

*In this issue:*

- **Is the stock market rising too fast, too high?**
- **Rate cuts are a long way off**
- **Review of non-traditional funds**

*Dear friends,*

*The surge in US equities at the start of 2023 faded into the summer – a well-deserved break, especially for the Magnificent Seven.<sup>1</sup> However, the fear of missing the boat spread as the year drew to a close. Investor greed even pushed the S&P 500 to an all-time high in January. Since Halloween, the index grew to record an 8.5% gain in the fourth quarter, while both the S&P/TSX Composite and the MSCI EAFE Index followed close behind. The year-end surge was widespread. Last but not least, the financial, utilities and even real estate sectors rallied. Central banks are still seen as saviours by investors. The idea of dovish monetary policies across the four corners of the globe has also enabled bonds to rally and volatility to decline. Can we expect rates to fall rapidly this year?*

|                                 | Closing<br>29-Dec-23 | Change**<br>Quarter | 2023   |
|---------------------------------|----------------------|---------------------|--------|
| <b>Stock Indices (% in C\$)</b> |                      |                     |        |
| S&P/TSX                         | 20,958               | 7.3%                | 8.1%   |
| S&P 500                         | 4,770                | 8.5%                | 21.5%  |
| MSCI EAFE*                      | 2,236                | 7.4%                | 12.5%  |
| <b>Currencies</b>               |                      |                     |        |
| CAN\$ (US\$/C\$)                | 0.7549               | 2.5%                | 2.3%   |
| Euro (US\$/EUR)                 | 1.1037               | 4.4%                | 3.1%   |
| <b>Commodities (US\$)</b>       |                      |                     |        |
| Oil (WTI)                       | \$ 71.89             | -20.8%              | -10.4% |
| Gold                            | \$ 2,065             | 11.2%               | 13.8%  |
| <b>Volatility Index</b>         |                      |                     |        |
| VIX                             | 12.45                | -5.07               | -9.22  |

\* MSCI Europe, Australasia and Far East (US\$)

\*\* Changes are expressed in C\$ for Stock Indices.

*As early as mid-December, after opting for the status quo, the Federal Reserve declared that it still didn't know what the effects of its accelerated rate tightening would be on the economy, employment and inflation. Despite this, the market was still expecting 150 basis points of cuts over the course of 2024, double those forecast by the Fed. The Bank of Canada also abstained on January 24, stating that the "discussion of monetary policy is shifting from whether our policy rate is restrictive enough to restore price stability, to how long it needs to stay at the current level." With such a restrictive monetary policy, we would expect to see a rise in unemployment. This is not the case, however, due to the scarcity of workers. To give itself time to properly assess the effects of its measures on employment and the economy, the Fed took no action as we publish our newsletter.*

*As we saw in Quebec with the common front strike, wage increases could keep inflation above target. We'll be keeping a close eye on wage levels. Yes, rate cuts will help equities perform well, but we're not counting on a rapid easing. This still allows us to take advantage of attractive bond opportunities. These offer attractive yields that are nothing like those of the past 10 years. What's more, many fixed-income securities are sold at a discount, offering tax advantages to buyers.*

<sup>1</sup> The Magnificent Seven: Apple, Microsoft, Amazon, Alphabet, Nvidia, Meta Platforms and Tesla.

*Artificial intelligence is still generating passion and excitement for a second year. Generative AI<sup>2</sup> and, more specifically, the use of conversational robots, such as ChatGPT, looks set to spread like wildfire in 2024. If Microsoft has been a pioneer in AI, Nvidia has been the big winner with its meteoric rise on the stock market. A number of companies are joining forces to try and make their mark. Everyone wants in. Even Walmart has announced that it intends to rely on AI to improve its customers' experience. Some companies, including Nvidia and Microsoft, are already generating revenue from AI. But identifying those that will benefit most from AI is difficult. Finding stocks trading at a reasonable price, even more so. We carefully scrutinize chipmakers, software publishers, cloud specialists and cybersecurity firms for stocks that can stand out from the crowd.*

*In this edition, we review two non-traditional funds. The Kensington Private Equity Fund invests in three types of private placements in Canada and the United States.<sup>3</sup> It does so either directly by acquiring shares, or via holdings in other private equity funds. The fund had a rather disappointing year in 2023, with a return of 0.2%. Rising rates limited the fund's ability to carry out private equity transactions, put pressure on the multiples of those that were completed, and led to a downward revaluation of assets in this category. A stabilization of interest rates in 2024 should lead to better results for private equity. One of the fund's key investments is Montreal-based Hopper, creator of a travel app that is now an industry leader in North America.*

*Hazelview's Four Quadrant Global Real Estate Partners Fund provides exposure to well-diversified real estate investments. The fund focuses on both private and public equity and debt. This flexibility allows the manager to evolve the portfolio's exposure to these different asset types as opportunities arise in each quadrant. Management currently favours private equity. Consequently, around 70% of the portfolio is allocated to this type of investment. The fund was affected by a difficult environment in 2023 and suffered its first decline (-3.4%) since its inception in 2011. We believe the portfolio is well positioned for 2024. Over 70% of its assets are in Canada, with almost a third in the multi-residential sector, which benefits from an imbalance between supply and demand. We visited several of the fund's buildings and were impressed by the quality of the assets and the favourable locations.*

### **Concluding remarks**

*We continue to carefully select our equities as we believe the market is overvalued, especially the NASDAQ. Risk-adjusted returns favour Canadian and global equities. The MSCI World Index trades at 14x realized earnings, while the S&P 500 is at 22x. We avoid buying a stock when its shares are overbought. Other buying opportunities will arise. The odds of a Fed cut in March are now below 50%, and inflation could rise again. This would limit central bank intervention. We are keeping a larger weighting in money market, especially as it is paying off rather well at the moment. In AI, we are holding Netapp and Oracle, and watching with interest the Magnificent Seven and Arista Networks, which stands out according to our indicators. We are keeping our non-traditional funds, which provide healthy diversification to a portfolio of bonds and equities.*

<sup>2</sup> Generative AI is a type of artificial intelligence that generates new content by modelling the characteristics of data drawn from the large datasets that feed the model. Whereas traditional AI systems can recognize patterns or classify existing content, generative AI can create new content in many forms (text, image, audio file, software code, etc.).

<sup>3</sup> That is buyout, growth, and venture capital. A summary table as well as detailed factsheets of all funds are available upon request.