*April 2024*

# The Quarterly

With this commentary, we plan to communicate with you every month about our thoughts on the markets, some snapshots of metrics, a section on behavioral investing and finally an update on MacNicol & Associates Asset Management (MAAM). We hope you enjoy this information, and it allows you to better understand what we see going on in the marketplace.

*"I'm not the businessman. I don't deal with the business at all. Not anymore. Occasionally every four years or five years, they tell me I've run out of money. I have to go and make some more."*

- Mick Jagger, Rollings Stones Frontman

The Numbers:

-

| **Index:** | | **2024 YTD:** |
|---|---|---|
| S&P/TSX: | | 5.39% |
| NASDAQ: | | 9.26% |
| Dow Jones: | | 5.55% |
| S&P500: | | 9.89% |
| **Interest Rates:** | **Canada** | **USA** |
| 90-Day T-Bill: | 4.92% | 5.39% |
| 5-Year Bond: | 3.80% | 4.67% |
| 10-Year Bond: | 3.76% | 4.63% |
| 30-Year Bond: | 3.67% | 4.73% |

**Economic Data:**

- Stocks globally higher in March
- Commodities mostly higher in March
- Chinese manufacturing PMIs higher
- Eurozone February headline inflation was 2.6% with core reading a higher 3.1%
- BITCOIN settling into a range of between CAD $90,000 and CAD $100,000 ahead of the halfing event.
- Tesla shares give back over $75 in the first quarter on price cuts and firings

**Valuation Measures: S&P 500 Index**

| **Valuation Measure** | **Latest** | **1-year ago** |
|---|---|---|
| P/E: Price-to-Earnings | 27.2 | 23 |
| P/B: Price-to-Book | 4.7 | 3.8 |
| P/S: Price-to-Sales | 2.7 | 2.3 |
| Yield: Dividend Yield | 1.4% | 1.7% |

**2024 Calendar Year by Sector: March 31st, 2024**

| | |
|---|---|
| S&P/TSX Composite | 5.39% |
| NASDAQ | 9.26% |
| Dow Jones Industrials | 5.55% |
| S&P 500 | 9.89% |
| Russel 2000 (Small Caps) | 4.81% |
| MSCI ACWI ex. USA | 1.60% |
| Crude Oil Spot (WTI) | 14.6% |
| Gold Bullion ($US/Troy Ounce) | 4.70% |
| SOX Semiconductor Index | 18.8% |
| VIX Volatility Index | -19.8% |

Source: Canaccord Genuity Capital Markets & Thomson Reuters

**Foreign Exchange - FX**

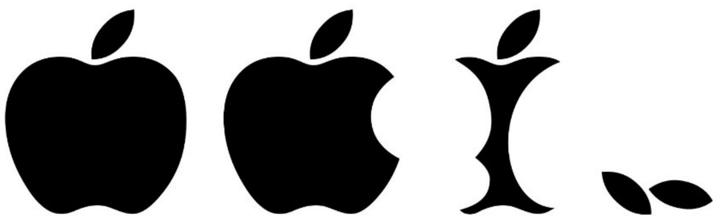
| | | | | |
|---|---|---|---|---|
| **As of April 24, 2024 10:00 AM EST** | $5,000 | Cdn | | |
| **Banks** | Rate | Buy USD | Cost | % Difference from Spot Rate |
| **CIBC** | No Public Rate Posted Online | | | |
| **Interactive Brokers** | 1.3771 | $3,631 | $(17) | -0.5% |
| **Laurentian Bank** | No Public Rate Posted Online | | | |
| **National Bank** | 1.4045 | $3,560 | $(88) | -2.5% |
| **Raymond James** | 1.3860 | $3,608 | $(40) | -1.1% |
| **Royal Bank** | 1.3978 | $3,577 | $(71) | -2.0% |
| **Scotia** | 1.4056 | $3,557 | $(91) | -2.5% |
| **TD** | 1.4062 | $3,556 | $(92) | -2.6% |
| **Canadian Snowbird** | 1.3674 | $3,657 | $9 | 0.2% |

