HARBOURFRONT
WEALTH MANAGEMENT

WATERMARK PRIVATE PORTFOLIOS

FEBRUARY 2024 COMMENTARY

Market Review in Minutes

Equities

- The S&P 500 in Canadian dollars and the S&P/TSX Composite both posted positive returns in February, resulting in a 6.94% and 1.82% gain, respectively.
- **Leaders:** The Magnificent 7 tech leaders carried the S&P 500's positive momentum once again in February, as Meta, Amazon, and NVIDIA reported earnings that surprised the market:
    - Meta shares surged as it beat revenue and earnings and announced that it will be issuing its first-ever dividend.
    - Amazon beats Wall Street's revenue and earnings expectations as it continued to look for ways to improve efficiencies in its business. Amazon also is set to replace Walgreens in the Dow Jones Industrial Average.
    - NVIDIA reported higher-than-expected Q4 revenue and earnings as the AI trend continues.
- **Laggards:** Meanwhile, Google and Apple muted some of S&P 500's gain, falling 1.42% and 1.85% respectively due to Google failing to meet analyst's ad revenue estimates and Apple's management outlook that suggested weak iPhone sales.
- Outside of the US, the equity market faired well posting a positive gain for the month.

Fixed Income

- Long-term US Treasury bonds fell again in February due to continued concerns on geopolitical risks on supply chains, which may lead to persisting inflation and therefore, driving up yields.
- The Canadian Universe Bond posted its second consecutive negative month, falling 0.34% in February.

Commodities

- Crude oil posted its second consecutive gain of 3.18% in February, ending close to $78 as OPEC+ announced that it is considering extending voluntary oil output cuts into the second quarter and as Russia stated that it will instill a 6-month ban of gasoline exports beginning March 1.
- Since gold broke out to a new high of $2152.30 in December, it has posted two slightly negative months since then. Gold ended the month slightly lower by 0.61% in February and it is 0.83% lower YTD.

As at February 29, 2024	Monthly % Total Return	YTD % Total Return
Canadian Bonds *FTSE Canada Universe Bond Index*	-0.34%	-1.71%
Canadian Equities *S&P/TSX Composite Index*	1.82%	2.38%
US Equities S&P 500, in C$	6.94%	10.18%
Gold	-0.61%	-0.83%
Oil *West Texas Intermediate Crude*	3.18%	9.23%
Canadian Dollar	-1.07%	-2.38%

Notable Monthly Highlights

USA – The US Federal Reserve will announce its policy rate decision on March 20

- The US Federal Reserve is cautious on when to cut rates and reiterates its concerns of "moving too quickly to east the stance of policy." The below are some economic highlights and inflationary pressures that support the US Central Bank's reservations in rate reduction coming too soon:
    - The closely followed headline figure for CPI inflation print came in at 3.1% YoY in December vs the market expectations of 2.9% and the core inflation was also higher than expected at 3.9% in December vs the 3.7% expected.
    - On the other hand, the retail spending slowed in January as it shrank by 0.8% in January vs the market forecast of 0.1% fall. Part of the reason of the pullback in retail sales was due to the severe winter weather that kept consumers on the sidelines. This shows some progression but is only one data point; the US Federal Reserve will continue to look for a consistent slowdown in retail and consumer spending.

Canada – Mixed economic data points leave markets divided on when Bank of Canada will cut

- The Bank of Canada's rate hike policy has worked its way through some areas of the economy but still need to show its impacts on other areas, such as consumer spending. The Bank of Canada will continue to watch key indicators, such as demand and supply, inflation expectations and wage growth:
    - Retail sales rose by 0.9% in December, which was slightly above the consensus expectations of 0.8%. The increase in retail sales were largely attributed to motor vehicles/parts dealers, general merchandise, and food/beverage retailers. To end the year, Canada's retail sales rose 2.9% YoY vs the forecast of 2.5%.
    - Canada's Q4 2023 GDP came in at 0.2% QoQ and has evaded a recession due to higher exports of crude oil and reduced imports.
    - In January, Canada's CPI headline inflation print remained unchanged MoM vs the consensus of a 0.4% increase and it came in at 2.9% YoY, which was lower than the consensus of 3.3%. It appears that the restrictive monetary policy has helped ease the inflation back to the Bank of Canada's 1-3% target range and the downward surprise was due to lower energy prices in January. However, inflation continues to be supported by shelter costs, which are driven by higher mortgage interest rates and immigration.
- The Bank of Canada is set to make its next interest rate announcement on March 6, 2024. The Bank of Canada's market participants survey points to no rate cuts for March but participants remain divided on whether the cut will begin in April or June.

Notable Monthly Highlights

World – China navigating property market issues; gloomy economic outlook in other major economies

- For several months, China has been struggling with its property market and economy. To help revive its real estate and broader economy, China reduced its benchmark mortgage rate by 0.25%, which was higher than expected and which was its highest ever rate reduction.
- Japan's government downgraded its outlook on its economy due to slowing consumer spending. In Europe, France and Germany both cut their growth forecast for 2024.

Watermark Private Portfolios Outlook and Positioning

- February's US equity market run-up was largely driven by two stocks. We continue to believe the US S&P 500 is slightly overvalued and a short- or mid-term pullback in the equity markets is still needed to reduce overbought sentiment.
- We are on standby for a market pullback to a more attractive price level, when we will be ready to deploy a portion of the portfolio back into equities.

