HARBOURFRONT
WEALTH MANAGEMENT

WATERMARK
PRIVATE PORTFOLIOS

OCTOBER 2024 COMMENTARY

Market Review in Minutes

Equities

- Equity markets experienced volatility at the start and end of October as the S&P 500 put in a new high, but ultimately ended the month 0.91% lower. Due to the US Dollar appreciation, the S&P 500 (in CAD) return was up +2.25%. The S&P/TSX Composite was volatile as well but ended up +0.85%.
- Outside of USA, the MSCI World Index (ex USA) had a volatile month too, ending 4.65% lower.
- **Leaders:** The S&P/TSX Composite outperformed the tech-heavy S&P 500 as the Information Technology sector sold off at the end of October with some profit-taking ahead of the US election and as some Mega cap tech companies failed to impress investors with their company guidance.
    - In the US, the Financial sector was the strongest performing sector followed by Communication Services and Energy, which are sensitive to interest rate movements.
    - In Canada, the Energy sector posted the strongest gain, followed by Health Care and Materials.
- **Laggards:** In the US, the Health Care and Materials were the worst performing sectors. In Canada, the Real Estate and Consumer Staples lagged against the other sectors.

Fixed Income

- Global fixed income markets continue to swing on the back of economic data, which drives central bank policy. Weaker economic data tend to result in the market pricing in more interest cuts on the short end of the interest rate market. However, interest rates on the long end continue to move higher as market participants expect governments to continue to spend, driving debt levels higher.
- The Canadian Universe Bond ended 1.01% lower, posting its first monthly loss since April 2024.

As at October 31, 2024	**Monthly % Total Return**	**YTD % Total Return**
Canadian Bonds *FTSE Canada Universe Bond Index*	-1.01%	3.21%
Canadian Equities *S&P/TSX Composite Index*	0.85%	18.24%
US Equities S&P 500, in C$	2.25%	27.88%
Gold	3.38%	32.70%
Oil *West Texas Intermediate Crude*	1.60%	-3.34%
Canadian Dollar	-2.94%	-4.64%

Market Review in Minutes (Continued)

Commodities

- Crude oil continues to remain volatile, reacting both positively and negatively to geopolitical risks in the Middle East. It spiked up to $78 early in the month before falling as low as $66 and then closing just under $70, which resulted in a gain of +1.60%.
- Gold logged another strong month, recording a +3.38% gain in October, and making another all-time high of $2,801.80 during the month.
- The US Dollar appreciated by +3.02% against the Canadian Dollar in October as the Bank of Canada cut its interest rate by another 0.50% this month.

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Canadian Dollar	-2.94%	-4.64%

Notable Monthly Highlights

USA – The US Federal Reserve's next meeting is November 7, 2024, and markets anticipate another cut

- Markets are expecting the US Federal Reserve to cut by another 0.25% in November.
- US economic data showed consumers are continuing to spend, with some inflation indicators easing and a cooling labour market.
  - The trend of strong retail sales continued in September, logging a 0.4% MoM gain, which beat the expected 0.3% MoM gain.
  - The US Fed's preferred measure for interest rate policy, the core personal consumption expenditures (PCE), increased in line with consensus by 0.3% MoM in September.
  - The headline number for CPI inflation slowed to 2.4% YoY in September, coming in higher than the expected 2.3% YoY level. In addition, the core inflation rate in September rose to 3.3% YoY, also higher than the expected 3.2% YoY level.
  - The unemployment rate fell to 4.1% YoY in September, down from 4.2% in the previous month and below expectations. However, the number of job openings in the US fell by 418,000 to about 7.4 million in September, below expectations of about 8 million.

Notable Monthly Highlights (Continued)

Canada – The Bank of Canada cut its interest rate by 0.50%

- As expected, the Bank of Canada cut its overnight rate by 0.50% from 4.25% to 3.75%, with more cuts expected:
    - Inflation is easing in Canada as the labour market and consumption remain soft. The Bank of Canada believes inflation should remain close to the target 2% with “upward and downward pressures on inflation roughly balancing out.”
    - Retail sales in August increased 1.4% YoY, higher than the previous 0.9% YoY reading in July. However, the retail sales MoM is projected to have increased by 0.4%, which is lower than the consensus estimates of 0.5%.
    - Canada’s labour market slightly improved as the unemployment rate eased to 6.5% YoY in September, below the expected 6.7% YoY rate. It has been the first monthly decline since January.
    - Canada’s September headline CPI inflation came in at 1.6% YoY, lower than the expected 1.8% and down from 2% in the previous period. However, Canada’s core inflation rate ticked up to 1.6% YoY in September, slightly higher from 1.5% YoY in August.

World – China and the European Central Bank cut its benchmark rates by 0.25%

- China announced another round of support measures to help meet its growth target and stabilize its economy:
    - The People’s Bank of China cuts its benchmark lending rates by 0.25%. Specifically, the one-year loan prime rate (LPR) was cut to 3.1%, which has a strong impact on corporate loans and most household loans, while the five-year LPR was cut by 0.25% to 3.6%.
    - Late October, China’s central bank announced it would buy bonds, thereby injecting a reasonable amount of liquidity to stabilize its financial system.
- As expected, the European Central Bank’s (ECB) cut its deposit facility rate, the rate used mainly to steer monetary policy, by 0.25% to 3.25%. The latest press release from the ECB states that inflation is expected to increase before declining to their target next year.

