HARBOURFRONT
WEALTH MANAGEMENT

WATERMARK PRIVATE PORTFOLIOS

DECEMBER 2024 COMMENTARY

Market Review in Minutes

Equities

- Equity markets saw volatility during December, especially on December 18th, when the US Federal Reserve (Fed) lowered interest rates but signaled they would reduce interest rates less than expected in 2025. The S&P 500 ended the month down 2.38% but with the US dollar appreciating against the Canadia dollar, the S&P 500 (in CAD) ended slightly higher by +0.27%. Here in Canada, the S&P/TSX Composite ended the month lower, falling 3.27%.
- Outside of the US, international equities (excluding USA) continued lower, posting its third consecutive monthly loss.
- **Leaders**: The tech-led S&P 500 outperformed the commodity-heavy S&P/TSX Composite in December as sectors outside the mega cap technology stocks experienced losses, notably, the energy and materials sector.
    - In the US, the communication services sector was the top-performing sector, driven primarily by Alphabet. This was followed by strong performances from the consumer discretionary and information technology sectors, which include the Magnificent 7 companies (Nvidia, Meta, Tesla, Amazon, Google, Microsoft and Apple).
    - In Canada, the consumer staples outperformed the S&P/TSX Composite.
- **Laggards**: In the US, the materials and energy were the biggest laggards and in Canada, real estate and materials underperformed the most.

Fixed Income

- Global fixed income markets continue to swing on economic news releases and inflation data, expecting more interest rate cuts when data comes in weaker than expected. Alternatively, long-term interest rates continue to remain high(er) as the bond market expects governments to continue to spend, driving debt levels higher.
- The Canadian Universe Bond Index ended December slightly lower by 0.69%.

As at December 31, 2024	Monthly % Total Return	YTD % Total Return
Canadian Bonds *FTSE Canada Universe Bond Index*	-0.69%	+4.23%
Canadian Equities *S&P/TSX Composite Index*	-3.27%	+21.65%
US Equities S&P 500, in C$	+0.27%	+36.36%
Intl Equities (ex USA) iShares MSCI ACWI ex US	-3.04%	+2.04%
Gold	-1.49%	+27.47%
Oil *West Texas Intermediate Crude*	+5.47%	+0.10%
Canadian Dollar	-2.80%	-8.61%

Market Review in Minutes (Continued)

Commodities

- Oil (WTIC) ended the month higher by +5.47%. Oil continues to be volatile around geopolitical issues in the Middle East, while awaiting US policy on regulation/drilling.
- Gold fell in December by 1.49%.
- The Canadian dollar continues to trade poorly, falling 2.80% in December. To put things into perspective, the Canadian dollar has depreciated to levels not seen since the 2020 pandemic, where it now costs about $1.44 Canadian dollars to obtain $1.00 US dollar.

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Notable Monthly Highlights

USA – The US Federal Reserve (Fed) delivered a 0.25% rate cut in December as expected

- The Fed cut interest rates by 0.25% on December 18th to the 4.25%/4.50% range. However, markets responded negatively during the subsequent press conference when Chairman Jerome Powell indicated that the Fed would likely not reduce interest rates as much as expected in 2025, citing the uncertainty around incoming president-elect Trump's economic policy of tariffs.
- Last month, Mr. Trump announced plans to impose tariffs against several countries. Tariffs will increase inflationary pressures by increasing the cost of imported goods. As a result of the announcement, the US dollar appreciated against a basket of world currencies, notably the Canadian dollar and Mexican peso, as these two countries were singled out for potential 25% tariffs.
- US economic data showed consumers are continuing to spend, while inflation shows signs of easing, and a labour market that is gradually cooling.
    - The trend of strong retail sales continued in November, gaining 0.7% MoM, which beat the expected 0.5% MoM gain.
    - The Consumer Price Index moved higher by 2.7% YoY in November, which was in line with expectations. In addition, the core inflation rate in November remained at a three-month high of 3.3% YoY, which is unchanged since September and came in line with market expectations.
    - The unemployment rate moved slightly higher, at 4.20% YoY in November, which was higher than October but in line with expectations.

Notable Monthly Highlights (Continued)

Canada – The Bank of Canada announced a 0.50% rate cut in December

- On December 11, the Bank of Canada made its final interest rate decision for the year and cut its policy rate by 0.50%, down to 3.25%.
    - Bank of Canada's future rate cuts will largely depend on the economic supply and demand forces, foreign country policies, and their implications on Canada's inflation outlook.
    - Inflation came in at 1.9% YoY in November, below the 2% consensus/target. Core inflation also eased to 1.6% in November, down from 1.7% YoY in the previous month.
    - Retail sales in October increased to 1.5% YoY, higher than the 0.8% YoY level in the previous month.
    - Canada's labour market weakened further as the unemployment rate increased to 6.8% in November, higher than the 6.6% consensus forecast and higher than the previous month.

