



HARBOURFRONT
WEALTH MANAGEMENT

**WATERMARK
PRIVATE PORTFOLIOS**

JANUARY 2024 COMMENTARY



TRUE INDEPENDENCE™

Market Review in Minutes

Equities

- Both the S&P 500 (in CAD) and the S&P/TSX Composite had positive returns in January, gaining 3.00% and 0.55%, respectively.
- **Leaders:** The communications and technology sectors both led the S&P 500 this month as the following companies kicked off earnings season on a positive note:
 - Netflix beat revenue expectations and reported stronger subscriber growth than what was expected. Microsoft beat on both revenue and earnings due to AI and its cloud business.
 - The technology sector was largely led by the semi-conductors as Meta announced that it will be investing heavily in Nvidia's AI chips and due to the myriad of positive earnings beat among players like Taiwan Semiconductor and ASML.
- **Laggards:** Meanwhile, the real estate, materials, and consumer discretionary sector lagged other US sectors as these were weighed down by higher yields and revenue and earnings miss by Tesla.
- Outside of US, the global markets ended the month higher. However, the emerging markets started the year weaker, weighed down by China's equity market.

Fixed Income

- Long-term US Treasury bond yields rose in January as concerns on the impact of geopolitical risks on supply chains could lead to persistent inflation. The 10-year US Treasury Yield ended the month at 3.99%
- The Canadian Universe Bond posted a negative month, falling 1.37% in January.

Commodities

- Crude oil, a large input to inflation, posted a gain of 5.86% and ending at about \$75 due to stronger-than-expected economic growth in US and ongoing geopolitical tensions. Although oil started the year strong, energy companies in both the US and Canada saw volatile swings during the month.
- Gold, often considered a safe-haven asset, ended the month 0.21% lower. Gold prices outpaced the gold miner stocks, whose prices reflected company-specific price impacts.
- The US Dollar appreciated by 1.36% against the Canadian Dollar in January.

As at January 31, 2024	Monthly % Total Return	YTD % Total Return
Canadian Bonds <i>FTSE Canada Universe Bond Index</i>	-1.37%	-1.37%
Canadian Equities <i>S&P/TSX Composite Index</i>	0.55%	0.55%
US Equities S&P 500, in C\$	3.00%	3.00%
Gold	-0.21%	-0.21%
Oil <i>West Texas Intermediate Crude</i>	5.86%	5.86%
Canadian Dollar	-1.32%	-1.32%

Notable Monthly Highlights

US – The US Federal Reserve held its target range at 5.25% to 5.50% to start 2024

- As expected, the US Federal Reserve held its key policy target range at 5.25% to 5.50% and reiterates its stance on being data dependent. The robust economic activity in the US suggests that inflation effects remain, indicating that March may be too soon to cut rates.
 - US Real GDP expanded 3.3% annualized in Q4 2023, which came in higher than market expectations.
 - Consumer spending, which makes up more than two-thirds of the US economic activity, remained strong in December as personal spending increased 0.7%, beating market estimates. Within services, the rise was attributed to an increase in financial services and insurance, health care, and recreation services. In terms of goods, the largest increase came from motor vehicles and parts.
 - The US labour market continues to display strength. The US unemployment rate remained unchanged from November to December at 3.7%, coming in below market consensus of 3.8%. The economy also added 216K non-farm payroll jobs in December 2023, which was greater than the market consensus of 170K.

Canada – The Bank of Canada held its key policy rate at 5% for the fourth straight meeting

- The Bank of Canada held its key policy rate at 5% and continues to focus on key indicators, such as inflation expectations and wage growth, in determining its policy decisions and rate outlook:
 - The interest rate hikes have weighed on consumer spending and business investment.
 - In December, Canada's inflation rate came in at 3.4% YoY, which was in line with expectations. The Bank of Canada reports that inflation is expected to be close to 3% over the first half of 2024, which is above the 2% target. Inflation is still persistent with price pressures coming largely from shelter and food costs.
 - According to the Bank of Canada, labour market conditions have eased. Job vacancies are closer to pre-pandemic levels and population growth is greater than the growth of new jobs being created, indicating a slowdown in labour. However, wage growth remains strong as wages are still rising around 4-5%.
 - Apartment rental costs continue to be a hot topic in Canada. In an effort to address continuously rising rental prices, Canada announced a temporary two-year cap on accepting international students, now issuing about 360,000 visas in 2024. The new policy also sets limits on post-graduate work permits. These new initiatives were implemented to help curb the rental prices as rents in December have risen 7.7% over the past year according to StatsCan. International students are estimated to contribute approximately \$22 billion CAD annually. This development is expected to hurt Canadian post-secondary institutions, who benefit from international student revenues.

