HARBOURFRONT
WEALTH MANAGEMENT

WATERMARK
PRIVATE PORTFOLIOS

MARCH 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 March, resulting in a 2.95% and 4.14% gain, respectively.
- **Leaders:** The energy and materials sectors outperformed other sectors this month; thus, lifting the commodity-heavy S&P/TSX Composite higher than the S&P 500:
    - The S&P 500 Energy sector rose 10.43% this month, comprised of the top US energy companies, such as Exxon Mobil, Chevron, ConocoPhillips, and Schlumberger.
    - The S&P/TSX Composite Energy sector posted a gain of 8.37% this month, comprised of Canadian energy companies such as Canadian Natural Resources, Suncor, Imperial Oil, and Cenovus.
    - The S&P 500 Materials Sector Index increased by 6.22% and the S&P/TSX Capped Materials posted a 15.05% gain for the month.
    - The S&P/TSX Composite, which comprises of 29% in energy and materials combined, outperformed the large cap US equity market because of its higher exposure to commodities vs the tech-heavy S&P 500, which only has 6.3% in energy and materials.
- **Laggards:** In the USA, the consumer discretionary sector was the underperformer and was weighed down by the automobiles. In Canada, the communication services sector, comprising of BCE Inc, Rogers Communications, and TELUS Corporation, had lagged against the other sectors within the S&P/TSX Composite.
- Outside of Canada and USA, the equity market posted its second consecutive monthly gain.

Fixed Income

- The US Federal Reserve released its Summary of Economic Projections, which supported the expectations of three rate cuts in 2024 beginning June. As a result, the 10-year US Treasury fell. By the end of the month, all US Treasury yields, from short to long-term maturities, declined; thus, resulting in higher bond prices.
- The Canadian Universe Bond rose by 0.49% in March as yields fell during the month.

As at March 31, 2024	Monthly % Total Return	YTD % Total Return
Canadian Bonds *FTSE Canada Universe Bond Index*	0.49%	-1.22%
Canadian Equities *S&P/TSX Composite Index*	4.14%	6.62%
US Equities S&P 500, in C$	2.95%	13.34%
Gold	8.94%	8.04%
Oil *West Texas Intermediate Crude*	6.27%	16.08%
Canadian Dollar	0.14%	-2.25%

Market Review in Minutes (Continued)

Commodities

- Crude oil finished strong with its third consecutive gain of 6.27% in March, ending at about $83. Oil prices remained supported by ongoing geopolitical tensions in Europe. In addition, Russia announced a policy to reduce oil output by companies to ensure that it meets a production target of 9 million barrels per day (bpd) by June (down from its oil output of 9.5 million bpd late February).
- Gold commodity broke out to its all-time high in March and ended the month at $2238.40.
- The US Dollar depreciated by 0.14% against the Canadian Dollar in March.

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Oil *West Texas Intermediate Crude*	6.27%	16.08%
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Notable Monthly Highlights

USA – The US Federal Reserve held its target policy range at 5.25% to 5.50%

- As the USA exhibits economic growth, the US Federal Reserve left the policy unchanged and reiterates it will likely keep the target range until it has "gained greater confidence that inflation is moving sustainably toward 2 percent." The US Federal Reserve will continue to be data dependent and monitor key economic developments in the labour market, inflation, and consumer expenditures:
    - Labour market remained resilient as it expanded by an average of 265K jobs (SAAR) in the past three months through February.
    - The closely followed headline figure for CPI inflation print was higher at 3.2% YoY in February vs the market expectations of 3.1% and the core inflation was also higher than expected at 3.8% in February vs the 3.7% expected.
    - A gauge that is closely monitored by the US Federal Reserve in determining monetary policy is the core personal consumption expenditures (PCE) price change as consumer spending accounts for about two-thirds of domestic spending in the USA. The core PCE, which excludes volatile food and energy prices, came in below expectations at 0.3% vs the 0.4% consensus in February, which was "more in the lines of what the [US Federal Reserve] want to see."

Canada – The Bank of Canada maintained its overnight policy rate at 5%

- There was no surprise that the Bank of Canada (BOC) held its policy rate at 5% as concerns about persistent inflation remain intact. The Bank of Canada will continue to monitor economic conditions but it is faced with tough decisions as key indicators came in mixed:
    - In February, Canada's CPI headline inflation print came in lower than consensus, growing 0.3% MoM vs the expected 0.6% increase. It came in at 2.8% YoY, which was significantly lower than the consensus of 3.1%. It is clear that the BOC policy has been working to ease and combat inflation.
    - However, strong economic activity from spending and GDP have kept the Bank of Canada from cutting rates too soon:
        - Retail sales fell by 0.3% in January but fell less than the expected -0.4% print.
        - Canada's GDP was robust in January as it rose by 0.6% MoM, beating most economic expectations.

Notable Monthly Highlights (Continued)

World – China maintains its current benchmark lending rates as expected and Japan sees its very first rate hike in 17 years

- Although China has seen some improvement in its economic activity (its industrial output and retail sales both beating expectations), the property market is still a major concern in China. Like Canada and USA, China has kept its benchmark lending rates unchanged.
- Persistent inflation in Japan has led to a historic move as Japan hiked its interest rate for the first time in 17 years, now making the entire world all in positive interest rate territory.

