HARBOURFRONT
WEALTH MANAGEMENT

WATERMARK PRIVATE PORTFOLIOS

JANUARY 2025 COMMENTARY

Market Review in Minutes

Equities

- Equity markets began 2025 with continued volatility as markets navigated through several market events:
  - President's Trump inauguration & his tariff announcements
  - Potentially game changing Artificial Intelligence (AI) news
  - Earnings season

- Despite the volatility during the month, both the US and Canadian equity markets had a strong start to the year with the S&P 500 (in CAD) gaining +3.50% and the S&P/TSX Composite gaining +3.48% in January. Additionally, international equities were also strong and gained in January.
- **Leaders**:
  - In the US, communication services and value sectors, such as health care, financials and materials, were the strongest performing sectors.
  - In Canada, materials, including gold stocks, outperformed the other sectors.
- **Laggards**:
  - In the US, the information technology sector was the only sector that had a negative month.
  - In Canada, the health care sector was the largest underperformer.

Fixed Income

- The fixed income market was volatile throughout the month as treasuries dropped earlier in the month, while rates rose. However, after the announcement that a Chinese AI start-up could produce similar results for much cheaper and with less power than America's AI companies, investors moved into US government bonds, resulting in a rally in the bond market. This news is clearly deflationary over the long run.
- The Canadian Universe Bond ended January higher by +1.20%.

As at January 31, 2025	Monthly % Total Return	YTD % Total Return
Canadian Bonds *FTSE Canada Universe Bond Index*	+1.20%	+1.20%
Canadian Equities *S&P/TSX Composite Index*	+3.48%	+3.48%
US Equities S&P 500, in C$	+3.50%	+3.50%
Intl Equities (ex USA) iShares MSCI ACWI ex US	+3.49%	+3.49%
Gold	+7.35%	+7.35%
Oil *West Texas Intermediate Crude*	+1.13%	+1.13%
Canadian Dollar	-0.86%	-0.86%

Market Review in Minutes (Continued)

Commodities

- Oil (WTIC) began the year strong, reaching $79 during the month. Oil continues to be volatile around geopolitical issues in the middle east, while awaiting US policy on regulation/drilling. Mid-month, oil pared back some of its earlier gains, ending the month +1.13% higher at about $72.
- Gold gained +7.35% in January, continuing to trend higher on G7 government spending.
- The US Dollar continued its appreciation against the Canadian Dollar as it rose +0.87% in January.

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Notable Monthly Highlights

USA – President Donald Trump is back in office and started his presidency with a vast amount of executive orders

- President Trump drove volatility with several different announcements:
  - A $500 billion AI investment to create a new company, called Stargate, creating bullish sentiment in the markets.
  - An implementation of 25% tariffs on Canada and Mexico, sparking volatility and market concerns.

- Earnings season was kicked off by robust bank earnings due to resurgence of dealmaking and strong investment banking revenue; investors welcomed the results and shares of the US banks surged. Meanwhile, some tech stocks beat earnings and others, such as Microsoft and Tesla, failed to impress the market.

- A new Chinese tech startup, DeepSeek, has shaken up US tech stocks, particularly Nvidia, as investors worry that the company could disrupt the US Artificial Intelligence (AI) industry. Positioned as a more affordable and efficient alternative to ChatGPT, DeepSeek has sparked concerns about increased competition in the AI market.

- The US Federal Reserve decided to hold its interest rates at the 4.25% - 4.50% range.

- US economic data showed consumers are continuing to spend, inflation is persisting and a labour market that remains intact:
  - Retail sales grew by 0.4% MoM in December, the smallest growth in the last four months, and below the 0.6% MoM expected gain.
  - Core personal consumption expenditures (PCE), remained steady at 2.8% YoY in December, unchanged from previous month.
  - CPI moved higher to 2.9% YoY in December, which was in line with expectations. In addition, the core inflation rate in December slowed to 3.2% YoY, which was lower than the 3.3% market consensus.
  - The unemployment rate eased to 4.1% YoY in December, which was lower than the previous month, coming in slightly below expectations.

Notable Monthly Highlights (Continued)

Canada – The Bank of Canada cut its policy rate down to 3% as tariff threats continue to shake Canada's economy

- On January 29, the Bank of Canada cut its policy rate by 0.25%, down from 3.25% to 3%:
  - Future rate cuts will largely depend on the economic supply and demand forces and potential US tariff policies.
  - Inflation continues to ease as the rate came in at 1.8% YoY in December, below the expected rate of 1.9%. Core inflation ticked up slightly to 1.8% YoY in December, up from 1.6% YoY in the previous month.
  - After a flat reading in November, retail sales growth is expected to rise 1.6% MoM as preliminary estimates showed.
  - Canada's unemployment rate decreased to 6.7% in December, lower than the 6.9% expected rate and lower 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 began the year strong, posting a positive gain for the month. 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 ticked up slightly higher to 5.1% YoY in December, higher than expected and higher than the previous month.
  - The Manufacturing PMI (Purchasing Manager's Index) decreased to 50.5 in December, from 51.5 in the previous month, coming in below market expectations of 51.7.
- The European Central Bank (ECB) lowered its key interest rate by 0.25% and expects slower economic growth and another rate cut in March.

