CIBC PRIVATE WEALTH
WOOD GUNDY

January 2024 Market Update

Welcome to 2024. This year will be a great year. So good, we are adding one day to 2024 (leap year). We trust that festivities at the end of 2023 was enjoyable and relaxing.

Looking back at the investment markets in 2023, some strength in November and December allowed the equity and fixed income markets to finish the year overall solid. Coming off of a very weak 2022, the global economic resiliency, and finally declining inflation provided an overall more stable year. The strength of the equity markets in 2023 is however a bit misleading. The gains in both the TSX300 and the S&P500 were concentrated in a small group of companies. Most of the gains in the US S&P500 came from 7 companies. 71% of US equities under-performed the index and many were negative for the year. In Canada, both the performance and concentration in a few winners was not as substantial, but still the reality. In Canada, the dividend paying companies under-performed due to the sharply rising interest rates. I can say with some confidence that we are at the peak in interest rates. The next big interest rate move by both the Bank of Canada and the US Federal Reserve will be to cut interest rates. A year ago, the question was around when interest rates would stop going up, and at what interest rate would they stop. Now, the question is when will rates start to come down, and by how much. Before providing my prognostication on this question, I will point out that when interest rates started to increase two years ago, everyone got it wrong on the size and spread of rate increases. Interest rate cuts should occur in Canada before the US. Interest rate increases have hurt Canadians overall more, as we carry more debt on average than in the US. My forecast (subject to change) is for the Bank of Canada to start lowering interest rates around June of this year. By the end of 2024, interest rates should be 1.00% to 1.25% lower than where they are right now.

The past couple of years has seen our economies go through a major re-set. The previous 10-15 years saw disinflation (lower prices) low interest rates, and easy access to cheap money. Disinflation has now given way to inflation. Those low interest rates and GIC yields have moved to much higher rates and yields. Cheap and easy access to money, has become expensive and difficult to access. This 2 year period of re-set has re-priced stocks, bonds, real estate, and most other assets. Sharply rising inflation led to this period of re-set. While central banks have been active and are doing their job with monetary policy to combat the evils of inflation, fiscal spending (ie. Government spending) has acted to keep inflation levels high and continues to operate contrary to the goal of lowering inflation. Increasing and higher levels of fiscal spending is one of the larger tools a government has to help an economy get out of a recession. Neither Canada nor the US is currently in a recession. If we were to enter into a recession in the coming year, governments have little tools or resources to help with the situation. With government debt increasing sharply since the start of the pandemic, the interest expense on that debt has increased even more sharply. The US government now spends more on the interest of its debt than is spent on Defense or Medicare. Interest expense is closing in on Social Security spending. No one needs lower interest rates more than governments do to service our debt.

Looking forward to 2024, we remain positive on the eventuality of interest rate cuts. We will not return to the period of free money we saw in 2020, but rates will decline from current levels. Inflation is certainly improving on most fronts. While employment growth is weakening (a positive for inflation), wage growth remains too strong. This is a key economic figure for the Bank of Canada in looking at the timing of interest rate cuts. Declines in inflation and interest rates bring strong positives for both the equity and fixed income markets. While there remains lingering inflation, wage growth is a concern, as is some geopolitical issues. The shipping crisis in the Red Sea carries short term inflation risks and it is important that this issue be resolved soon. Still, the longer term direction of inflation and rates is lower and this benefits consumers, businesses, governments, and the investment markets. From the perspective of making investment decisions, it is more important than ever in looking for companies who have managed their balance sheets well, and continue to make necessary business changes in keeping with the earlier discussed re-set.

As we have said before, politics can increase volatility in the short term, but economies learn how to deal with whatever changes occur in the political landscape. Globally, there are several dozen national government elections. It is estimated that in 2024, over 2 billion people will go to the polls for their national government (Canada currently scheduled for 2025). With an active economic and political calendar for the year ahead, there are considerably more positives than risks. Volatile investment markets will remain in 2024. For us as investors, it will require discipline, patience and flexibility. We look forward to 2024 with optimism.

Some other items:

1) Tax-Free Savings Account (TFSA) contribution limit for 2024 is $7,000 or lifetime limit of $95,000. Please reach out to us to make your 2024 TFSA contribution.
2) You should received your 2024 RRIF payment schedules in the mail soon. Please ensure to review your 2024 RRIF payment details and contact us if you have any questions.
3) Please ensure to wait until you have all of your tax slips before you file your income tax return. Issuers have until March 31, 2024 to provide their tax information to CIBC Wood Gundy. These tax slips will be issued throughout February and March. Please note that these tax slips will also be made available through your online access. Please contact Isabella if you need assistance with your online access.

As always, remain optimistic yet cautious.

Best Regards,
CIBC Wood Gundy

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