**Shallow…**

Lady Gaga recently celebrated her 38th birthday and as a fan, I marked the occasion by playing some of her biggest hits in my living room. When I thought about how successful Lady Gaga has become, I thought about the challenges she must have faced while dealing with people who might not have understood her earlier work. Though the link between Lady Gaga [and Bradley Cooper] and interest rates may not leap out at you, it will soon. For now, close your eyes and just try to remember what everyone was talking about last November. It was the peak of interest rates. “Hold” became our industry’s catch phrase for “likely future cut” with investors of all skill levels suddenly alive with the hope that perhaps with inflation under control interest rates would be coming down soon. The National Bank of Switzerland and the Banco Central de Mexico have already embarked on monetary easing campaigns, and I expect that many of the world’s other central banks are right now obsessing over what policy changes if any they should implement next. We suggest investors avoid being shallow when it comes to inflation.

Changes to monetary policy are a very big deal and cuts to interest rates boost economic growth through increased consumption and strength in housing prices. Both do zero harm to businesses and the economy. For these reasons, interest rates have an impact across multiple asset classes be it equities, which price in robust consumption and housing into higher corporate profits or bonds which set mortgage pricing and loan terms. Equity investors seem very confident that a nascent victory in inflation automatically means [multiple] deep cuts to short-term interest rates. Their enthusiasm is understandable if not potentially premature. When interest rates are low most people are incented to spend rather than save and that drives corporate profits[1]. Ned Davis Research found that, going back almost 90 years, the average return on stocks turned positive almost immediately following the first Fed rate cut, with 20% average annualized returns 12 months after the first rate cut and that is significantly more than the long-term average for the S&P 500 of 10.19%.

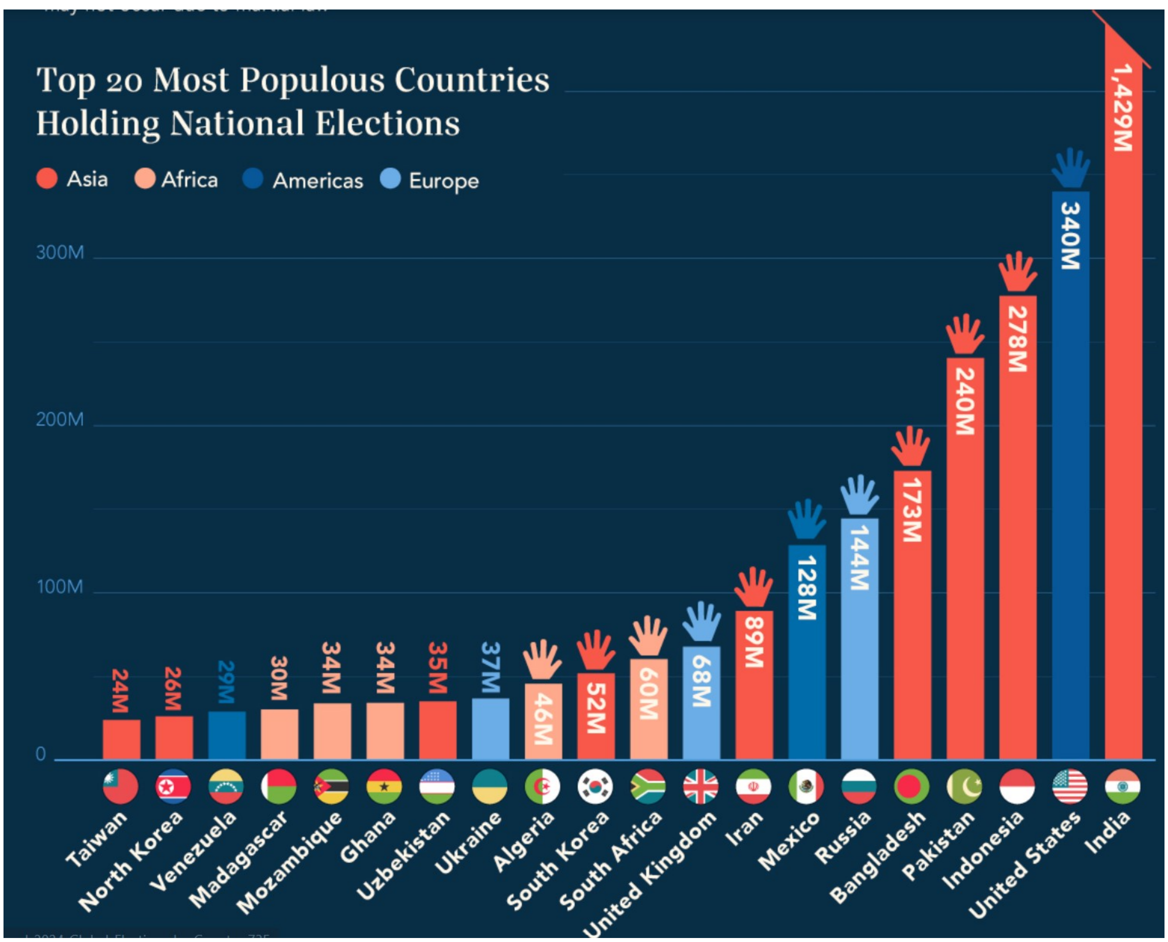
**No rate cut yet and the "Magnificent" Seven are now the "Fantastic" 5…**