World – China held its benchmark lending rates steady; European Central Bank (ECB) cut its key interest rates by 0.25%

- Chinese equity markets ended December higher for the month and higher for the year as well. Chinese equity markets remain volatile despite signs of some economic recovery.
    - The People's Bank of China held its benchmark lending rates steady this month.
    - China's unemployment remained steady at 5.0% YoY in November, remaining unchanged from October, and in line with expectations
- The European Central Bank (ECB) lowered its key interest rates by 0.25% and expects slower economic growth than what was previously projected in September.

Watermark Private Portfolios Outlook and Positioning

	Underweight	Target	Overweight	December 2024
Equities			●	• December saw another month of volatility, especially on the day the US Federal Reserve delivered a hawkish 0.25% rate cut, which the market interpreted as a signal that the US Federal Reserve may pause or take fewer cuts in the upcoming year. • In November, we remained overweight equities in your portfolios but have repositioned the portfolios to decrease the information technology weighting as mega-cap tech companies' earnings growth appeared to be slowing. • After the US Federal Reserve announcement mid-month, the S&P 500 fell, with the information technology sector falling the most. • Holding equity investments that are high quality (i.e., strong balance sheets and growing cash flows) across all sectors has benefitted your portfolios this month as the market broadens out. • 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. We remain underweight fixed income, holding Brandsen Global Income Opportunities Pool, which offers several fixed income strategies thereby providing more diversification and higher risk adjusted returns.
Private Credit		●		• 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.

Did You Know?

The “Santa Claus rally,” historically occurs during the last 5 trading days of December and the first 2 trading days of January, when the S&P 500 experiences strong returns over these seven trading days. When the “Santa Claus rally” does not occur, and alternatively the S&P 500 falls during these seven trading days, it has often coincided with market corrections/economic downturns.

Our opinion:

So far, the “Santa Claus rally” has been volatile, with the S&P 500 down more than 1.0% over the last five days of the month. Furthermore, 2024 was a strong year for the S&P 500, with the Index trading to new highs on many occasions. We expect the Index will see new highs in 2025 but it could be a volatile year, depending on the policies the incoming president-elect may choose to enact.

Santa Claus Rallies Since 1990

Bearish Santa Claus rally periods in the S&P 500, such as -4.0% in 1999 and -3.0% in 1990, often coincided with economic downturns or major market corrections.

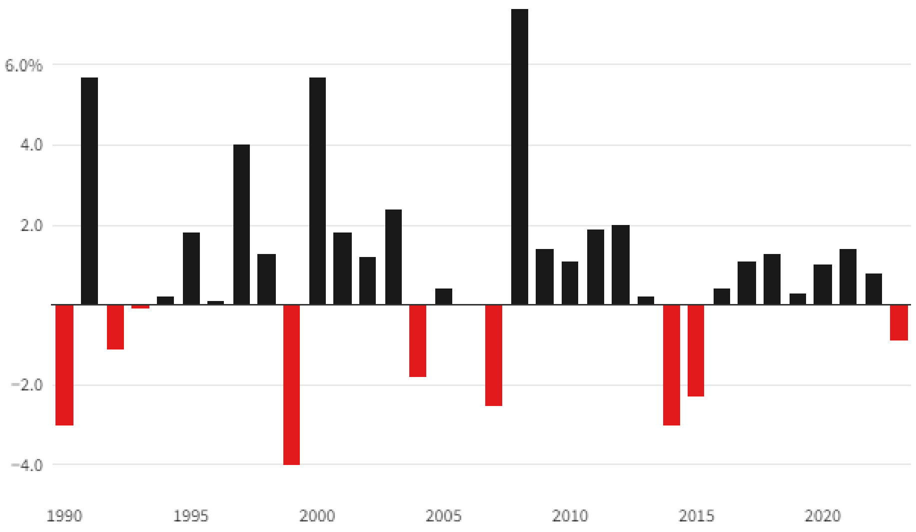

Chart: Investopedia/Peter Gratton • Source: Stock Trader's Almanac 2025

Investopedia

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	2.70%	▲	4.50%	▼	4.20%	▲	2.70%	▼	21.9	▼
Canada	1.90%	▼	3.25%	▼	6.80%	▲	1.50%	▲	15.3	▼
China	0.20%	▼	3.10%	▬	5.00%	▬	4.60%	▼	10.1	▲
Japan	2.90%	▲	0.25%	▬	2.50%	▬	0.30%	▲	14.7	▲
United Kingdom	2.60%	▲	4.75%	▬	4.30%	▬	0.90%	▲	11.4	▼

Source: Trading Economics

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