THE COERENTE VIEW

1ST QUARTER 2024

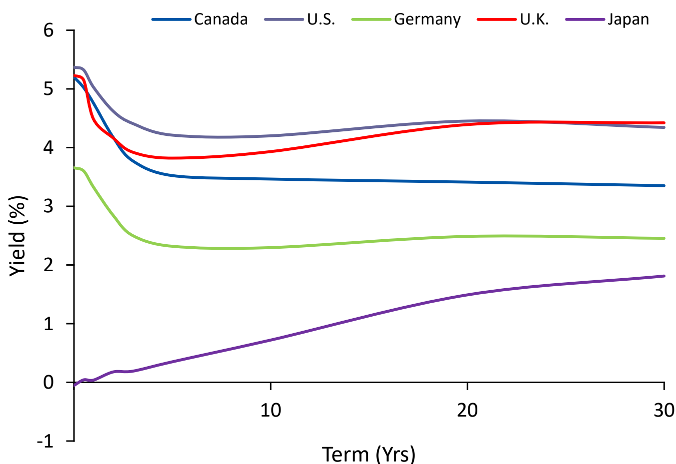
Market Statistics

	Mar/24	Dec/23	Sep/23	Mar/23
Yields (%)				
90 Day T-Bill	4.99	5.04	5.07	4.34
10 Yr. Canada Bond	3.48	3.13	4.02	2.90
30 Yr. Canada Bond	3.37	3.06	3.82	3.04
Rates				
C.P.I. (annual %)	2.78	3.40	3.80	4.30
US$/C$	0.74	0.76	0.74	0.74
Euro/C$	0.68	0.68	0.70	0.68
Prices (US$)				
Crude Oil (bbl.)	83	72	91	76
Natural Gas (mm)	1.76	2.51	2.93	2.22
Gold (oz.)	2,217	2,062	1,848	1,969

Market Returns

	Periods Ending Mar. 31/24			
			Annualized	
	3 Mo.	1 Yr.	5 Yrs.	10 Yrs.
S&P/TSX	6.6	14.0	10.0	7.7
S&P 500 (C$)	13.3	30.0	15.4	15.3
S&P 500 (US$)	10.6	29.9	15.0	13.0
MSCI EAFE Net (C$)	8.4	15.5	7.6	7.0
MSCI EAFE Net (US$)	5.8	15.3	7.3	4.8
MSCI World Net (C$)	11.6	25.3	12.4	11.6
MSCI World Net (US$)	8.9	25.1	12.1	9.4
Bond Universe	-1.2	2.1	0.3	2.0
91 Day T-Bills	1.2	4.9	2.0	1.4

Yield Curves



The Economy

Today, the economic focus is on global central banks as most have indicated that the next major move in interest rates will be downward. While inflation rates have declined significantly in developed markets from the high single-digit levels experienced during Covid, the target level of 2.0% has not yet been reached as unemployment levels have been low and as a result, wage and service industry inflation high. The rate of inflation remains stuck in the 3% range for most of the major economies. Recently, commodity prices have also increased causing a further buoyancy in the cost of goods. The central banks are a cautious group and want to ensure that inflation is indeed continuing to trend downward but recent data has been providing mixed signals.

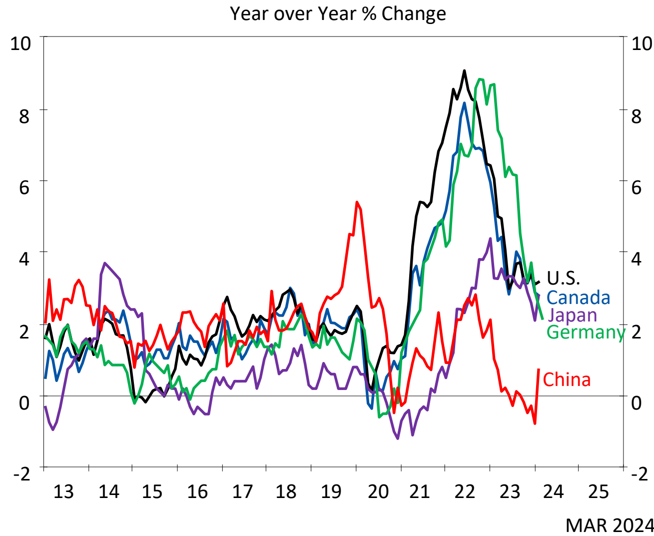
Economic growth has also remained positive, despite some suggestions that a recession may be imminent. At this juncture, any added stimulus provided by lower interest rates could result in inflation rates rising once again. As a result, we are in a paused position with optimists forecasting interest rate declines this coming quarter and others indicating a downward move closer to the end of the calendar year. The table below summarizes current inflation rates, economic growth and interest rates.

