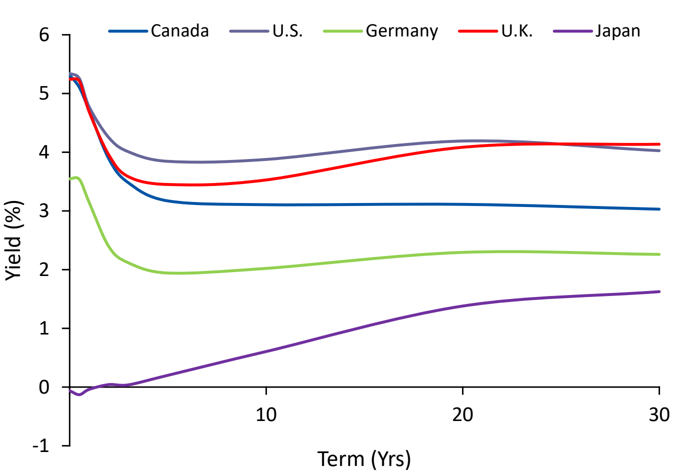
Market Statistics

	Dec/23	Sep/23	Jun/23	Dec/22
Yields (%)				
90 Day T-Bill	4.92	5.07	4.90	4.23
10 Yr. Canada Bond	3.13	4.02	3.26	3.28
30 Yr. Canada Bond	3.06	3.82	3.09	3.23
Rates				
C.P.I. (annual %)	3.12	3.80	2.81	6.32
US$/C$	0.76	0.74	0.75	0.74
Euro/C$	0.68	0.70	0.69	0.69
Prices (US$)				
Crude Oil (bbl.)	72	91	71	80
Natural Gas (mm)	2.51	2.93	2.80	4.48
Gold (oz.)	2,062	1,848	1,921	1,820

Market Returns

	Periods Ending Dec. 31/23			
			Annualized	
	3 Mo.	1 Yr.	5 Yrs.	10 Yrs.
S&P/TSX	8.1	11.8	11.3	7.6
S&P 500 (C$)	9.3	23.3	15.0	14.5
S&P 500 (US$)	11.7	26.3	15.7	12.0
MSCI EAFE Net (C$)	8.0	15.5	7.5	6.6
MSCI EAFE Net (US$)	10.4	18.2	8.2	4.3
MSCI World Net (C$)	9.0	20.9	12.1	11.0
MSCI World Net (US$)	11.4	23.8	12.8	8.6
Bond Universe	8.3	6.7	1.3	2.4
91 Day T-Bills	1.3	4.7	1.8	1.3

Yield Curves



The Economy

Just over a year ago, central banks globally began aggressively raising interest rates as inflation had increased to high single digit levels, a consequence of Covid plagued economies re-opening and a surge in spending and demand for all goods and services. Initially, supply chains were not able to keep up as a result of the constraints and shut downs implemented during Covid. The eventual slowing of economic growth caused by the rise in interest rates and supply normalization have now brought inflation rates down significantly.

November Annualized Change (%) in Consumer Prices	
Canada	3.1
United States	3.1
Eurozone	3.1
United Kingdom	3.9
Japan	2.8

As a result, central banks paused late in the fourth quarter of 2023, with no further increases in interest rates emanating from their most recent meetings. However, there is only speculation and no affirmative statement on the timing of any potential decline in rates as leading economic indicators for growth and inflation remain mixed and the central banks have not yet achieved their 2.0% target inflation rates. The chart at the top of page two demonstrates that global Purchasing Managers Indices have been hovering in the 50 range. (A reading above 50 suggests expanding future growth while a number below 50 indicates a contracting economy.) Pressure also remains in the labour market where low unemployment rates are resulting in multi-year wage settlements greatly in excess of inflation targets, especially in North America.

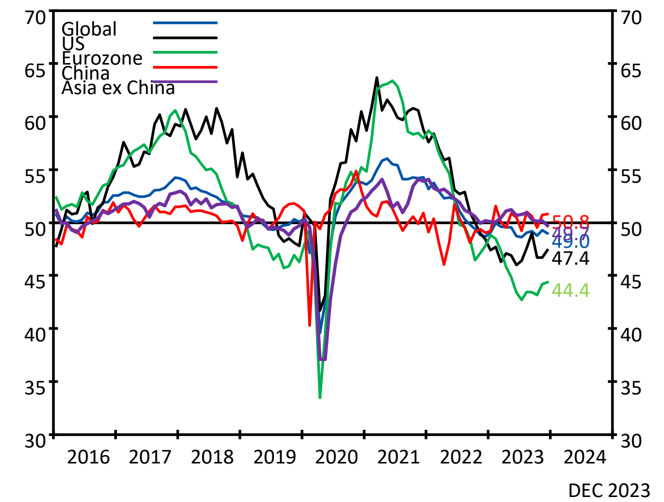
Continued positive economic growth rates and a tight labour market suggest that reaching a 2.0% inflation target may still take some time to achieve and therefore any movement downward in interest rates is months away.