Watermark Private Portfolios Outlook and Positioning

	Underweight	Target	Overweight	September 2024	October 2024
Equities			●	• We continue to see improvement in market breadth with gains coming in sectors outside technology. Despite the volatility, major equity indices once again finished positive for the month. • After the initial decline, equity markets have recovered, with some companies putting in new highs. • Holding equity investments that are high quality, across all sectors, has benefitted your portfolios this month. • We put those proceeds into a pure play equity exposure via the Fidelity US Value ETF that holds companies at attractive valuations, with strong earnings growth potential over the next twelve months. • We continue to hold equity investments that are global in nature, have good relative valuations, and are diversified across different sectors.	• Near the end of the month, we saw Technology selloff as some of the Mega cap tech companies beat on earnings but disappointed on future guidance. • We remain overweight equities in your portfolios as we head into the strongest months of the year for historical equity returns. • Holding equity investments that are high quality, across all sectors, has benefitted your portfolios this month. • We continue to hold equity investments that are global in nature, have good relative valuations, and are diversified across different sectors.

Fixed Income	●			• 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 cut more later in the year.	• We remain underweight fixed income, but we switched our fixed income holdings to make room for Brandsen Global Income Opportunities, a more attractive pool that offers more diversification and higher risk adjusted returns, which offers the following benefits:
					  • Institutional access only, not available directly to retail clients
					  • Different investment strategies that complement each other for increased diversification

Private Credit		●		• No changes. Maintain our long-term allocation to private credit as it adds asset class diversification and reduced volatility to your portfolios.	• No changes. Maintain our long-term allocation to private credit as it adds asset class diversification and reduced volatility to your portfolios.
Private Real Estate			●	• No changes. Long-term structural supply and demand fundamentals continue to favour private real estate as an asset class.	• No changes. Long-term structural supply and demand fundamentals continue to favour private real estate as an asset class.

Changes in Portfolio Positioning Over the Past Month

In the Enhanced Conservative Plus, Conservative Core, and Private Income:

- **Enhanced Conservative Plus Only**: Sold all Pender Alternative Absolute Return Fund.
- Sold all McCartney Low Volatility Strategy.
- Bought Brandsen Global Income Opportunities.

In the Enhanced Balanced Plus:

- Sold all Vanguard All-Equity ETF Portfolio and/or trimmed Percy Harris Global Equity Pool.
- Bought Jaxton Park North American Equity Pool.
- Sold all Pender Alternative Absolute Return Fund.
- Bought Brandsen Global Income Opportunities.

In the Equity Income Plus:

- Sold all Vanguard All-Equity ETF Portfolio or sold all Percy Harris Global Equity Pool.
- Bought Jaxton Park North American Equity Pool.
- Sold all Pender Alternative Absolute Return Fund.
- Bought Brandsen Global Income Opportunities.

Changes in Portfolio Positioning Over the Past Month

In the Enhanced Growth & Maximum Growth Plus & Core:

- Sold all Vanguard All-Equity ETF Portfolio and/or trimmed Percy Harris Global Equity Pool.
- Bought Jaxton Park North American Equity Pool.

In the Liquid Conservative, Liquid Balanced & Liquid Growth:

- Sold all iShares Core Canadian Short Term Corporate Bond ETF.
- Bought Brandsen Global Income Opportunities.

In the Liquid Maximum Growth:

- Sold all Vanguard All-Equity ETF Portfolio.
- Bought Jaxton Park North American Equity Pool.

Did You Know?

Since the 1950s, the S&P 500 has logged an average negative return the day after a US Presidential election, however the Great Financial Crisis of 2008 skews that data lower, with a -5.27% return the day after the election in 2008. While there could be volatility in the S&P 500 next week, the data shows that, on average, the S&P500 trades higher in the two months following a US election.

Our opinion:

We remain overweight equities and expect that US equity markets will continue to trend higher into year end once the uncertainty of the US election is resolved next week.

S&P 500 Performance:	Day after Election	~2 Months After Election Day (Day After Election Through Inauguration Day)
Average of All Elections Since 1952	-0.23%	2.00%
Most Positive Market Reaction	2.20% 11/04/2020	14.33% 11/04/2020 - 1/20/2021
Most Negative Market Reaction	-5.27% 11/05/2008	-19.94% 11/05/2008 - 1/20/2009
Trump 2016	1.11% 11/09/2016	6.16% 11/09/2016 - 1/20/2017
Biden 2020	2.20% 11/04/2020	14.33% 11/04/2020 - 1/20/2021

YCHARTS

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	2.40%	▼	5.00%	▼	4.10%	▬	2.70%	▼	22	▲
Canada	1.60%	▼	3.75%	▼	6.50%	▼	0.90%	▲	15.4	▲
China	0.40%	▼	3.10%	▼	5.10%	▼	4.60%	▼	10.3	▲
Japan	2.50%	▼	0.25%	▬	2.40%	▼	-1.00%	▼	14.4	▲
United Kingdom	1.70%	▼	5.00%	▬	4.00%	▼	0.70%	▲	11.6	▬

Source: Trading Economics

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