Notable Monthly Highlights

World – China’s equity markets saw turbulence and major central bankers around the world are holding policy rates

- China’s equity markets saw huge volatility throughout 2023 and an extended slide early 2024 due to real estate concerns, depressed consumer sentiment, and declining foreign investment. China has taken measures to keep the equity markets from falling further. China announced a potential formation of a state-backed stabilization fund. A few days later, China’s central bank announced that it will cut the bank reserves, the minimum amount that banks are required to hold, by 50 basis points, to help inject about US\$140 billion into the banking system.
- The European Central Bank kept its policy rates unchanged, and the Bank of Japan maintained its “ultra-loose” policy and kept interest rates at -0.1%.

Watermark Private Portfolios Outlook and Positioning

With January's run-up, we still believe that the S&P 500 is slightly overvalued trading close to 20x forward P/E (vs. its historical valuations) and a short or mid-term pullback in equity markets is still needed to reduce overbought sentiment.

	Underweight	Target	Overweight	December 2023	January 2024
Equities		●		No changes. Public equities have risen for the second month in a row. We maintain the current weight to target and continue to monitor the economic data, sentiment, and technical indicators.	Public equities have risen for the third month in a row, driven by the run up in Mega-Cap technology companies. Valuations are now on the higher side and sentiment is overly bullish such that a pullback will likely occur soon.
Fixed Income	●			No changes. We are keeping our weighting of public fixed income through high-quality Canadian corporate bonds as we continue to believe that interest rates have peaked. The public fixed income market ran up in December and could easily pullback in the short-term.	No changes. We maintain our public fixed income weighting unchanged. We believe fixed income rates are at a high level, supported by the risk-free rate. We expect interest rate cuts are likely to occur later in the year as inflation proves to be persistent and geopolitical risks still loom.
Private Credit		●		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.	No changes. We are maintaining our long-term allocation to private credit as we still believe that increased regulation and the tightened bank lending conditions are creating opportunity for private borrowers. Rockridge Private Debt Pool provides access to the growing market of private loans.
Private Real Estate		●		No changes. We are maintaining a long-term allocation to private real estate due to strong immigration in Canada as evidenced by the recent Q3 report and the existing supply and demand gap.	No changes. We are maintaining a long-term allocation to private real estate, reflecting our belief that supply/demand imbalances in real estate are likely to persist over the years.

Changes in Portfolio Positioning Over the Past Month

In the Enhanced Conservative, Balanced, Growth, and Maximum Growth Plus Portfolios:

- We sold TD Q U.S. Small-Mid-Cap Equity ETF in January.
- We sold Barrick Gold Corporation in January.

In the Low Cost Balanced Plus and Low Cost Growth Plus Portfolios:

- We sold TD Q U.S. Small-Mid-Cap Equity ETF in January.

On February 2, 2024, in the Enhanced Conservative, Balanced, and Growth Plus Portfolios:

- We used the proceeds from the sales of TD Q U.S. Small-Mid-Cap Equity ETF and Barrick Gold, and added to our current position in Dynamic Active Enhanced Yield Covered Options ETF.

On February 2, 2024, in the Maximum Growth Portfolios:

- We used the proceeds from the sales of TD Q U.S. Small-Mid-Cap Equity ETF and Barrick Gold, and bought iShares Core S&P 500 Index ETF (CAD-Hedged).

On February 2, 2024, in the Low Cost Balanced Plus and Low Cost Growth Plus Portfolios:

- We used the proceeds from the sale of TD Q U.S. Small-Mid-Cap Equity ETF and bought iShares Core S&P 500 Index ETF (CAD-Hedged).

