Quarterly Commentary

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Happy New Year

Just when stock markets seem to be reaching their limits, North American equities rallied to new highs, fueled by optimism over the U.S. election. Hopes for stronger growth, lower taxes, and less regulations boosted investor confidence, leading to robust returns. The outlook, however, is a little less clear, as newly-elected Donald Trump favours domestic growth at the expense of international and emerging-market economies.

	3 Mo %	YTD %
Fixed Income		
FTSE Canada Bond Universe	-0.04%	4.23%
Canada		
S&P/TSX Composite	3.76%	21.65%
United States		
S&P 500 Composite	9.02%	36.36%
Dow Jones Ind Avg	7.44%	25.42%
International		
MSCI EAFE	-2.13%	13.81%
MSCI Emerging Market	-1.88%	17.85%
Currency		
CAD/USD	-6.07%	-8.32%

Source: Factset, Morningstar, Raymond James Ltd. All returns are quoted in CAD as of Dec 31 2024

Interest Rates

After years of elevated inflation, the effects of higher interest rates have helped cool inflation, allowing for significant rate cuts. This has provided relief to many economies struggling with weaker economic growth including Europe, Canada and the United Kingdom.

Despite significant progress on inflation in the United States, the U.S. has had some of the strongest economic growth, which has kept inflation slightly higher than the rest of the world. President-elect Donald Trump's strong nationalist policies may keep inflation elevated, which could prompt the Federal Reserve to maintain or even raise interest rates, potentially upsetting equity markets.

Fixed Income

Bonds have dipped slightly this past quarter, losing 0.04%, as yields unexpectedly rose, following Trump's re-election. The rise in yields suggests that lower taxes and less regulation will strengthen growth, while tariffs and economic nationalism are likely to drive up inflation. Expectations are that the Federal Reserve will slow the pace of its rate cuts, as it evaluates the longer-term impact of Trump's policies.

Canada

Canada equities rose 3.76% this past quarter, despite a weaker economy. Stocks were pushed higher by aggressive rate cuts. Falling mortgage rates have helped households manage debt obligation, though rising unemployment could strain their ability to repay their loans. The outlook for Canadian equities remains uncertain, as higher unemployment, lower population growth and the possibility of tariffs imposed by the U.S. could undermine the Canadian economy. This could further weaken the Canadian dollar. Canadians also face political uncertainty as we enter an election year. Although, we anticipate further rate cuts will support higher equities prices in 2025, lower borrowing cost and valuation disparities should support modest growth.

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United States

U.S. equities gained 9.02% this past quarter, driven by strong corporate earnings and advancements in artificial intelligence. The post-election rally was fueled by Trump's pro-growth agenda, including tax cuts and deregulation, which are seen as economic accelerators. Trade tensions, however, pose risk to global trade and could push inflation higher. While valuations for large growth companies are high, growth opportunities may broaden to smaller and mid-size companies benefiting from lower borrowing cost.

International

International equities struggled last quarter, with Europe down 3.85%. Fiscal tightening across the region, coupled with political instability in countries like France, has dampened economic prospects. Germany's industrial sector faces significant challenges, and the war in Ukraine continues to weigh heavily on investor sentiment.

Emerging market equities also declined 1.88%, as China continues to face challenges with their housing market, despite the government introducing policies to reduce mortgage rates. The outlook for emerging market remains uncertain as a U.S.-China trade war is likely to further hinder emerging markets.

Key Themes

While we expect the global economy to continue to grow at a moderate pace and interest rate to continue to fall, stock market returns will likely be uneven across regions. Trump's re-election introduces a mix of opportunities and risk. His tax cuts, deregulation, and infrastructure spending should continue to benefit U.S. corporations. However, international and emerging market face ongoing challenges from rising trade barriers and geopolitical tensions, including conflict in Ukraine and the Middle East. Economically, Europe's fragile growth and valuation risk in U.S. mega-cap growth stocks warrant caution.

While the global economy enters a period of stabilization, risk remains, and investors should focus on a disciplined investment strategy. Key focus areas in the coming months include:

- RRSP and TFSA contributions
- Rebalancing portfolios that have shifted away from their strategic asset allocation
- Maintaining well diversified portfolios
- Reviewing liquidity needs for those relying on investments to support their lifestyle
- Preparation for tax season