The underlying technology is undeniable, but the valuations were just too high and as we just said no major rate cut yet. Thus, rather than risk having your capital chewed up or your broader financial plans wrinkled we felt there would be more attractive places to put your money. Following a mixed year in 2023, commodities have begun to perform better and their margin of outperformance over the S&P 500 has been easier to see in the last month or so. Since we feel constructive on commodities we quite like Canadian stocks and believe they should be a good place to be this summer.


1 John Maynard Keynes, Milton Friedman and Franco Modigliani suggested that consumer spending is driven by disposable income. Milton Friedman suggests that consumer spending is not solely driven by current disposable income, but also by the individual's expected lifetime income. According to this theory, consumers will adjust their spending to match their expected lifetime income, rather than just their current income. Franco Modigliani [and Albert Ando and Richard Brumberg] suggests that consumer spending is influenced by an individual's life stage and expected future income. According to this theory, younger individuals are more likely to have higher levels of debt and lower levels of savings, while older individuals are more likely to have higher levels of savings and lower levels of debt.

The Canadian dollar should also hopefully cease its downward spiral, might not be a bad idea to convert what little snowbird US monies you have left from your stay in the United States. The historically very strong correlation between oil, copper, the Loonie, and shares in Canadian resources companies means there is an opportunity transition out of big cap US tech into mid and large cap Canadian resources stocks. Canadian markets have by far the highest exposure to oil and gas and basic materials companies at approximately 30% vs. 6-7% for the S&P 500 and MSCI World Index. Even Emerging Markets are not as rich in resource companies as Canadian markets at about 13%. An energy and material stocks rally of 30% which is possible takes Canada to a 7% margin of outperformance over U.S. and world indices. Chinese PMI data for March 2024 demonstrated that the world's biggest consumer of commodities transitioned from 49.1% signaling slack to 50.8% signaling demand. Chinese PMIs seem to focus attention on Canada's energy industry but they also tend to be positive for corporate profits and high yield credit returns in adjacent countries such as Cambodia, Vietnam and Laos. Portfolio weighted average credit ratings also improve. Chinese stocks have trailed both the S&P 500 and the NASDAQ and a heavy weighting in banks, communication companies and real estate means that Chinese stocks could potentially perk up later in the second half of 2024 if the resurgence in manufacturing activity leads to higher wages and demand. We also like gold and precious metals and the Royal Canadian Mint was one of the speakers at our recent Rosedale economic update. There is no way the Mint would take such a decentralized and politically charged tone [we will] but they almost appear as concerned with global fiat currencies as they are about the political trend towards aggressive fiscal spending with multiple elections on deck:

