

Wickham Investment Counsel Inc.

Quarterly Review

Dec 2023

Mind Games

Long term investors know that investor psychology can play an important role in valuations and expectations of equity and bond markets. Ben Graham called Mr. Market manic-depressive and motivated by fear and greed. Others have seen markets as half psychology and half business fundamentals and economics. Over time, business fundamentals dominate.

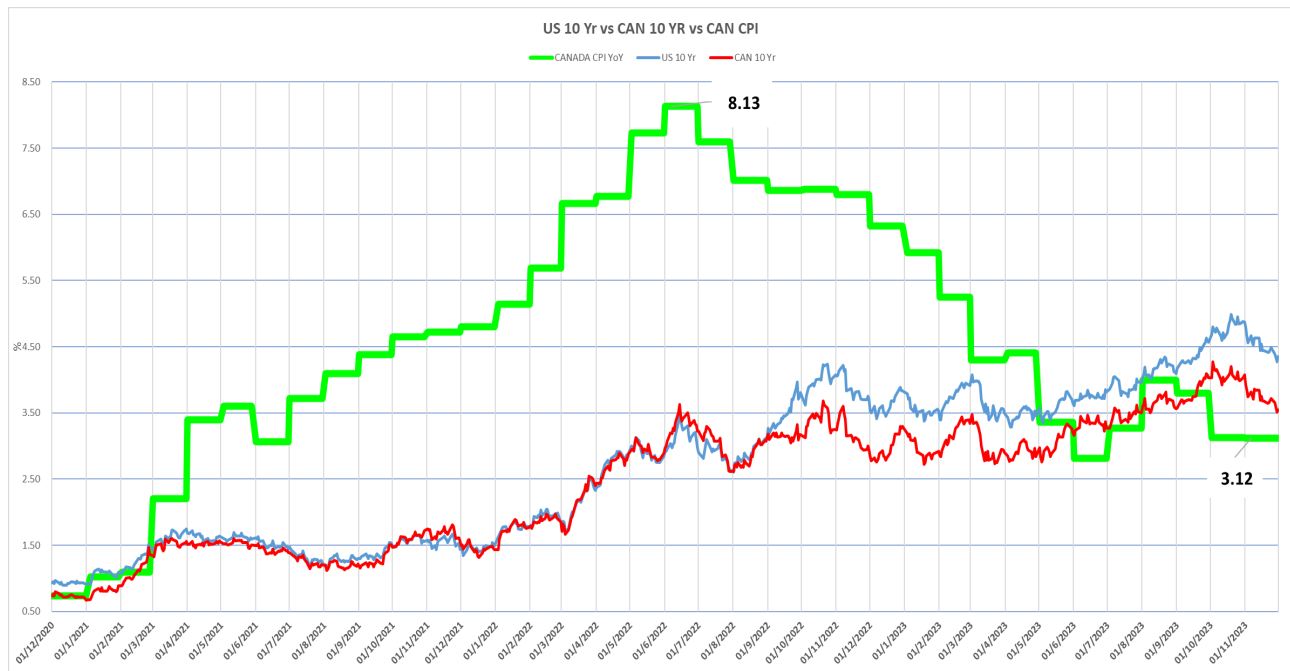
As we moved into the final quarter of the year, investors were bracing for an unprecedented third straight year of losses within fixed income allocations. The economy appeared to be headed for a recession in 2024 and equity markets were nervous and uncertain. But November made all the difference when the US Federal Reserve Chairman Powell made an undeniable less hawkish shift in tone and another Fed. Governor openly discussed rate cuts, from the current 5.5% rate, if the decline in inflation continued. The US economy, while slowing slightly, has not shown signs it is headed for recession.

The perceived **central bank pivot** saw the bulls rampage and the US Aggregate Index (fixed income) posted its best monthly performance in November in almost forty years. As shown in the attached chart, both the ten-year US and Canadian government bonds rallied by 50 – 60 basis points. The downturn in inflation has been well underway and widely documented. This rate move and dramatic change in investor psychology ignited a powerful rally in virtually everything from equities to credit and emerging markets.

The rally in interest rates signals the market belief that central bank policy has pivoted and is now pricing in rate cuts throughout this year, with a good chance that we will see cuts starting in the US and Canada by the second quarter. This market outlook reflects aggressive rate cutting and a major policy shift by the central banks. US Fed. Officials signaled that they expect to make three quarter point cuts in the Federal funds rate this year while the markets are looking for five.

While 2022 was a most difficult year for all markets, 2023 has been one of belated recovery. As such, 2024 may be on course for **the first normal year** since pre-covid days in 2019. The consensus of analyst corporate earnings projects an 11% gain for the S&P 500 index. Assuming investors are willing to continue to pay 19 – 21 times for these earnings, a year end target of 5,000 – 5,200 may be in the cards according to prominent market strategists, and 23,500 for the S&P/TSX Composite Index is possible. Real estate, consumer discretionary, utilities, information. technology and communication services are sectors that could benefit. In technology, there remains a long runway in the cloud, and artificial intelligence, driven by digital transformation, automation, and analytics. This will result in many opportunities for massive AI corporate expenditures, operational efficiency, reduced labor costs and increased productivity.

USA 10 Year vs Canada 10 Year vs Canada CPI



Sources : Refinitiv Eikon & www.150statcan.gc.ca

	Dec 31, 2016	Dec 31, 2017	Dec 31, 2018	Dec 31, 2019	Dec 31, 2020	Dec 31, 2021	Dec 31, 2022	Dec 31, 2023	% Change Dec-Dec
<u>Stock Market Indices</u>									
S&P/TSX Comp.	15,288	16,209	14,323	17,063	17,433	21,223	19,385	20,958	8.11%
Dow Jones Ind.	19,763	24,719	23,328	28,538	30,607	36,338	33,147	37,690	13.71%
S&P 500	2,239	2,674	2,507	3,231	3,756	4,766	3,840	4,770	24.22%
Nasdaq Comp.	5,383	6,903	6,635	8,973	12,888	15,645	10,466	15,011	43.43%
<u>Commodities</u>									
Gold - US\$	1,252	1,309	1,281	1,523	1,895	1,829	1,826	2,072	13.47%
Crude Oil WTI - US\$	53.72	60.42	45.41	61.06	48.52	75.21	80.26	71.65	-10.73%
Natural Gas - US\$	3.74	2.95	2.94	2.19	2.54	3.73	4.68	2.44	-47.86%
<u>Currencies</u>									
€ in Cdn \$	1.42	1.50	1.56	1.46	1.56	1.44	1.45	1.46	0.69%
£ in Cdn \$	1.66	1.69	1.74	1.72	1.74	1.71	1.63	1.68	3.07%
US\$ in Cdn \$	1.34	1.26	1.37	1.30	1.27	1.26	1.36	1.32	-2.94%
<u>Interest Rates</u>									
Cdn Prime rate	2.70	3.20	3.95	3.95	2.45	2.45	6.45	7.20	11.63%
US Prime rate	3.50	4.50	5.50	4.75	3.25	3.25	7.50	8.50	13.33%
Cdn 10 Yr bond	1.72	2.04	1.95	1.64	0.70	1.45	3.30	3.11	-5.76%
US 10 Yr bond	2.44	2.40	2.69	1.92	0.93	1.52	3.88	3.79	-2.32%

Source: The Globe & Mail