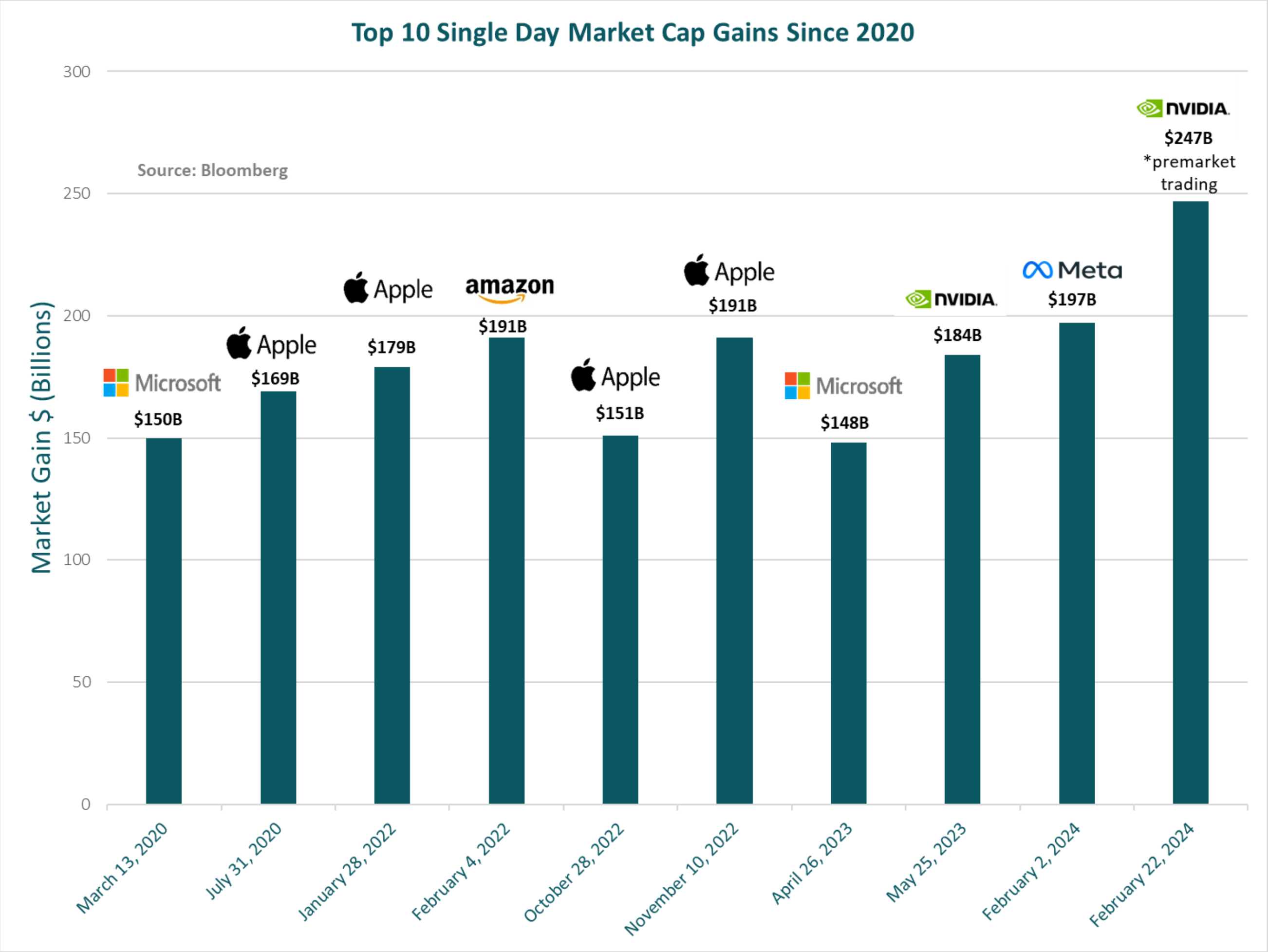
	Underweight	Target	Overweight	January 2024	February 2024
Equities		●		Public equities have risen for the third month in a row, driven by the run-up in technology stocks. We believe valuation and sentiment have been lifted and a short- or mid-term pullback will likely occur.	Public equities have risen for the fourth month in a row, again largely driven by the run-up in technology stocks and positive earnings beat. We continue to believe valuation and sentiment have been lifted and a short- or mid-term pullback will likely occur as market participants anticipate key economic data releases and US Federal Reserve announcement in the upcoming weeks.
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 believe interest rate cuts are likely to occur later in the year as inflation proves to be persistent and geopolitical risks still loom.	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 interest rate cuts are likely to occur later in the year. We don't foresee a rate cut in April.
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 despite the student visa cap that was announced as there is still a huge structural supply and demand gap.	No changes. We are maintaining a long-term allocation to private real estate as the structural supply and demand gap continues to ensue.

Did You Know?

Meta broke the record early February in being the top stock with the largest market cap gain in a single day since 2020. It wasn't too long until NVIDIA pulled ahead and took the top spot as the largest market cap gain in a single day after beating earnings expectations. These two stocks set new records in a single month alone!

Our opinion:

In the past, when stocks have moved up significantly in a given month, they subsequently have pulled back. Our discipline at WPP is not to chase stocks when they have moved up significantly but rather to enter at a more opportune time or look for other ideas that bring better risk-adjusted returns. We recognize that a stock could continue its momentum despite high valuations; however, we have been firm believers that for a stock to continue its rise, it needs to pull back some in order to continue its ascent.



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	3.10%	▼	5.50%	▬	3.70%	▬	3.10%	▲	20.9	▲
Canada	2.90%	▼	5.00%	▬	5.70%	▼	0.90%	▲	14.1	▲
China	-0.80%	▼	3.45%	▬	5.20%	▲	5.20%	▲	8.9	▲
Japan	2.20%	▼	-0.10%	▬	2.40%	▼	1.00%	▼	15.6	▲
United Kingdom	4.00%	▬	5.25%	▬	3.80%	▼	-0.20%	▼	10.9	▲

Source: Trading Economics

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