GUARDIAN CAPITAL

GC ONE EQUITY PORTFOLIO
Q4 2023
QUARTERLY COMMENTARY

Market Review

After a soft start to Q4, global financial markets rallied aggressively through the final nine weeks of 2023 as indications of moderating underlying inflationary pressures suggested the desired rebalancing of supply and demand was taking place, allowing central banks to move to the sidelines and stoking expectations that policy would begin to move back toward “neutral” sooner than previously assumed. November and December marked the best two-month stretch for performance in stock markets in three years.
For the quarter as a whole, the MSCI World Index was up 8.7% in Canadian dollar terms against very broad-based gains across segments of global equity markets. In terms of industry sectors, only Energy registered a decline in Q4 as crude oil prices slumped in the period while the more interest rate and growth sensitive groups were the top performers. With respect to geographic regions, the US (S&P 500 +8.9%), Canada (S&P/TSX +8.1%) and Europe, Australasia & the Far East (MSCI EAFE +7.7%) and posted uniformly strong returns in Q4, while Emerging Markets underperformed (MSCI EM +5.2%).

Performance Attribution

The GC One Equity Portfolio (the “Fund”) registered a solid absolute return in Q4 (Series A +7.9%; Series I +8.2%), however, it marginally underperformed its blended benchmark (75% MSCI World, 25% S&P/TSX Composite) as the benefit from the Fund’s tactical overweight in Global Equity (the top performing asset class) was offset by the relative underperformance of the strategies held within the grouping.

Portfolio Transactions

The stark improvement in the market backdrop in Q4 prompted the decision to spend some cash held in the Fund’s portfolio to increase the allocations to US-focused equity strategies within Global Equity that stand to benefit from improving market breadth that is anticipated to come against a more sanguine economic outlook of low but positive growth, moderating inflation and lower interest rates. The allocation to Canadian Equity was unchanged.

Portfolio Outlook & Positioning

The market backdrop improved fairly notably in Q4, with the dataflow continuing to indicate that a material downturn in economic momentum is not imminent while inflationary pressures have continued to abate.

Indeed, while inflation remains above central bank targets, the degree of moderation and trajectory has removed the impetus for policymakers to keep hiking interest rates. Global central banks have increasingly moved to the sidelines, but, more notably, the recent communications from the US Federal Reserve indicated that not only are no more hikes anticipated but discussions have shifted to the potential timing of rate cuts.

This development has driven a material shift away from the views that rates would stay higher for longer, with markets pricing in more rate cuts sooner. The broad and significant decline in market interest rates fueled a notable rally in global equity markets from their October lows.

The magnitude of the recent cross-asset rally suggests that markets may well have gotten ahead of themselves, however, the easing of risks to growth, particularly with respect to interest rates, is supportive of the expansion of valuation multiples — and even with the recent increases, underlying market valuations are not viewed as particularly expensive, in large part due to the fact that the majority of overall gains last year can be attributed to a very narrow subset of the stocks.

Looking forward, while there is potential that current earnings forecasts prove to be too optimistic — setting up for some possible fundamental disappointment — any material changes to expectations are unlikely in the near- term (barring some sort of shock), while the more constructive backdrop could support an expansion of market breadth that could sustain upward market momentum for the coming months.

The year ahead will also likely see more emphasis on the impact of the developments related to what is viewed as a secular theme of artificial intelligence — and the US is viewed as the leader in this area, suggesting it will reap more productivity and profitability benefits sooner than its peers.

Overall, the Fund's portfolio asset mix remains overweight Global Equity and a focus on quality growth strategies that stand to benefit from a market environment in which general growth moderates to lower rates and profitability faces greater constraints. The small position in cash represents dry powder should an attractive opportunity present itself while collecting a high yield in the meantime.

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