HARBOURFRONT
WEALTH MANAGEMENT

WATERMARK
PRIVATE PORTFOLIOS

SEPTEMBER 2024 COMMENTARY

Market Review in Minutes

Equities

- Equity markets had a volatile month as the S&P 500 (in CAD) fell nearly 4% at the beginning, but then rallied back to finish the month higher by +2.38% for a +6.31% turnaround. The S&P/TSX Composite followed a similar path, ending up +3.15% higher at the end of the month.
- Outside of USA, the MSCI World ex USA Index had a volatile month as well but ended the month +2.64% higher.
- **Leaders:** The S&P/TSX Composite outperformed the tech-heavy S&P 500 in September as major tech companies lagged as investors flowed into diverse sectors, such as those stocks in the health care, materials, utilities, financial services, and real estate.
    - In the US, the consumer discretionary sector was the strongest performing sector followed by utilities and materials, which are all sensitive to interest rate movements.
    - In Canada, the health care sector posted the strongest gain, followed by utilities and financial services.
- **Laggards:** In both US and Canada, energy was the worst performing sector as the top energy companies in the indices fell along with the price of the oil commodity.

Fixed Income

- Global fixed income markets continue to swing aggressively, as market participants continue to focus on key economic data. Across the US yield curve, we saw all interest rates fall during the month, with the shorter-term interest rates falling the most. Longer-term interest rates fell at the beginning of the month; however, after the US Federal Reserve announced the 0.50% rate cut, longer-term interest rates rose, likely on perceived future economic growth.
- The Canadian Universe Bond posted its fifth consecutive monthly gain, ending slightly higher by +1.90%.

As at September 30, 2024	**Monthly % Total Return**	**YTD % Total Return**
Canadian Bonds *FTSE Canada Universe Bond Index*	1.90%	4.27%
Canadian Equities *S&P/TSX Composite Index*	3.15%	17.24%
US Equities S&P 500, in C$	2.38%	25.07%
Gold	5.21%	28.36%
Oil *West Texas Intermediate Crude*	-7.31%	-4.86%
Canadian Dollar	-0.27%	-2.12%

Market Review in Minutes (Continued)

Commodities

- Crude oil fell by 7.31% this month, with the price of the commodity settling around $68. The commodity fell during the month due to concerns about weak demand coming from the world's largest crude importer, China, even though US Crude inventories fell and tensions in the Middle East are persisting. As the US election draws nearer, oil traders may be taking risk off. Should Trump win the presidency, it would likely result in more drilling in the US and therefore, more crude production and supply.
- Gold logged another strong month, recording a +5.21% gain in September, and making another all-time high of $2,708.70 during the month.
- The US Dollar appreciated by +0.24% against the Canadian Dollar in September as the US Federal Reserve announced a 0.50% rate cut.

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Notable Monthly Highlights

USA – The US Federal Reserve cut interest rates by 0.50%

- The US Federal Reserve (FED) cut interest rates by 0.50%, with its target policy rate now sitting at 4.75-5.00%.
- US economic data showed strong consumer spending, inflation easing, and a cooling labour market.
    - The trend of strong retail sales continued in August, logging a 0.1% MoM gain, which beat the expected 0.2% fall in sales.
    - The US FED's preferred measure in determining monetary policy, the core personal consumption expenditures (PCE), increased by 0.1% MoM in August, which was in line with consensus.
    - The headline figure for CPI inflation slowed to 2.5% YoY in August, which was lower than the 2.6% expected. However, the Core inflation rate in August remained unchanged at 3.2% YoY.
    - The unemployment rate came in line with consensus expectations in August at 4.2% YoY, down from 4.3% in the previous month. However, the number of job openings in the US fell by 237,000 to about 7.6 million in July, below expectations of 8.1 million.

Notable Monthly Highlights (Continued)

Canada – The Bank of Canada cut its interest rate by 0.25%

- As expected, the Bank of Canada cut its overnight rate by 0.25% from 4.5% to 4.25%, which is the fourth consecutive rate cut, with more cuts expected.
- Inflation is easing in Canada as the labour market continues to slow. However, shelter costs remain high, causing some concern.
- Retail sales in June dropped by 0.3% YoY, which came in line with expectations.
    - Retail sales in July increased to 0.9% YoY, which was higher than the consensus gain of 0.6% YoY.
    - Canada's labour market continues to weaken as the unemployment rate rose to 6.6% YoY in August, which was higher than the 6.5% expected.
    - Canada's headline CPI inflation came in at 2.0% YoY, lower than the expected 2.1% and down from 2.5% in the previous period. Canada's core inflation rate also fell to 1.5% YoY, down from 1.7% YoY in July.