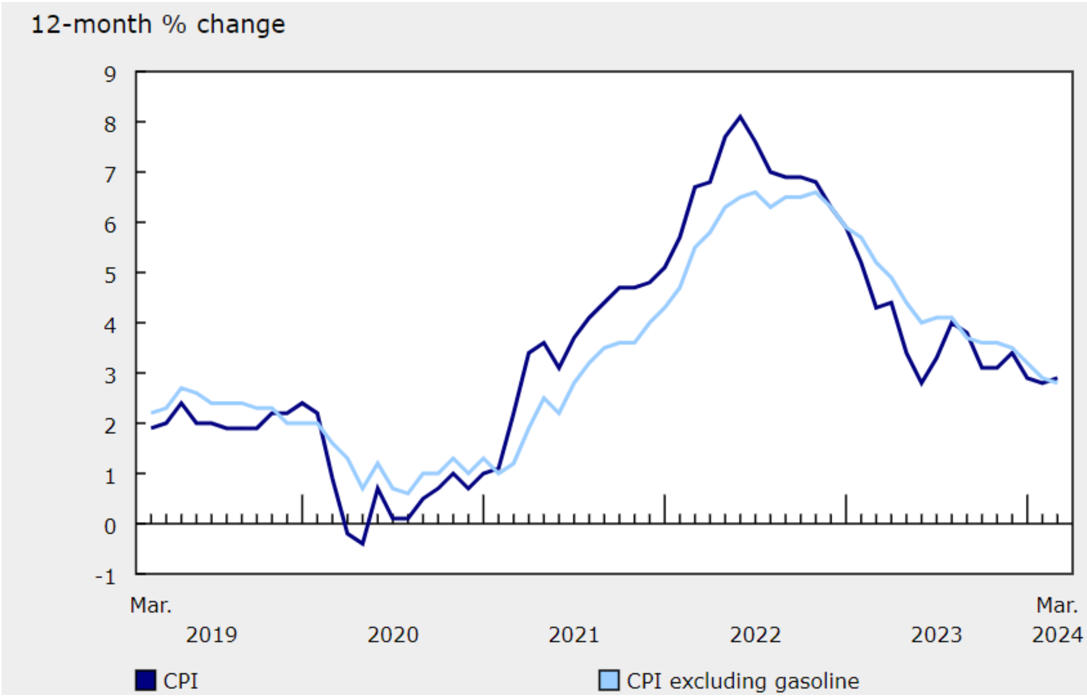


**A great place to buy gold…**

We have been in discussions with the Royal Canadian Mint about becoming our go-to supplier of investment grade bullion. Though the Mint does not provide investment [or tax] advice, they, like us, are acutely aware that despite the now $2,400 per ounce price of gold, the progress of the stock of miners involved in precious metals is shallow. Barrick Gold for instance began the year at $24 and, with some rounding and squinting, is in the same spot today. While we expect markets to eventually sort out pricing inefficiencies, our broad view is that well capitalized producers with a low all-in sustaining cost of production should distinguish themselves from more costly producers and thus remain dear to shareholders. We also tend to favor domestic producers with the flexibility to engage in accretive acquisitions.

**Nothing everything glitters…**

Andrew Adams, of Saut Strategy, a skilled technician we know and like, suggests that stock markets, overall, are in need of a bit of a reality check. And while it is rarely pleasant to see one's capital fluctuating, a minor correction would help to establish goal posts around the [overly] bullish sentiment that came with the expectation of deep cuts to interest rates late last year, a constructive development in our mind. Andrew points out that from a risk perspective, several support zones exist in and around the 21,400 zone for the S&P/TSX. In US markets, shorter-term moving averages should function as effective support and the recent about face in the Russell 2000 index suggests that a minor correction is likely as bad as it should get for major indexes. On balance, a slight sell off in stocks is far from the worst thing that could happen here given monetary policy uncertainty and geopolitical risk. And on that note, our team continues to feel that it is policy risk not geopolitical risk that will define the investment environment we face for the balance of the year though differences exist north and south of the border. As indicated on the graph on the following page, Canadian CPI is now well off its highs. Tiff Macklem, Governor of the Bank of Canada, now is the Maestro conducting an economy with two consecutive lower pitched inflation reports. Canada's latest CPI numbers brought our country's rate of inflation to the range judged to be appropriate and thus the potential for a crescendo of rate cuts is opening. The MacNicol Investment Team presumes that cuts to Canadian interest rates likely beginning in the summer however there is much uncertainty around the precising time, size and cadence of cuts that would bring our policy rate to 4% and then perhaps even lower from there. We frame our view here at MacNicol as more well balanced than our peers and the market. Canadian fixed income investments would appear to be pricing in 75 basis points of cuts this year.