Watermark Private Portfolios Outlook and Positioning

With tariffs on clients' mind, we would like to highlight that we made changes to the portfolios in November as we expected President Trump to win the US elections. We are closely watching announcements and the impact to your portfolios. Should volatility increase, we will take down equity exposure focusing on income generation and capital preservation.

	Underweight	Target	Overweight	January 2025 Highlights
Equities			●	• We remain overweight equities in your portfolios, but repositioned them in November, as we expected Donald Trump to win the US presidency. We remain overweight US equities but invested in stocks that have lower valuations and should do well if President Trump put tariffs on other countries. • The S&P 500 continues to trend higher and the rally is broadening out to other sectors, such as financials and industrials, which we own. • We continue to hold equity investments that are high quality (ie. Strong balance sheets and growing cash flows) across all sectors, are global in nature, and have good relative valuations.
Fixed Income	●			• 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.

Changes in Portfolio Positioning Over the Past Month

In the Enhanced Conservative Plus & Private Income:

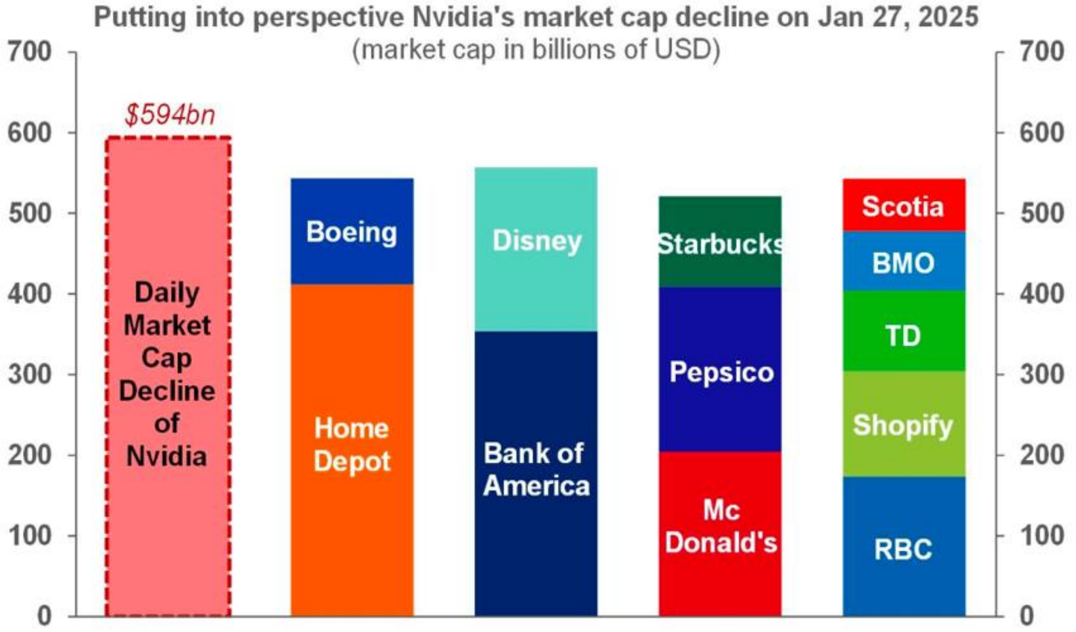
- Sold all Harvest Premium Yield 7-10 Year Treasury ETF.
- Added to the Brandsen Global Income Opportunities Pool.
- Added to the Rockridge Private Debt Pool.

Did You Know?

On January 27, 2025, Nvidia fell nearly 17% lower as the market learned about the new Chinese startup, called DeepSeek, which is a newer Artificial Intelligence company that built its AI platform for much cheaper than US competitors. To put things into perspective, as seen on the chart, the magnitude of Nvidia's decline that day was about $594 billion and was still higher than several companies combined.

Our opinion:

With high valuations of megacap technology stocks, we anticipated that any catalyst triggering investor concerns could lead to a significant correction. This expectation materialized recently when Chinese competitor DeepSeek emerged as a potential disruptive threat to Nvidia, causing its stock to fall substantially on January 27, pulling the tech-heavy S&P 500 down with it. While overweight US equities, we have moved the portfolios away from the concentrated technology stocks and hold securities that have more attractive company valuations cross different sectors.



CIO Office (Data via Refinitiv). As of January 27, 2025.

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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	2.90%	▲	4.50%	▬	4.10%	▼	2.50%	▼	22.3	▲
Canada	1.80%	▼	3.00%	▼	6.70%	▼	1.50%	▲	15.7	▲
China	0.10%	▼	3.10%	▬	5.10%	▲	5.40%	▲	10.1	▬
Japan	3.60%	▲	0.50%	▲	2.40%	▼	0.50%	▲	11.8	▼
United Kingdom	2.50%	▼	4.75%	▬	4.40%	▲	0.90%	▲	11.8	▲

Source: Trading Economics

DISCLAIMER

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