



HARBOURFRONT
WEALTH MANAGEMENT

**WATERMARK
PRIVATE PORTFOLIOS**

JUNE 2024 COMMENTARY



TRUE INDEPENDENCE™

Market Review in Minutes

Equities

- The S&P 500 in Canadian dollars logged a monthly gain of +3.95% in June. The S&P/TSX Composite ended June lower by 1.42%.
- Leaders:** The tech-heavy S&P 500 continued its outperformance against the S&P/TSX Composite.
 - In the US, the S&P 500 Info Tech, consisting of about 30% of the S&P 500, posted a +9.29% gain. Mega cap tech names, Apple and Nvidia, contributed to tech's rise, putting in new all-time highs this month before pulling back near the end of the month.
 - Likewise, the tech sector in Canada positively contributed to the S&P/TSX Composite's performance. However, due to its relatively small weight in the Index (only about 9%), it was not enough to bring the Index to positive territory.
- Laggards:** In the US, the utilities and materials sectors lagged. In Canada, the materials sector was the worst performing sector; however, the financial companies, having the largest exposure in the S&P/TSX Composite, weighed on the Index's performance.
- Outside of Canada and USA, the global equity market finished the month lower.

Fixed Income

- The fixed income market saw another month of volatility as market participants absorbed key economic data. Across the yield curve, we saw all interest rates fall this month, but the longer-dated interest rates fell the most.
- The Canadian Universe Bond ended another month higher by +1.13%.

Commodities

- Crude oil rose by +5.91%, snapping two consecutive monthly losses, with crude oil climbing back up above \$80. The commodity price continues to be supported by geopolitical tensions but any signs about hampering demand, general weakening of the global economy, or a buildup in crude inventory supply have kept oil prices volatile.
- Gold fell slightly by 0.26%, posting its first monthly loss since February 2024.
- The US Dollar appreciated by 0.40% against the Canadian Dollar in June as the Bank of Canada decided to cut rates.

As at June 30, 2024	Monthly % Total Return	YTD % Total Return
Canadian Bonds <i>FTSE Canada Universe Bond Index</i>	1.13%	-0.38%
Canadian Equities <i>S&P/TSX Composite Index</i>	-1.42%	6.05%
US Equities S&P 500, in C\$	3.95%	19.39%
Gold	-0.26%	12.93%
Oil <i>West Texas Intermediate Crude</i>	5.91%	13.80%
Canadian Dollar	-0.38%	-3.55%

Notable Monthly Highlights

USA – The US Federal Reserve held rates steady in its June meeting

- The US Federal Reserve maintained the current target level of 5.25%-5.50%, which was widely expected. There were members of the US central bank, indicating that there may be no rate cuts at all this year should inflation risks remain elevated. However, according to CME FedWatch Tool, market participants have increased their bets that the US Federal Reserve will make its first interest rate cut in September of this year. Investors also have increased their bets that more cuts will occur by year end.
- Economic data this month indicated that the US saw some signs of economic cooling, with weaker-than-expected retail sales and inflation easing. However, members of the US Fed have been clear that until more definitive data shows a persistent fall in inflation, they will be hesitant to cut interest rates. Thus, the US Fed continues to be data dependent and monitor key economic developments in the labour market, inflation, and consumer expenditures:
 - Retail sales slightly rose by 0.1% in May, missing the expectations of a 0.2% growth, indicating slowing consumer spending.
 - The headline figure for CPI inflation slowed to 3.3% YoY in May, which was unexpectedly lower than the 3.4% consensus. The core inflation also came in slightly lower at 3.4% YoY in May vs the 3.5% consensus.
 - Unemployment rate ticked up to 4% in May vs the expected 3.9%, helping cool the labour market. Contrary to this, the labour market added 272K jobs in May vs the forecast of 185K.
 - The US Fed's preferred measure in determining monetary policy, the core personal consumption expenditures (PCE), fell to 2.6% YoY in May from 2.8% YoY in April and coming in line with expectations.

Notable Monthly Highlights (Continued)

Canada – The Bank of Canada cut its policy rate in June to 4.75%

- The Bank of Canada cut interest rates by 0.25% from 5% to 4.75%. Nonetheless, the Bank of Canada remains focused on monitoring inflation, economic growth, and the labour market as economic datapoints are still proving to be inflationary:
 - In May, Canada's headline CPI inflation print unexpectedly rose to 2.9% vs the expected 2.6% YoY print. Canada's core inflation rate rose to 1.8% YoY.
 - Retail sales in April increased by 1.8% YoY, slightly higher than the revised 1.7% growth in March.
 - The unemployment rate came in at 6.2% YoY in May, which was in line with consensus.

World – China shows some signs of economic recovery, while Europe cut its policy rates by 0.25%

- China's manufacturing improved as its indicator rose from 51.4 in April to 51.7 in May, also beating forecasts of 51.5. China's exports rose by 7.6% YoY in May, which beat expectations of 6%. However, the imports rose by a slower rate of 1.8% YoY, from an 8.4% YoY rise in April.
- Eurozone inflation rose to 2.6% in May and remains above the European Central Bank's (ECB) target of 2%. As expected, the ECB cut its interest rates by 0.25% in June, the first time since the pandemic. However, the tone of the European Central Bank stuck to a hawkish tone and stated it would remain data dependent.