January's more powerful GDP report undoubtably confused doves and enthused hawks but may not be sufficient in and of itself to delay Canadian policy rate normalization. On the other hand, US Federal Reserve Chair Jerome Powell's job would appear to be a lot tougher. As we mentioned, back in November of 2023 the market was pricing in several cuts to US interest rates, specifically 6 cuts of 25 basis points are what we understood to be the case late last year.


**[On the surface, Tiff Macklem's job would appear to be easier than that of his American colleague Jerome Powell. The Canadian economy seems to be off peak levels of inflation in a more definitive and certain way. But that cannot be said about the United States. What can be said by us is that Macklem's hand could be forced, or I guess "unforced" by developments south of the border.]**

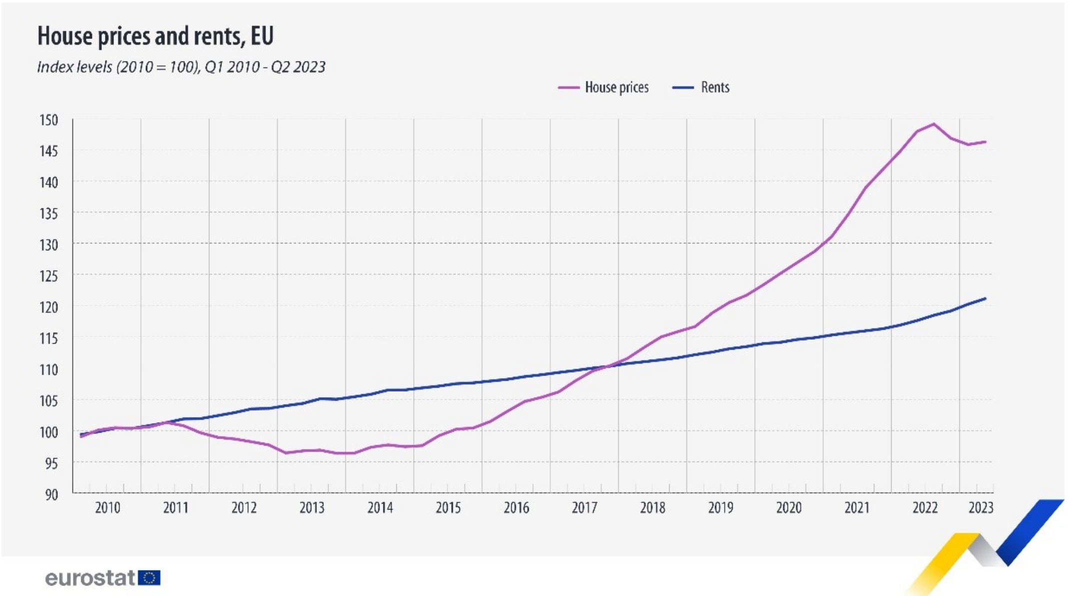
Clearly this reflects the superior underlying economic performance of the US economy relative to Canada's but this is clearly no longer the case. In our mind, it continues to remain a mystery as to when the Fed will indeed begin to cut rates. The Fed has indeed made sizable progress on lowering inflation and in some pockets the US economy has cooled by itself. Still wages and inflation remain elevated and a cut in June or even July is no slam dunk. And if inflation should reaccelerate [a thesis we openly consider as possible] not only might rate cuts be completely off the table, but a new round of hikes could enter the equation. Shallow indeed. Rather than inflation Mr. Powell may be worried about firings becoming excessive. Or could the massive decade long build up in private credit trigger a potential credit event brought on by policy being too restrictive for too long. The thing we feel most confident telling you is that inflation story has helped remove the exuberance in the U.S. Federal Funds (policy rate) pricing and explains the back-up in yields in the quarter, a trend that could persist a bit longer until we see further confirmation that conditions are better aligned for less restrictive policy. Until then, the risk is that a continued Fed dovish bias may add pressure – especially at the longer end of the yield curve – if the market believes the Fed may be willing to accept above target CPI. Barring any credit events, the risk to the easing call, especially in the U.S., is for less cuts, not more. Considering 2024 is an election year in the U.S. and it may interfere with the willingness of the Fed to be seen as political in its decisions, the policy rate re-normalization story may be more for late 2024, if not a 2025 story. This may be a bit early to call with a lot more data to flow before decision day, but it supports our slightly defensive recommended duration while we continue to gradually earn our coupons.

