Left to Right: Tyler, Talea, Domenic, Nicole, Sarah, Cassie, Alex, Emily, Rob, Aggie, Natalie, Sara, Adam, Angelo, Britt, Luke

MARKETS. INFLATION. INTEREST RATES.

Global equity markets continue to move higher despite concerns from strategists and analysts that valuations (the price you pay for a security) are becoming stretched and elevated.

As I write, the TSX is at 21,942 and is up 4.90% year to date, and 12.73% over the past year. My personal target (which I set in November – see newsletter) for the TSX is 22,800 by the end of 2028. The S&P 500 is currently at 5,218 and is up 9.73% year to date, and 31.81% over the past year. The STOXX Europe 600 index has been up for 9 weeks straight, its longest positive upward move in 12 years. The Japanese Index is also at all-time highs, as Japan is the last country in the world to move away from negative interest rates (as of last month).

Essentially all global equity markets are touching all-time highs. This is concerning to us, as valuations are becoming stretched in our opinion, on various key metrics. Caution and discipline should be employed. That said the pendulum of emotion, sentiment and FOMO (fear of missing out) can remain elevated too far, in one direction (negative or in this case positive) for extended periods of time (months and quarters). Yet valuation "always" reign and markets eventually find an equilibrium. A couple of keys for investors to note are, not to chase the market on the way up (we are at all-time highs) and not to capitulate when the eventual down turns occur. In fact, we see these corrections/ bear markets are opportunities to add blue chip, world class businesses to your portfolio. Buy your shirts and ties on sale.

Some of the markets "flavours of the day" currently are bitcoin (cryptocurrencies) and AI (artificial intelligence) with the go-to name being Nvidia. Much like cannabis businesses and the tech bubble of 2000 (which took 15 years to fully recover) our thesis remains high quality, blue chip, dividend based, recession resistant investing, in defensive sectors, owned on a diversified basis, and most importantly purchased at attractive valuations and prices.

We continue to like GICs north of 5.00%, the odd bond fund with solid management, historic outperformance and running yields that are attractive. Also remember that our daily interest savings account (ISA) continues to pay 4.75% and 4.90% (on amounts greater than $100,000).

The Canadian equity market is less stretched in terms of valuation than the U.S., has less downside, and offers some great businesses providing dividend yields in the 4.00-7.00% range just for holding them.

INFLATION AND CENTRAL BANKS

Jerome Powell, chair of the U.S. central bank, indicated that there would likely be 3 interest rate cuts (of 0.25%) as the year progresses. These will likely be witnessed in the back half of 2024. Many strategists had forecasted more rate cuts than this, and beginning much earlier in 2024. Our team has been of the view that there will be fewer rate cuts, beginning later than most suggested, and over a longer period of time.

Inflation in Canada for February came in at 2.8% vs 2.9% the month before and consensus forecasts of 3.2%. This shows that the aggressive interest rate hikes initiated by the Bank of Canada in 2022, to stabilize and bring down inflation have worked. This marks the second month in a row that inflation in Canada has been below 3.00%, which is in the central banks preferred inflation range of 1.00-3.00% annually. Inflation in the U.S. was 3.2% last month.

In general, lower interest rates are seen as positive for the equity markets, yet as previously noted the market is a forward-looking mechanism, and valuations on equities seem to have already priced in such optimism. We suggest investors remain disciplined, cautious and patient, owning quality businesses and having a high-quality portfolio are all key to long term investment success.

BANKS Q1 EARNINGS

The big 5 banks in Canada reported their January 31, 2024 Q1 earnings in late February. Each of the banks (with the exception of BMO) exceeded analyst expectations. They also put aside additional funds for potentially weaker loans as expected. Our analyst Meny Grauman, who tends to be more pessimistic on the banks than other analysts, feels that the banks are much better positioned looking into 2025 and beyond. As I write the dividend yields on the big 5 banks, just for holding them, ranges from 4.07-6.18%. As noted many times, these 5 banks have not missed a dividend payment in over 100 years, and typically increase their dividend rate annually. The banks and financials represent our single largest sector and weighting in Canada, and are core, blue chip holdings.