Watermark Private Portfolios Outlook and Positioning

- Last month, we had increased WPP portfolios' public US equity exposure and reduced our public fixed income exposure, which has helped the portfolios participate in the S&P 500's June rally.
- With the upward momentum in the S&P 500, there were no changes for June. Buybacks remain strong and with summer approaching and many traders away, the S&P 500 can continue to drift higher.

	Underweight	Target	Overweight	May 2024	June 2024
Equities			●	<p>The public equities finished up this month after a drop in April. As our target levels have been reached and as we witnessed strong earnings and record stock buybacks, we have trimmed the conservative positions and put the proceeds into equities.</p> <p>Though we recognize that the equity market can rally further, we chose to invest into funds that utilize options for downside protection, while still participating in upside equity run ups.</p> <p>We continue to monitor the risks of persistent inflation, geopolitical risks, and the deep inverted yield curve.</p>	<p>The US large cap public equities had a positive month, lifted primarily by US mega cap tech companies. Meanwhile, small and mid-cap US equities logged a negative return in June.</p> <p>Though we recognize that the equity market can rally further, we chose to invest into funds that utilize options for downside protection, while still participating in upside equity run ups.</p> <p>We continue to monitor the risks of persistent inflation, geopolitical risks, and the deep inverted yield curve.</p>
Fixed Income	●			<p>Economic data both in Canada and US are showing some signs of economic cooling and inflation easing. However, geopolitical risks are still high, which could keep inflation elevated. Thus, we are still in the camp that the central banks will not yet cut until it sees a definitive progression towards its target rates.</p>	<p>Economic data both in Canada and US are showing some signs of economic cooling and inflation easing. However, geopolitical risks are still high, which could keep inflation elevated. Although Canada initiated its first rate cut, we believe the Bank of Canada will sustain this policy rate for a little longer than what the market anticipates.</p>
Private Credit		●		<p>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.</p>	<p>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.</p>
Private Real Estate		●		<p>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.</p>	<p>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.</p>

Did You Know?

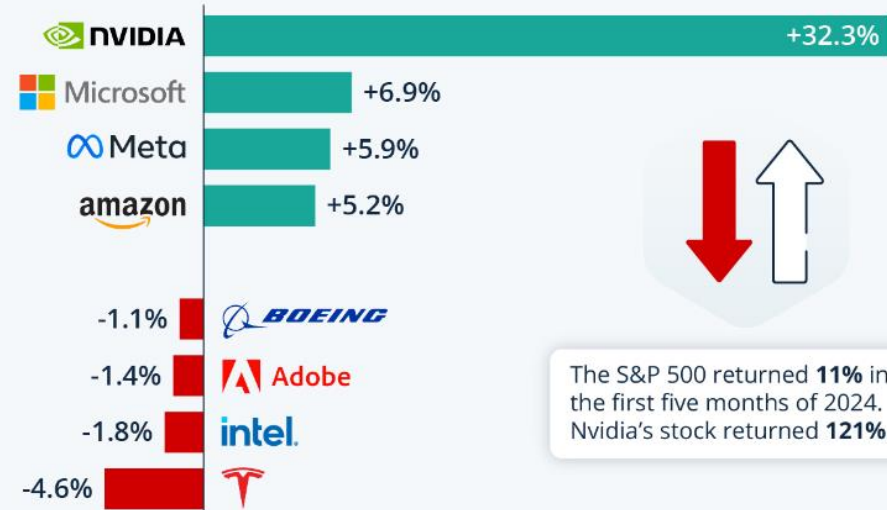
The S&P 500's return for the first five months of this year was largely attributed to Nvidia, contributing 32% or 3.5% of the S&P 500's 11% return to the end of May.

Our opinion:

Nvidia's growth has been incredible; however, when one company makes up a large return in a single index, it can be susceptible to higher volatility down the road. Nvidia's stock has on more than one occasion pulled back up to 50% and should that happen in the future, the S&P 500 will likely suffer because of it. But this would be a welcome event, that could see us take a direct position in the company.

Nvidia Carries the World (and the S&P 500) on its Shoulders

Largest positive and negative contributions to the year-to-date return of the S&P 500 through May 31, 2024




























The S&P 500 returned **11%** in the first five months of 2024. Nvidia's stock returned **121%**.

Source: Howard Silverblatt, S&P Dow Jones Indices



statista

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	3.30%		5.50%		4.00%		2.90%		21.4	
Canada	2.90%		4.75%		6.20%		0.50%		13.8	
China	0.30%		3.45%		5.00%		5.30%		9.7	
Japan	2.80%		0.10%		2.60%		-0.20%		15.5	
United Kingdom	2.00%		5.25%		4.40%		0.30%		11.5	

Source: Trading Economics

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