



## Is there more where that came from?

While it was not a simple matter of smooth sailing on calm seas throughout the last 12 months, the record books will show that 2024 was a historically solid year for global markets in aggregate with the MSCI World Index turning in its best year since 2013 in Canadian dollar terms (+29.4%), the sixth best performance in its 55-year history, and recording back-to-back gains in excess of 20.0% for just the third time (following 2023's 20.0% gain) since 1970.

Those solid overall returns, however, mask significant underlying divergences. The US once again was the primary driver of the strength of the global benchmark, with the S&P 500 Index rallying by 25.0% in US dollar terms. American exceptionalism was on further display for Canadian investors as the sharp depreciation in the loonie enhanced the index's return to 36.4% on a Canadian dollar basis, the best since 2013. The gains stateside handily outpaced the (still solid) increases recorded in other Developed Market counterparts in Canada (S&P/TSX Composite Index +21.6%) and Europe, Australasia & the Far East (MSCI EAFE Total Return Index +13.2%).

Even within the US, there were significant disparities among segments of the market. Just four sectors (Tech, Communication Services, Consumer Discretionary and Financials) accounted for roughly 85.0% of the gains in the S&P 500 Index, while the "Magnificent Seven"<sup>1</sup> alone accounted for more than half of the overall return. This lack of breadth was also evident by the fact that 73.0% of constituent stocks underperformed the S&P 500 Index itself, trailing only 2023 for the narrowest breadth of performance since 1980.

Looking ahead, the underlying consumer-driven economic momentum that has been sustained through 2024 appears likely to carry into the New Year, which sets the stage for another year of modest positive (and US-led) global growth. This is set to occur alongside an ongoing moderation in inflationary pressures that would permit central banks to continue with policy easing cycles — though, the US Federal Reserve is anticipated to be less active than its counterparts.

This baseline global outlook represents a positive backdrop for equities — history shows that positive growth and modestly declining short-term rates have coincided with the asset class's best performance. But with that said, the question remains: how much upside remains in the market given the strong performance seen over the last two years that has pushed global stocks up by more than 50.0% (and US equities by nearly 70.0%)?

For starters, the narrow market performance coupled with a broader improvement in earnings, suggests that stocks are not priced for perfection. For example, while the MSCI World Index ended the year trading at a valuation that stands 1.5 standard deviations above its longer-term average (i.e., expensive), the version of the index in which each stock carries the same weighting (and therefore is more indicative of the average stock) trades at a valuation that is actually *below* average (i.e., inexpensive).

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<sup>1</sup> Magnificent Seven = Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, Nvidia and Tesla.



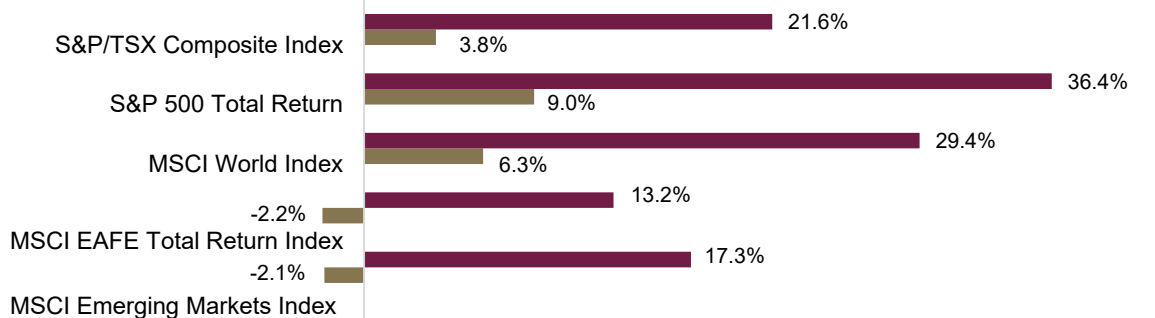
The positive performance in 2024, especially in the second half of the year, increasingly reflected a fundamental earnings thrust rather than multiple expansion exclusively (even in the US, stock performance was largely consistent with the increase in earnings). With earnings momentum still tilted to the upside and global profits currently expected to post double-digit growth next year, there remains further potential for solid equity performance. The prospect of a more pro-business government and lower tax burdens in the US suggests that American exceptionalism is likely set to continue.

The rise in geopolitical uncertainty and the attendant increase in headline risks that may come as a result of the government transition in the US, represents a material risk to this otherwise fairly sanguine outlook that could mean the path forward is not without some bumps.