TOP 1% NET WORTH

To join the ranks of the top 1% (net worth) in the United States takes $5.8M U.S. This is 15% higher than the previous year. The U.S. ranks 4th on the list. Canada does not rank in the top 15. (Source: Bloomberg).

TAXES - 2023

Personal tax returns for calendar year 2023 are due April 30 in Canada. As always we encourage clients to wait until April 10 to file your returns as some issuers have until March 31 to send out their tax slips. We are happy to assist you with questions pertaining to your tax returns.

COMMERCIAL REAL ESTATE PAINS

Commercial real estate pains are coming to a head as falling prices and higher borrowing costs squeeze property owners. Bank of America's Brian Moynihan said that commercial real estate woes are a "slow burn" and that it will take lenders time to work through their issues. Office vacancy rates remain elevated post-covid, as many workers have yet to return to the office. This issue is more pronounced in North America vs Europe.

GOLD

Gold bullion is trading near an all-time high, yet many investors would have witnessed meagre returns over the past 17 years. Since January 1, 2007 the S&P/TSX Global Gold Total Return Index has averaged 0.7% on an annualized basis.

Barrick Gold Corp (ABX-TSX) is the largest gold company on the TSX. It's share price is lower today than it was 20 years ago. Gold equities typically pay a minimal dividend as well. The materials index in Canada (which includes gold equities) represents 12% of the TSX index. We have always been underweight in this sector. Performance has been weak and as noted dividend yields are low for the most part.

MEET SOME OF OUR TEAM

Over the next few newsletters I will introduce our team members and their roles. Most of you know a few of our team members well, yet few of you know them all.

I will start with our Investment Associates this month. We often refer to these roles as Relationship Managers. These are some of the most tenured and senior members of our team. Each Investment Associate works with a limited number of clients and families, to provide great service, communication, education, advice, financial planning and so much more. These individuals are fully licensed and have a wide variety of educational degrees and industry credentials. Such skills include CAs (CPAs), Certified Financial Planners (CFPs), statistics and actuarial science studies, and licensing such as CIMs (Chartered Investment Managers), and Associate Portfolio Managers (APMs). Our Investment Associates are Nicole Johnston, Natalie Leitch, Talea Danbrook, Sara Martin, Tyler Robson, Domenic Palmieri, and Adam Moltner. Nicole and Natalie have been on our team for over 20 years and Talea has over 15 years experience. Each Investment Associate brings much experience, knowledge, professionalism and a caring approach to their role. Next month we will highlight other key members of our team.

SECTOR WEIGHTINGS IN CANADA VS THE U.S.

Enclosed are some of the major sectors and their weightings for both the TSX and U.S. market (source: Bloomberg).

Canada:
Financials: 38%
Energy: 29%
Materials: 12%
Industrials: 6%
Consumer Staples: 3%
Other: 12%

U.S.:
Info. Tech.: 19%
Financials: 19%
Health Care: 17%
Energy: 11%
Communication Services: 8%
Other: 27%

As you can witness, Canada has less diversification by sector vs the U.S. market. As well materials (gold and metals) plus energy equals 41% of the Canadian market. When you add financials Canada is 79% represented by 3 sectors. The U.S. by contrast is more diversified in sector weightings.

Canada represents 2.5% of global market capitalization. Based on this data, we have long advocated for global diversification, within portfolios, when opportunities present themselves.

HAPPY EASTER

From all of us at the Kelland Group, we wish each of you a very Happy Easter.

Rob Kelland, CIM®, FCSI®
Senior Wealth Advisor
Portfolio Manager
519.660.3229
robert.kelland@scotiawealth.com

London Office
255 Queens Avenue, Suite 900
London, Ontario N6A 5R8
1.800.265.1242
www.kellandgroup.com

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