CI ASSANTE WEALTH MANAGEMENT

CorePlan FINANCIAL INC.

The beginning and the end of 2023 were like night and day for investors. The year started with trepidation after a turbulent 2022 but ended with optimism as inflation eased and equities posted handsome returns.

Equities and bonds

This was a comeback year as U.S., Canadian and global equities achieved double-digit gains. U.S. stocks in particular ended 2023 near all-time highs. Many sectors contributed but tech was the standout performer, a major reversal from its 2022 slump. It wasn't plain sailing the entire way though. In mid-March there was a scare as U.S. regional banks Silicon Valley Bank and Signature bank were shut down. The fallout spread across the Atlantic, affecting Credit Suisse. However, following a coordinated response by central banks to maintain market functionality, liquidity and guarantee deposits, equities recovered.

In May, equities dipped again as the U.S. debt ceiling negotiations in Congress and demise of another U.S. regional bank, First Republic, weighed on performance, before getting back on track in June. At the halfway mark of 2023, the Nasdaq had logged its best start to a year ever with Apple becoming the first company to reach a market cap of US$3trillion. U.S. chipmaker Nvidia Corp. also announced earnings that surpassed estimates by more than 50%, highlighting solid demand for its computer chip technology which is used to power AI applications. Overseas, Japanese stocks reached their highest level in 33 years.

The good run for investors temporarily came to a halt in Q3 as the outlook for interest rates and inflation, rising yields and a slowing global economy clipped the recovery. Weaker performance continued into October, with stock markets reacting cautiously to geopolitical tensions in the Middle East. Despite this, YTD equities remained in positive territory and then bounced back in the final two months on optimism central banks might be done with rate hikes. The S&P/TSX Index ended the year up 11.8%, the S&P 500 Index 22.9%, the Nasdaq 40.8%, the MSCI World Index 20.5% and the MSCI EAFE Index 15.1%.[1]

In bond markets, bond yields, which move in the opposite direction to bond prices, see-sawed but had a sustained drop in Q4 to the relief of investors. Yields were falling in Q1 on growing economic optimism and cooling inflation before rising in mid-Q2 on uncertainty over the U.S. debt ceiling and U.S. regional banking sector. In June, yields stabilized as Democrats and Republicans in Congress reached an agreement to extend the U.S. debt limit until 2025 and worries about the recent bank failures subsided.

During the summer, yields went north again after Fitch credit rating agency downgraded U.S. debt, before falling back on positive employment data. Yields then climbed in September on concerns interest rates would likely remain higher for longer. Heading into Q4, yields dropped as safe-haven assets surged following the Israel-Hamas conflict. Yields then fell further in November and December on optimism central banks have done enough to contain inflation and as a result rate cuts may come in 2024.

The year also saw the yield curve, which is the difference between 10-year and 2-year U.S. yields, at its most inverted since 1981, with short-term rates higher than long-term rates. This reflected the Fed's rate hiking at the short end and forecasts for slower growth at the longer end.

Economic indicators, currencies, and oil

There were a number of market-friendly Canadian and U.S. economic indicators. Job creation in both nations was resilient but did start to cool from Q3 along with wage growth. This was viewed positively by the Fed and Bank of Canada as they continue to engineer an economic slowdown, which they see as a necessary evil to curb inflation. Central banks also monitor job and wage growth for signs of inflation.

U.S. and Canadian consumer spending remained healthy, Canadian homes sales finally started to slow, while U.S. GDP grew at a respectable rate. In Europe, manufacturing, and service sector activity in the eurozone and the U.K. softened - another positive indicator in the inflationary fight. This slowdown was also evident in China's exports, which declined, highlighting a decrease in global demand.

Currency markets saw the loonie up against the US dollar, euro, and pound but down versus the yen. The US dollar, considered a safe-haven asset, initially rallied on relative U.S. economic strength, elevated yields, and geopolitical tensions. It then weakened as yields fell and investors became more confident Fed policy is working. More emphasis is placed on Fed signals driving currencies than other central banks.