The Markets

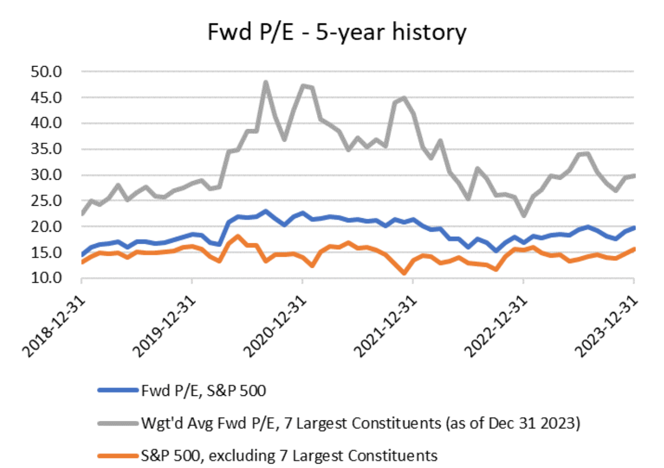
Lower inflation rates reported near the end of 2023 and investors' belief that declining interest rates were therefore imminent, resulted in a surge in both stock and bond markets. The S&P/TSX returned 8.1% in the fourth quarter, S&P 500 9.3%, the MSCI World Index 9.0% and bonds as measured by the Universe Index gained 8.3%. While returns were positive across most industries, the technology sector continued to lead.

For the year, Canadian stock and bond returns were almost exclusively earned during the fourth quarter.

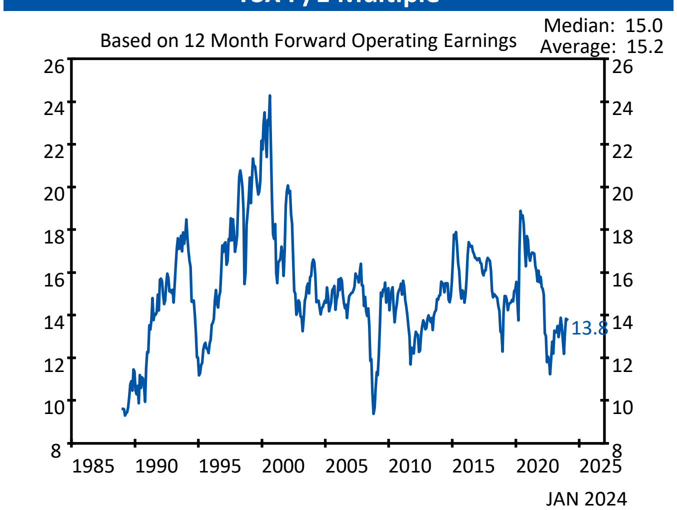
Manufacturing PMI – Major Economies



P/E – Magnificent Seven



TSX P/E Multiple



Despite some broadening of returns in recent months, the seven largest technology related stocks with exposure to artificial intelligence software/hardware continued to provide most of the sizable US and foreign market returns. The table below indicates, the so-called "magnificent seven" have provided 63% of the S&P 500 return for 2023.

S&P 500 Contributions - 1-year ending Dec 31, 2023

	Price Return (%)	Weight (%)	Contrib. to Index (%)
Nvidia	238.9	1.1	2.7
Meta (Facebook)	194.1	0.8	1.6
Tesla	101.7	1.0	1.0
Amazon	80.9	2.3	1.9
Microsoft	56.8	5.6	3.2
Alphabet (Google)	58.6	3.1	1.8
Apple	48.2	6.0	2.9
		20.0	15.2
S&P 500 Price Return			24.2

Share price valuations have increased in 2023, but as the middle chart on the left indicates it's the "magnificent seven" that carry extraordinarily high valuations. **Excluding these seven stocks, the remaining S&P companies are trading at a historical low range of 15 times earnings and similar to the S&P/TSX (bottom chart). Bonds on the other hand, appear expensive as yields already reflect a 2.0% inflation rate**. Normally, government bonds will yield approximately 1% above the rate of inflation. Currently a Canadian 10-year bond yield is 3.05%, i.e. 1.05% above the target inflation level. Purchasing longer maturities provides no relief as there is only 0.1% of added yield when buying bonds with longer maturities (30 years – see blue yield curve on page 1).

If inflation disappoints and remains above the 2% level for any period of time then bond prices will correct and yields will increase. In this environment, the ownership of shares in companies that can pass along cost increases remains preferred even in a weakening economic environment as valuations are not excessive. If inflation does reach the 2% level, then we would certainly expect an increase in share price valuations as short-term interest rates will be lowered, driving more funds into the stock market and away from low-yield fixed income instruments.

Sources: TD Securities Inc., Bloomberg