Watermark Private Portfolios Outlook and Positioning

We continue to monitor the valuations of major economies. In the USA, we believe that the S&P 500 is still in slightly overvalued territory and a short-term to mid-term pullback is warranted. Specifically, we think that the technology sector, which comprises a large portion of the S&P 500, may pullback. Once the market sees a pullback to a more attractive price level, we are ready to deploy a portion of the portfolio back into equities.

	Underweight	Target	Overweight	February 2024	March 2024
Equities		●		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 that valuation and sentiment has been lifted and that a short/mid-term pullback will likely occur as market participants anticipate key economic data releases and US Federal Reserve announcement in the upcoming weeks.	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 in order 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.
Fixed Income	●			No changes. We have left our public fixed income weighting unchanged. Although we continue to believe that rates have peaked and that 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. We don't foresee a rate cut in April.	No changes. We have left our public fixed income weighting unchanged. Although we continue to believe that rates have peaked and that 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.
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 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 the structural supply and demand gap continues to ensue.	No changes. We are maintaining a long-term allocation to private real estate as Canada hits new records with its housing supply deficit.

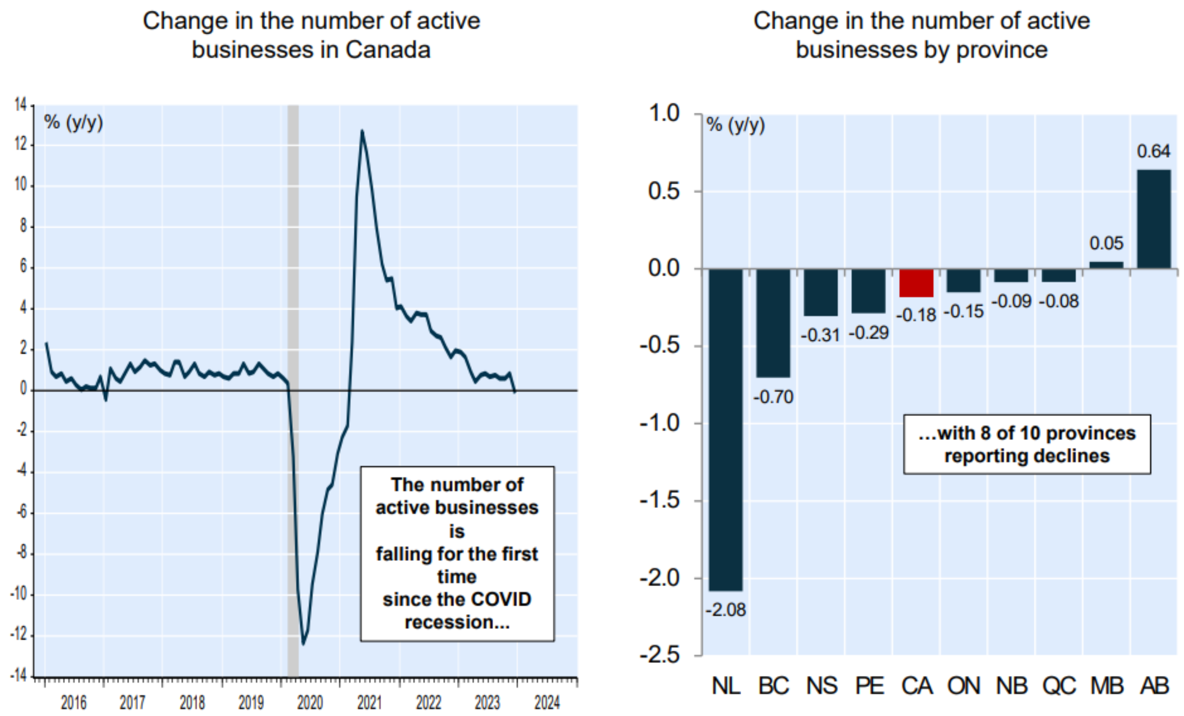
Did You Know?

As seen on the left chart, the number of active businesses is declining. It has officially logged its first year-over-year decline since 2020. As seen on the right chart, the number of active businesses have decreased year-over-year in 8 provinces in Canada with the exception of Alberta and Manitoba.

Our opinion:

Although we are in the camp that inflation is persistent and that will likely keep rates higher for longer, we continue to monitor this and other key indicators to determine the urgency of the Bank of Canada to cut rates. Should the pace of the decline in active businesses and the rise in delinquencies accelerate, this may lead to the Bank of Canada cutting rates sooner than expected.

Canada: Number of active businesses is declining



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	3.20%	▲	5.50%	▬	3.90%	▲	3.10%	▲	21.4	▲
Canada	2.80%	▼	5.00%	▬	5.80%	▲	0.90%	▲	14.6	▲
China	0.70%	▲	3.45%	▬	5.30%	▲	5.20%	▲	8.9	▬
Japan	2.80%	▲	0.00%	▲	2.60%	▲	1.20%	▼	16.1	▲
United Kingdom	3.40%	▼	5.25%	▬	3.90%	▲	-0.20%	▼	11.4	▲

Source: Trading Economics

DISCLAIMER

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