	Inflation Rate (%)	Real Economic Growth (%)	Central Bank Rate (%)
Canada	2.8	1.0	5.0
United States	3.2	2.1	5.3
Euro Zone	2.6	1.5	4.5
United Kingdom	3.4	0.4	5.3
Japan	0.1	1.0	0.1

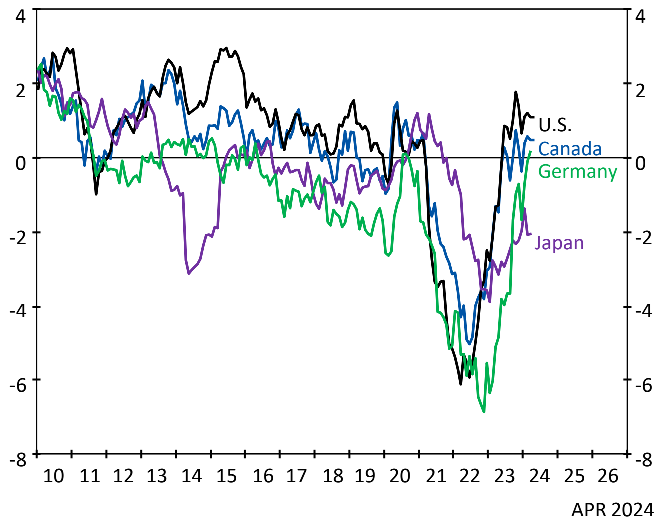
Inflation rate is latest 12-month CPI.
Real economic growth is 12 month trailing real GDP.

The Japanese economy has been an outlier as deflation has been a problem and only more recently, has some inflation resurfaced. For others, the eventual lowering of bank rates from near 5% levels will result in lower short-term interest rates. Longer-term interest rates, however, will only decline if investors are convinced that inflation rates will remain low. As demonstrated by the table on the left, yield curves (for all except Japan) are currently inverted (short-term interest rates are higher than longer-term interest rates). The decline of longer-term interest rates is important as capital investments, including infrastructure and real estate, are funded with longer-term debt - another reason for central bankers' overriding concern for sustained lower inflation rates.

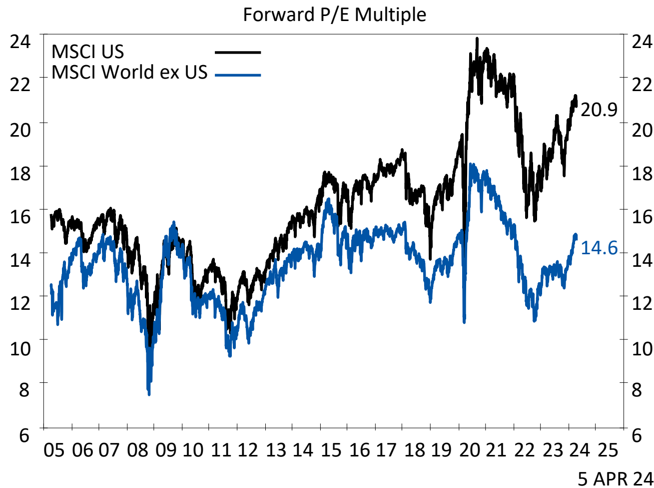
Global Inflation



Real Long-Term Government Bond Yields



Global vs. U.S. Equity Market



The Markets

Returns were strong in virtually all equity markets during the first quarter. While technology related sectors continued to lead, providing approximately half the S&P 500 returns, performance has broadened out when compared to 2023. The S&P 500 index returned 13.3% for the quarter, the MSCI EAFE index 8.4% and the overall World index 11.6%. The Canadian based S&P/TSX return, with the lowest exposure to technology, was more modest at 6.6%. The stock market gains were driven by the continued strength in earnings and the economy in general. However, as indicated in the bottom chart of this page, share price multiple expansion was significant (i.e. valuations increased).

The bond market was very strong during the fourth quarter of 2023, as there was exuberance for near-term interest rate declines. With central bankers remaining relatively cautious during the first quarter, bonds gave back some of the 2023 gains and the Bond Universe index returned -1.2%. Bond yields have only recently provided a modest positive real yield (yield minus inflation) in North America but continue to be particularly unattractive elsewhere, where inflation continues to exceed yields. More significant real yields (near 2%) are available with North American corporate bonds, which are owned in our portfolios. There remains little reason for purchases beyond the 5–6-year term range as investors are not rewarded with higher yields for buying longer maturities.

The bottom chart on this page also demonstrates the expensiveness of the U.S. stock market, where valuations are 45% higher, relative to the rest of the world. Underlying the U.S. valuations are the high valuations of the technology related stocks that make up approximately one-third of the index. It is in many of these stocks where the greatest risk resides today. Comprising such a large part of the market can also result in some initial volatility in the market as a whole if declines were to occur. We remain committed to a diversified approach and indeed find continued attractiveness in a number of other industry sectors.

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Sources: TD Securities Inc., Bloomberg