The price of oil had a topsy-turvy ride. It fell through Q1 and Q2, at one point hitting its lowest level in two years. Contributing factors included the U.S. regional banking scare, the outlook for interest rates and concerns about an economic slowdown. Then in Q3, oil prices rose, due to production cuts by Saudi Arabia and OPEC which had an impact on global supplies. However, in Q4, the price of oil slid again. It briefly spiked on uncertainty over the Israel-Hamas conflict, before resuming a downward trajectory, as fears of a wider conflict faded. Despite another production cut by Saudi Arabia and OPEC to shore up prices, oil ended the year hovering around US$72 a barrel, down roughly US$9 from the start of 2023.

Inflation, interest rates and central banks

U.S. inflation fell steadily from 7.1% at the start of 2023 to 3.3% by year end. This was largely due to declining energy prices and stabilizing food prices. However, housing costs remain problematic but are expected to slow, underscoring the patience and time needed to curb inflation. The Fed raised its target interest rate by 25 basis points four times during the year - twice in Q1, once in Q2 and once at beginning of Q3. The Fed then held rates steady for the remainder of 2023. In December, while discussing the progress on fighting inflation so far, Fed chair Powell said the prospect of future rate increases is unlikely.

Inflation cooled in Canada from 6.8% at the turn of the year to 3.1% by the end. In Q3, it even briefly fell to 2.8%, back within the Bank of Canada's 1-3% range and close to its 2% target. Falling gasoline prices were the main contributor although mortgage interest and rental costs remain high. The Bank of Canada raised rates by 25 basis points three times in 2023. Interest rates now stand at 5%, the highest since 2001. Governor Macklem said rates may now be high enough to bring inflation back to the Bank of Canada's target, but it is still wary of inflation and will only consider cuts when the target is definitely within reach.

Many other central banks coordinated with the Fed, including the Bank of England, European Central Bank and Reserve Bank of Australia. The Bank of England in particular has been grappling with inflation in the U.K. which at its peak of 8.7% was the highest in the G7, but by year-end it had dropped to a two-year low of 3.9%. An academic, Kazuo Ueda, was also named the new Bank of Japan head over existing deputy governors indicating a possible change in Japan's near-zero rate policy. And China introduced a series of stimulus measures targeting its financial, property and tech sectors and consumer spending.

What can we expect next?

As we embark on a new year, the remnants of central bank rate hiking in 2023 may linger for a bit longer. The economy is slowing which should be confirmed by upcoming data. This will present a challenging period in early 2024, with profit margins likely to come under pressure, and timing around rate cuts to be determined by the pace at which inflation moves towards 2%. On the bright side, there is little reason to expect a severe slowdown, and rates cuts should ultimately stimulate economic activity.

Regardless of where we are in the market cycle, it's important to take a disciplined approach to investing and stay focused on your long-term goals. This strategy helps you keep your emotions out of investing, typically buying high and selling low

like many investors do. Ongoing monitoring and reviewing of your portfolio also ensure it remains on track. Diversifying investments reduces risk as well.

2023 RRSP deadline and new 2024 TFSA room

February 29, 2024 is the deadline for 2023 RRSP contributions. If you still have available room, why not consider making an additional contribution? The new year also brings an extra $7000 you can allocate to your TFSA. Both RRSPs and TFSAs hold most types of investments. I can talk to you more about the tax-efficient advantages of RRSP and TFSA investing and maximizing your retirement savings.

Thank you for your continued trust in me and my team for the opportunity to assist you in working toward your financial goals. We are with you every step of your investment journey. Should you have any questions regarding your portfolio, please do not hesitate to contact our office, 250-785-9603.

Sincerely,
Dean Falkenberg

The information in this letter is derived from various sources, including CI Global Asset Management, Bank of Canada, Federal Reserve, Statistics Canada, U.S. Bureau of Labor Statistics, Bloomberg, Global and Mail, Advisor.ca, Reuters, Wall Street Journal, LinkedIn, Daily Mail, CNN, FX Street, CNBC, Investment Executive, Breitbart, Toronto Sun, National Post, MarketWatch, MSN, Investing.com, Canadian Press, Trading Economics, Yahoo Finance, Barron's, Fortune, Market Insider, Forbes, New York Times, KWWL.com as at various dates. This material is provided for general information and is subject to change without notice. Every effort has been made to compile this material from reliable sources and reasonable steps have been taken to ensure their accuracy. Market conditions may change which may impact the information contained in this document. Before acting on any of the above, please contact me for individual financial advice based on your personal circumstances.

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