World – China announced interest rate cuts and monetary stimulus, while the European Central Bank cut rates in September

- China announced its largest monetary stimulus since the pandemic to meet its growth target and stabilize its economy, especially the slumping property sector:
    - China reduced the reserve requirement ratio (the amount of cash that banks are required to set aside) by 0.50%; this would provide about 1 trillion yuan (about $142 billion USD) for new lending.
    - The People's Bank of China cut interest rates on existing mortgages by 0.5% and announced that it would lower the required deposit for buying a second home from 25% to 15%.
- 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 3.5%. Recent economic data has shown that inflation has been easing and economic growth is stalling.

Watermark Private Portfolios Outlook and Positioning

	Underweight	Target	Overweight	August 2024	September 2024
Equities			●	• The market sold off early in the month when the Bank of Japan surprised markets and increased interest rates. • After the initial decline, equity markets recovered their losses. • Holding high quality equity investments across all sectors has benefitted your portfolios this month. Our core holding, Dynamic Active Enhanced Yield Covered Options ETF, fell 2.73% from the peak of the S&P 500 on July 16 to the bottom of S&P 500 on August 6, whereas the S&P 500 fell 7.50% and TSX Composite Index fell 4.31% during that period. • On August 8, we believed the worst of the sell-off was behind us and trimmed the Dynamic Active Enhanced Yield Covered Options ETF to allocate those proceeds into Vanguard All-Equity ETF Portfolio to participate in the broad market rally. • We continue to hold equity investments that are global in nature and utilize options for downside protection.	• 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. • In response to the US Federal Reserve's decision to cut rates by 0.50%, we trimmed the Dynamic Active Enhanced Yield Covered Options ETF for clients that are in higher risk portfolios. • As the interest rate cut will likely boost the economy and growth, 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.
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 begins its first rate cut in September.	• 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.
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. Maintaining a long-term allocation to private real estate given the structural housing supply gap and the rising population in Canada that continually seek homes.	• No changes. The federal government released new changes to mortgage requirements recently in hopes to lower the cost of entry to the housing market. We believe this incentive should help private real estate as we expect more buyers.

Changes in Portfolio Positioning Over the Past Month

In the Enhanced Growth & Maximum Growth Plus:

- We trimmed Dynamic Active Enhanced Yield Covered Options ETF
- We bought Fidelity US Value ETF

In the Enhanced Growth & Maximum Growth Core:

- We sold all Dynamic Active Enhanced Yield Covered Options ETF
- We bought Fidelity US Value ETF

Did You Know?

As seen on the chart, the S&P 500 has averaged a negative return three months after the first rate cut:

- During recessionary periods, the returns have been negative three months later every time the economy went into a recession.
- However, for non-recessionary periods, the S&P 500 has been strong after the first interest rate cut, ending higher both six and twelve months later.

Our opinion:

Currently, it appears that the US may have escaped a recession. The larger 0.50% interest rate cut could be the deciding factor. Though there may be some short-term volatility in the stock market, we believe the US equity market will perform well in the months ahead, especially once the US election takes place in November.

S&P 500 Returns

AFTER RATE CUTS

Year of first rate cut	3 months after first rate cut	6 months after first rate cut	1 year after first rate cut
1973	-10.2%	-6.2%	-36.0%
1974	-14.7%	-15.3%	7.5%
1980	15.0%	28.9%	30.3%
1981	-11.0%	-7.9%	-17.8%
1982	-4.8%	17.4%	36.5%
1984	-1.2%	7.2%	10.5%
1987	0.1%	1.7%	7.5%
1989	7.4%	7.5%	11.9%
1995	5.1%	8.0%	13.4%
1998	17.2%	26.5%	27.3%
2001	-16.3%	-12.4%	-14.9%
2007	-4.4%	-11.8%	-27.2%
2019	3.8%	13.3%	14.5%
Average	-1.1%	4.4%	4.9%

Source: PinPoint Macro Analytics

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	2.50%	▼	5.00%	▼	4.20%	▼	3.00%	▲	21.8	▲
Canada	2.00%	▼	4.25%	▼	6.60%	▲	0.90%	▲	15	▲
China	0.60%	▲	3.35%	▬	5.30%	▲	4.70%	▼	9.5	▲
Japan	3.00%	▲	0.25%	▬	2.50%	▼	-1.00%	▼	14.1	▼
United Kingdom	2.20%	▬	5.00%	▬	4.10%	▼	0.70%	▲	11.6	▼

Source: Trading Economics

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