Lady Gaga can sing better than you because her talents are deep. Unfortunately, investors jumping the gun on stocks or holding on to overvalued positions may never see their own star be born. Instead, the new reality that investors may have to come to grips with is one in which interest rate cuts [if they happen] are more shallow.

**Gimme Shelter…**

Who could possibly follow Lady Gaga [and Bradley Cooper]? Well, what about Mick Jagger and the Rolling Stones? Inflation expectations and the various ways to quantify them run the full gamut from soprano to alto to tenor to bass.

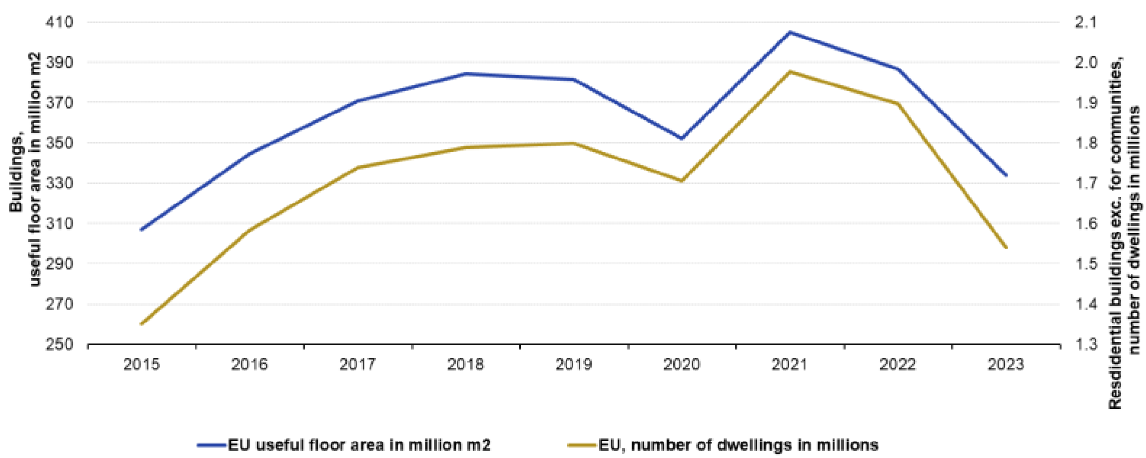
In this piece, we compare inflation readings in Europe with those in the United States. On the heels of an eyeopening US CPI, fears that the reduction in inflation may have stalled and are only fortified by the progress made in the Eurozone. But the **main** difference between the way the two regions measure inflation is housing, specifically rents. The Eurozone has not seen significant rent growth over the past decade while the United States has. Below you will find that while home prices in Europe have indeed increased, rent growth itself has been underwhelming (Source: Eurostat).