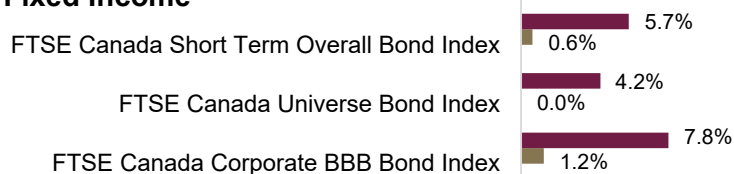
A particularly detrimental approach to international policy may well perpetuate the performance gap between the US and the rest of the world experienced over the last two years. While the likelihood is that the more onerous proposals presented on the campaign trail such as universal tariffs and hefty levies aimed specifically at Canada are nothing more than negotiating tactics that may not come to fruition, the threats — as well as other inflammatory comments such as making Canada the 51<sup>st</sup> US state — and their negative economic consequences cannot be dismissed out of hand and will weigh on market sentiment.

## Market Indices Performance (C\$ - December 31, 2024)

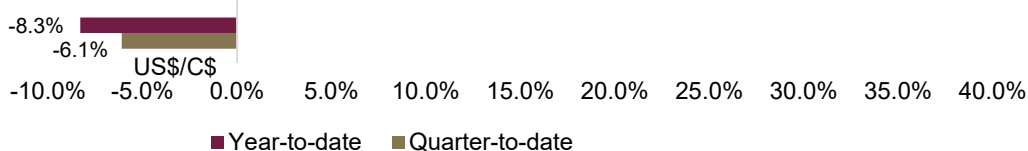
### Equities



### Fixed Income



### F/X rate



Source Bloomberg: All figures stated in Canadian dollars as of December 31, 2024



## Equity Commentary

It was a mixed fourth quarter across Developed Market equities to end 2024 as investors digested the economic implications of a return to a Trump presidency in 2025.

In the US market, companies perceived as “Trump-friendly” were rewarded this quarter, perhaps most notably in a 66.0% rally in Tesla shares following the election. The move in this single stock was a major contributor to a market-leading 14.0% gain for the Consumer Discretionary sector this quarter, and the group was joined by the Information Technology and Financials sectors as other likely winners of the new political regime. Meanwhile, other sectors such as Health Care and Consumer Staples declined in recognition of possible tighter Federal oversight. The net result of these moves was a modest gain of 2.4% in the S&P 500 Index in US dollar terms, although a sharply strengthening US dollar following the Trump victory parlayed this into a much better rise of 9.0% for Canadian investors.

The S&P/TSX Composite Index produced a 3.8% gain in Canadian dollar terms this quarter, driven by a similar mix of Financials and Information Technology stocks rallying following the November election in the US. Offsetting this, higher long-term interest rates following the Trump victory reduced the appeal of classically defensive, dividend-paying sectors such as Utilities, Real Estate and Communication Services, all of which experienced price declines this quarter.

In contrast, returns in Europe and Asia were much more subdued in 2024. Influenced by a slowing Chinese economy and possible tariff action in 2025, all 11 sectors of the market fell in value in the quarter, and only four managed to generate positive returns over the full year.

Following two years of healthy returns, equity market performance across North America, Europe and Asia in 2025 looks set to be influenced by early actions of the Trump Administration. Importantly, while investor fervour for certain industries such as artificial intelligence and semiconductors sits at high levels, valuations for high-quality stocks in many other industries reside at very reasonable levels, providing a compelling starting point in these areas for investors as the New Year begins.

## Fixed Income Commentary

It was fitting that another up-and-down year for fixed income markets ended with a volatile quarter that saw the bond benchmark FTSE Canada Universe Bond Index fall as much as 2.3% from September’s levels before rallying back to gains of 1.2% to ultimately finish the period unchanged. For the year this broad domestic bond index was up 4.2%.

On the plus side, continued and broadening central bank policy easing (including 100 basis points worth of rate cuts by the Bank of Canada) saw short-term interest rates decline, however, yields further out the curve faced upward pressure due to rising inflation expectations and a renewed focus on fiscal sustainability in the aftermath of the US election.

The net result over the quarter and 2024 was that short-term bonds outperformed longer-term debt issues, while corporate credit beat government bonds.

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Notwithstanding the likelihood that heightened near-term headline risk associated with politics and the still high degree of uncertainty around the near-term path for monetary policy keeps rate volatility somewhat elevated in the coming months, the ultimate path of least resistance for domestic market yields is likely to be lower as the central bank easing cycle exerts general downward pressure on rates.

With respect to bonds, yields on issues with longer maturities are generally expected to remain anchored compared to those at the front-end of the curve. This reflects a return to more “normal” supply and demand dynamics, as central banks are no longer active participants in the market. At the same time, governments around the world continue to issue debt to fund their growing fiscal deficits. In this context, the looming election in Canada does not suggest a willingness to rein in spending while the prospect of the adoption of an expansionary fiscal policy in the US could add upside risk to longer-term rates.

Moving further out the risk spectrum into credit can provide additional yield carry while also offering the potential for positive performance tied to improving credit fundamentals. High-grade corporate bonds appear to offer a somewhat better risk/return profile at the moment given current relative valuations and the outlook, while history shows quality credit issues have turned in the best performance against a backdrop of modestly declining rates.

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