THE COERENTE VIEW

2ND QUARTER 2024

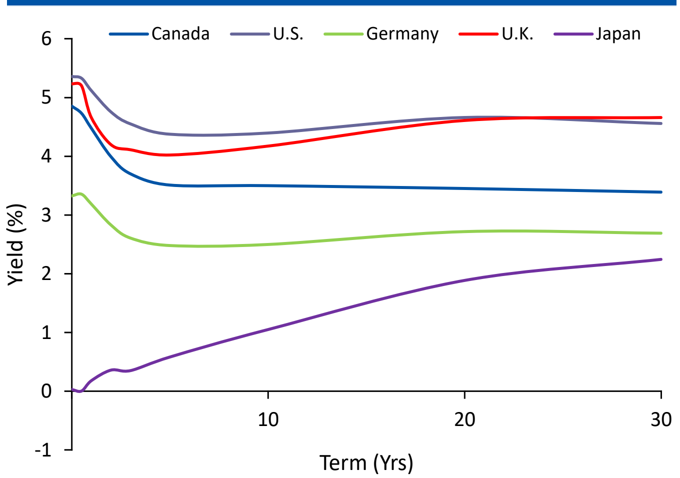
Market Statistics

	Jun/24	Mar/24	Dec/23	Jun/23
Yields (%)				
90 Day T-Bill	4.64	4.99	5.04	4.90
10 Yr. Canada Bond	3.50	3.48	3.13	3.26
30 Yr. Canada Bond	3.39	3.37	3.06	3.09
Rates				
C.P.I. (annual %)	2.90	2.90	3.40	2.81
US$/C$	0.73	0.74	0.76	0.75
Euro/C$	0.68	0.68	0.68	0.69
Prices (US$)				
Crude Oil (bbl.)	82	83	72	71
Natural Gas (mm)	2.60	1.76	2.51	2.80
Gold (oz.)	2,328	2,217	2,062	1,921

Market Returns

	Periods Ending Jun. 30/24			
			Annualized	
	3 Mo.	1 Yr.	5 Yrs.	10 Yrs.
S&P/TSX	-0.5	12.1	9.3	7.0
S&P 500 (C$)	5.5	28.9	16.1	15.7
S&P 500 (US$)	4.3	24.6	15.1	12.9
MSCI EAFE Net (C$)	0.6	15.3	7.4	7.0
MSCI EAFE Net (US$)	-0.4	11.5	6.5	4.3
MSCI World Net (C$)	3.6	24.2	12.8	11.9
MSCI World Net (US$)	2.6	20.2	11.8	9.2
Bond Universe	0.9	3.7	-0.1	1.9
91 Day T-Bills	1.3	5.1	2.2	1.5

Yield Curves



The Economy

Global economic growth continues to progress in the developed economies. The OECD chart on the top of page two indicates all of the G7 economies will achieve positive growth in 2024, led by the United States with a projected rate of 2.6%, ahead of Canada, the Euro Zone, Japan and the UK. A recession does not appear imminent despite interest rates remaining high. The rate of inflation has declined for all economies but has not yet reached the 2% target desired by global central bankers (see second chart on page 2).

Interest rate policy has now diverged amongst the leading nations. A cautious approach in particular has been taken by the US Federal Reserve where inflation has hovered close to 3% and economic growth has held relatively strong. After years of deflation and a shrinking economy, Japan is finally experiencing some inflation and has moved to a positive bank rate. Meanwhile, softer economies in Canada and in the Euro Zone have resulted in an initial 0.25% interest rate cut.

	Central Bank Interest Rates (%)	
	Dec. 31, 2023	Jul. 2, 2024
Canada	5.00	4.75
United States	5.50	5.50
Euro Zone	4.50	4.25
United Kingdom	5.25	5.25
Japan	-0.10	0.10

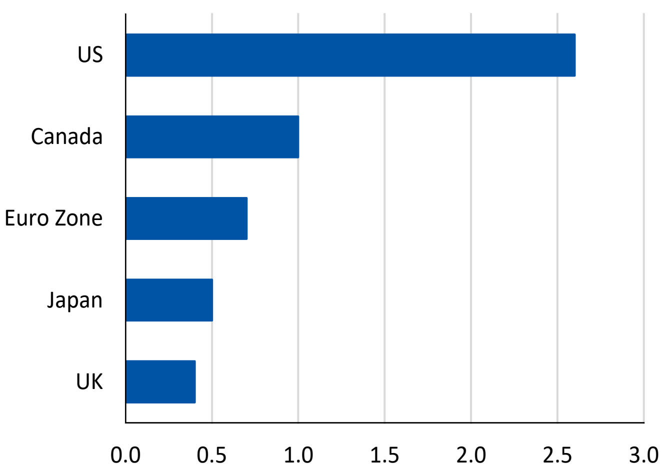
A few unsettling inflation releases since the rate reductions may now mean a pause before any further moves. In Canada specifically, wage settlements continue to trend well above the inflation target. Canadian statistics for 2024, are showing contracts of an average term of 3 years with first-year increases of 3.8% and an annual average of 3%. A dramatic increase in immigration has caused an increase in the unemployment rate and this could eventually cool the gains in wages.