The Eurozone and the United States clearly track pricing pressures in their respective economic regions, and both have sophisticated statistical agencies with inflation reporting mandates. However, there are nuances in how they account for prices and how the prices contribute to the current divergence in inflation figures across regions. Earlier this year we told you that the European Central Bank ("ECB") may encounter similar uncertainties around her own fledgling progress against inflation. In 2023 year, the Eurozone posted a higher peak than the US in headline inflation, yet current headline inflation in the Eurozone is over 1 percent lower than in the United States. This does not necessarily imply that the ECB is ahead of the war on inflation versus the US Federal Reserve, but instead it sings to some of those nuances in the way inflation is accounted for in those regions. The simple fact is that rents have grown more slowly in Europe. But even if rents in Europe were as strong or stronger than those in the United States, those growth rates would still result in a lower overall impact on pricing pressure in Europe due to the weightings assigned to rents in Europe and the statistical lag time in accessing data. According to data from Eurostat, March headline prices in the Eurozone fell from 2.6% to 2.4%, and core inflation decreased from 3.1% to 2.9%. The figures were below Economist forecasts and supported the idea of a rate cut in the region this summer. European prices were also weaker than in the United States which saw March CPI increase from 3.2% to 3.5% and core unchanged at 3.8%. Yet within American CPI readings shelter remains one of the largest contributors with 5.7% year-over-year growth and a weighting of over 36 percent. Eurozone housing carries much less weight (15%) and has if anything been disinflationary of late. Another factor that gyrates as much as Mick Jagger did as a young man are the way utility readings are incorporated in the respective regions. The price of electricity, gas, and other fuels that can short circuit in one measurement period and explode in another are grouped in Europe's housing category and this differs from the approach used in the US.

Another sizable difference in the shelter inflation measurement across the Atlantic is the absence of owner-occupied housing in Europe. In America, owners' equivalent rent carries significant weight in the headline inflation calculation, nearly 30%. Many countries in Europe also collect rent data monthly, resulting in a shorter time lag between real-time rent growth and rent inflation figures versus the US where rents are surveyed semi-annually. Lagarde's European Central Bank reckons that rent growth has only contributed 10 basis points to overall inflation since 1999. This is a function of growth rates and inclusion rates. Rents in Europe have seen modest growth when compared to those in the US and they account for less than 6% of Eurozone inflation. Rents in Europe are going up mainly as a result of a supply shortage, but they are not currently inflation "drivers" as they are in America.

**Building permits in the EU, 2015 - 2023, absolute values, annual data, unadjusted**




*Source:* Eurostat (online data code: sts_cobp_a)

eurostat

We get the impression this trend may continue. Eurostat in the above shows a decline in permits issued for residential buildings during much of 2023 in Europe. Our real estate program here at the firm continues to favor the US and though we have observed a softening of rent growth in the US amid an elevated supply environment in 2024, we anticipate a similar pattern of lower supply in the US soon. As Mick Jagger points out, every so often he runs out of money and has to go make some more. That won't be the case for you, our valued investors because for the time being we will continue to use a portion of your investment to help give you shelter.

**Behavioral Investing: anchoring**

Do you ever crack open a portfolio statement, see that you've made money overall, yet somehow get bogged down by the hopelessness and pointlessness of starring at the lone or possible two money losers in the bunch?

**Congratulations…you're human!**

Anchoring is a sort of heuristic that subconsciously uses irrelevant information as a reference point. Note, chronically underachieving stocks should at some point be given the boot yes, but every stock has its ups and downs [BCE shareholders have paid a steep price for those dividends, especially over the past 2 years]. Still, it is only natural though frankly unproductive to dwell on the travails of a single company. One example of another anchor is the historical type. Investors are famous for getting fixated on values as anchors. For instance, if you bought a stock for a certain price and it starts falling, you may be tempted to hold onto it because you cannot accept a loss. Salespeople take advantage of anchoring by starting negotiations at far above market value. The full beans price serves as an anchor makes you think you got a deal when there's a chance you still got taken. Successful Trading and Investing requires a lot more than having the right process and discipline. In the long run, the hardest financial skill is focusing on the bigger, broader picture. Are you making progress not only in reference to the world around you but the sort of life you want to lead and the risks you want to take.

The MacNicol Investment Team can help you see the bigger picture in your investment portfolio. Our experience of working with families just like yours means we can help you better navigate your overall voyage through today's increasingly uncertain economic world. The end result will be arriving at your own financial destination more smoothly and without having to drop the anchor.

**The MacNicol Investment Team**

**Firm Wide News:**

Our Rosedale economic event was a hit with speakers covering off investments in gold and water.

Our April webinar will feature Michael Coolbaugh of Elements Macro and will take place on April 26th at noon eastern time.

The Canadian tax deadline for individuals at the end of April.