Did You Know?

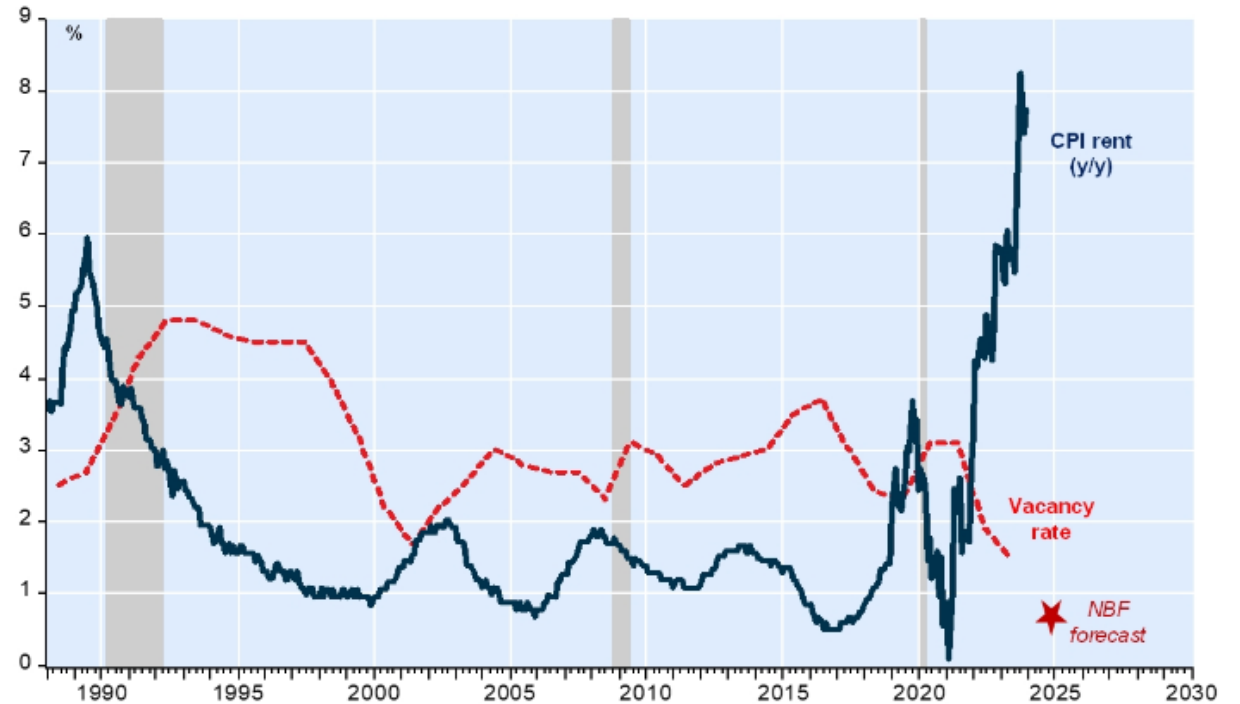
According to Canada Mortgage and Housing Corporation, Statistics Canada, and Bank of Canada, as seen in this chart, the rental vacancy rate has reached a historical low. National Bank Financial Markets estimates that the rental vacancy rate will continue to fall below 1%.

Our opinion:

Although the policy of the student visa cap was implemented by Canada in January to help slow the growth of rental prices, this reduction in demand is inadequate in addressing supply/demand gaps in Canadian rentals. Key challenges remain as a result of zoning restrictions, length of permit processing, and a shortage of construction workers.

Canada: Rental vacancy rate plummets to record low

CPI for rent and vacancy rate for residential rental units



NBF Economics and Strategy (data via Statcan and CMHC)

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	3.40%		5.50%		3.70%		3.10%		20.3	
Canada	3.40%		5.00%		5.80%		0.47%		13.8	
China	-0.30%		3.45%		5.10%		5.20%		8.5	
Japan	2.60%		-0.10%		2.40%		1.50%		15	
United Kingdom	4.00%		5.25%		4.20%		0.30%		10.6	

Source: Trading Economics

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