We expect a continued cautious approach by global central bankers. If economic growth were to unexpectedly slow, short-term interest rates may be lowered with a willingness to accept inflation rates above target levels. This would most likely preclude any reduction in longer-term interest rates as investors demand a positive real yield (interest rate minus inflation rate) for any bonds purchased. We could, once again, see normal yield curves where longer-term interest rates exceed short-term rates.

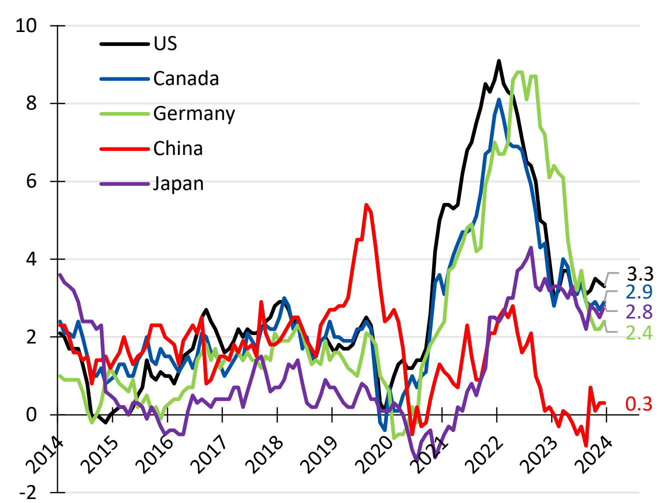
The Markets

Global equity markets provided a sizable 3.6% return in Canadian dollar terms for the second quarter of 2024. Of that return, 1.0% was the result of the Canadian dollar declining as the Bank of Canada reduced interest rates ahead of the US and a number of the other major economies. The global return was heavily fueled by the US stock market as the EAFE (Europe, Australia and the Far East) index was negative for the quarter in local currency terms.

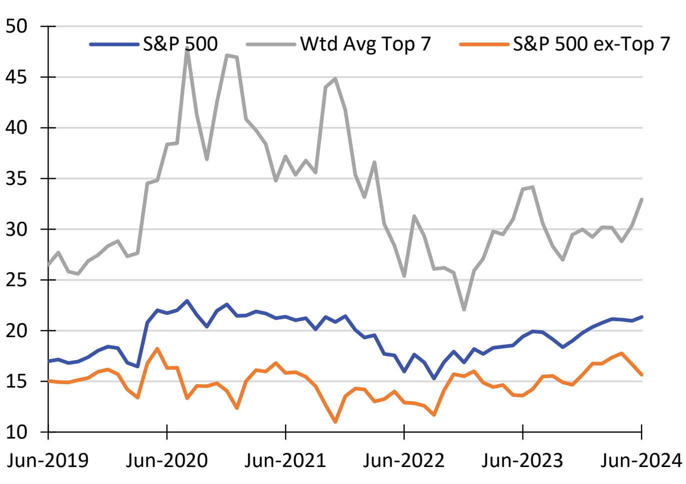
2024 GDP Growth Projections YoY (%)



Global CPI Inflation YoY (%)



Forward P/E – Magnificent 7



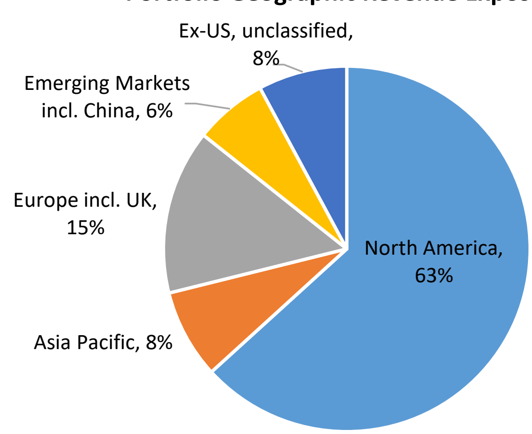
The Canadian-based S&P/TSX was also slightly negative for the quarter at -0.5%.

The strong equity market returns in the US were generated by the same artificial intelligence related companies that have powered the market since early 2013. These companies provided 60% of the total 15.3% S&P 500 return (in local currency) for the year-to-date period. Nvidia's (semiconductor chip manufacturer) share price appreciation alone provided 30% of the total. While equity market performance has been narrowly focused, profitability has been more broadly based. Overall, earnings have been relatively strong and for the S&P500 are expected to increase 11% this year. Share price multiples for the technology related sectors have expanded at a much faster rate than earnings making them much more expensive than the "average" stock as evidenced on the forward P/E chart (below left).

The bond market provided modest returns gaining 0.9% for the second quarter as measured by the Bond Universe Index. The gains were driven by the 0.25% decline in the Canadian bank rate. Bond yields in Canada remain slightly positive on a real rate of return basis making them modestly appealing for investors. Any bonds held in our accounts are, however, short in term as higher interest rates are not being offered for purchasing longer-term maturities.

History has demonstrated that a diversified portfolio remains paramount when markets experience extreme valuations within a particular sector. We have and continue to maintain a meaningful weighting in service-related technology companies but we have also ensured our portfolios remain well diversified by sector and country as demonstrated by the geographical exposure of our foreign holdings below.

Portfolio Geographic Revenue Exposure



Sources: Bloomberg, National Bank Financial, OECD, Company Reports