada and US are showing continued signs that inflation is easing and trending down towards its target rates. With further interest rate cuts expected in Canada and the potential start of interest rate cuts in the US, profits from the iShares Canadian Short Term Corporate Bond ETF have been used to buy a tactical fixed income fund currently tilted to government bonds of 7 to 10 year loans.</li> </ul>	<ul style="list-style-type: none"> <li>No changes. Economic data in Canada and US are showing continued signs that inflation is easing and trending downwards towards its target rates. We expect further interest rate cuts in Canada and the US to begins its first rate cut in September.</li> </ul>
Private Credit		●		<ul style="list-style-type: none"> <li>No changes. We are maintaining our long-term allocation to private credit as we still believe that increased regulation and the tightening of bank lending conditions are pushing borrowers to look for alternative options, specifically private market lenders.</li> </ul>	<ul style="list-style-type: none"> <li>No changes. We are maintaining our long-term allocation to private credit as we still believe that increased regulation and the tightening of bank lending conditions are pushing borrowers to look for alternative options, specifically private market lenders.</li> </ul>
Private Real Estate		●		<ul style="list-style-type: none"> <li>No changes. We are maintaining a long-term allocation to private real estate given the structural housing supply gap and the rising population in Canada that continually seek homes.</li> </ul>	<ul style="list-style-type: none"> <li>No changes. Maintaining a long-term allocation to private real estate given the structural housing supply gap and the rising population in Canada that continually seek homes.</li> </ul>

# Changes in Portfolio Positioning Over the Past Month

## In the Enhanced Growth & Maximum Growth Plus:

- We trimmed Dynamic Active Enhanced Yield Covered Options ETF.
- We bought Vanguard All-Equity ETF Portfolio.

## In the Enhanced Maximum Growth Core:

- We trimmed Dynamic Active Enhanced Yield Covered Options ETF.
- We bought Vanguard All-Equity ETF Portfolio.

## In the Liquid Maximum Growth Portfolios:

- We sold Dynamic Active Enhanced Yield Covered Options ETF.
- We bought Vanguard All-Equity ETF Portfolio.



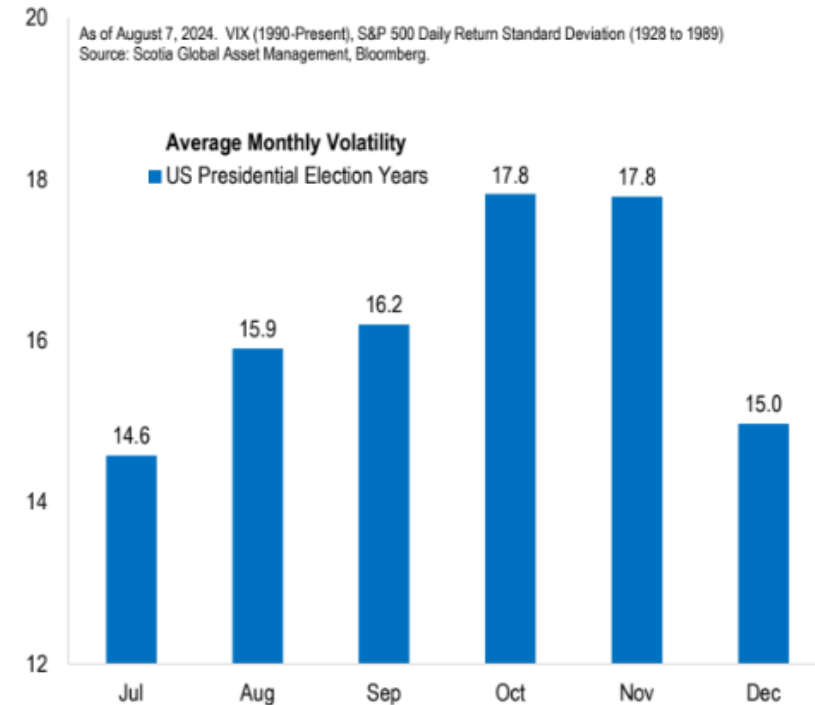
# Did You Know?

As seen on the chart, historically during US presidential election years, the average monthly volatility has picked up during the months ahead of the election. After the presidential election in November, when the US government leadership is known, the average monthly volatility has decreased, as history has shown.

## Our opinion:

In August, we saw volatile equity markets globally where the stock market sold off and rallied back to recover initial declines. We believe during the next few months before the US election, we could see more volatility. The S&P 500 is still heavily concentrated in Technology and large declines in the mega cap technology companies could drag the Index down along with it, presenting opportunity to enter these companies at more attractive valuation levels.

## More Volatility Ahead?



# 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	2.90%	▼	5.50%	▬	4.30%	▲	3.10%	▲	21.4	▬
Canada	2.50%	▼	4.50%	▬	6.40%	▬	0.50%	▼	14.4	▼
China	0.50%	▲	3.35%	▬	5.20%	▲	4.70%	▼	8.8	▼
Japan	2.80%	▬	0.25%	▬	2.70%	▲	-0.20%	▼	14.5	▼
United Kingdom	2.20%	▲	5.00%	▼	4.20%	▼	0.90%	▲	11.8	▬

Source: Trading Economics

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