Review

Markets were volatile, economic indicators varied, but the biggest news of the quarter was political as Trump sailed to election victory and Trudeau moved to the exit door. No sooner had the US result been announced than Trump began the saber rattling on tariffs, threatening nearly everyone, but particularly Canada and Mexico with hefty tariff rates.

The fourth quarter closed with a mix of optimism and caution. On December 6, the Bank of Canada announced its decision to cut its policy rate by a further 50 basis points to 3.25% amid weakening employment numbers and reduced inflation (the final CPI read for the year was 1.9% annualized) while the US Fed cautiously followed suit two weeks later with a 25-basis point cut of their own.

Despite a tough final few weeks, equity markets still delivered solid gains for the quarter, with the TSX generating 3.8% in total return (3.2% on price alone), bringing its annual performance to a strong 22%. In the U.S., the S&P 500 added 2.4% total return (with 2% on price), the Dow Jones Industrial Average gained 0.9% (0.5% on price) during the quarter.[1][2]

In fixed income, Canadian bonds (FTSE Universe Index) finished the year with a flat quarter, ending the year up 4.2%. Preferred shares continued to shine, adding another 3.5% for the quarter and achieving an impressive 24.7% return for the year, as the attractiveness of the income generation led to a strong annual recovery.

Forecast

At the start of 2024, the prime concern for the investment community was whether central banks could engineer a soft landing, curbing inflation while not causing a recession. Looking ahead to 2025, it doesn't look like we are landing yet, soft or otherwise. Inflation has cooled from a rolling

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[1] Data from S&P Global, 1/12/2024
[2] Chart from Koyfin, 1/12/2024

boil to fading simmer, employment has constricted but not gone into free fall, and the rest of economic picture looks similarly conflicted. All of this would have been true before November 6th. With Trump, the conflicts are in even sharper relief.

The subsequent rise in long bond yields in the US and, to a lesser extent, Canada signal to us that at least some part of the financial markets shares our forecasted concern. A true reacceleration in inflation—whether due to some geopolitical mishap (say, a poorly implemented tariff), economic optimism, or lack of fiscal restraint—would require tough medicine from central banks through resuming interest rate hikes. Optimism in the equity markets has not yet been dimmed by the threat of this treatment.

Strategy

Bonds remain unattractive to us. On the government side, we remain concerned about the sustainability of this reduction in inflation and interest rates, meaning that the roughly 3% yield offered by the 5 Year Govt Bond[3] versus the 2% inflation rate does not inspire great excitement. Similarly, corporate credit spreads (the premium paid to you for owning corporate bonds rather than federal government bonds), remain extremely tight at less than 1%.[4] To (over)simplify, we can buy government bonds and get 1% in real terms, or we can buy investment grade bonds and get roughly 2% in real terms. Given the current political (and geopolitical) situation, neither seem particularly attractive.

Preferred shares have been a particular highlight over the past year, with numerous companies calling back outstanding issues. While we would not be disappointed to have some of our select preferred shares called away at par, the majority have reset over the past two to three years at yields that are not easily replicated.

Despite the overall strong year in equities, there continue to be small pockets of weakness (Industrials, Materials, Consumer Discretionary, to name a few) where opportunities look reasonable, and we have been more active in recent months in adding to these areas. Our focus remains on companies that pay healthy, sustainable dividends for income-oriented clients and those growing their dividends at high rates to build long-term income streams.

Closing Thoughts

Starting with our first quarter statements in 2025, we will be sending you statements, and documentation generated by Ndex. We have worked steadily throughout 2024 to make this transition seamless and while many of you already have access to the Ndex system and will receive documents digitally, we know that some will continue to opt for paper statements. We look forward to supporting your preferences.

[3] Koyfin data for Canada 5 Year Bond, 12/31/2024
[4] https://www.spglobal.com/spdji/en/indices/fixed-income/sp-canada-investment-grade-corporate-bond-index/#overview