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Wealth Management
Dominion Securities

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Quarterly Update

Despite market volatility amid evolving repricing of central bank rate expectations, our 2024 outlook remains broadly unchanged. Inflationary pressures are continuing to fade even if the road along the way is bumpy and central banks will need to carefully calibrate policy rates as a result. Economic data has been resilient, recession risks have diminished, and inflation has cooled sufficiently for the Bank of Canada to implement their first cut and for the U.S. Federal Reserve (the Fed) to highly consider cuts going forward. The upcoming U.S. election will continue to draw attention as we near November. While this always tends to be a hot button topic every four years, we are less concerned about which party is in charge and more concerned with where we are in the given economic cycle and the current state of corporate earnings.

Equity investors see positive avenues ahead

The S&P 500 and most other major indexes are at, or have recently set, new highs. And market "breadth" has led the way. In other words, it's not just the so-called "Magnificent 7" that have been driving the large-cap index higher. In our view, one of the prime driving forces behind the broad market up-leg under way since the October lows has been a growing conviction that the first U.S. Federal Reserve rate cut would arrive sometime in the first half of this year. The stock market usually pays ahead of time for conditions it is confident will prevail over the coming six to twelve months. But it rarely pays a second time once the anticipated policy change or earnings growth arrives.

The non-negotiable condition, in our view, would be that the inflation rate moves closer to the Fed's 2% target and appears capable of sustaining or bettering that level. Most forecasts reflect that happening despite some recent price "stickiness" and the rebound in energy prices. RBC Global Asset Management estimates U.S. inflation will come in at 2.8% this year and 2.3% next. Fed policymakers, rightly so, in our view, pushed back against the market's hopes for an earlier start to rate cuts, wanting to see more evidence that inflation remains on the road back to 2.0%. We continue to believe the Fed's confidence that inflation is moving in the right direction. While forecasts on the number of cuts in 2024 has diminished, we continue to believe that the Fed is much closer to rate cuts than hikes.

Housing costs comprise the largest weight in the U.S. inflation equation where they tend to lag actual rents by roughly a year. The Zillow Observed Rent Index fell sharply

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for 16 months into August 2023, suggesting the housing contribution to the overall inflation rate could go on shrinking into this summer. As of February 2024, the U.S. Consumer Price Index less Shelter was running at just 1.8% year over year. Also welcome would be the emergence of some excess capacity in the economy, especially in the labour market, enough to give the Federal Open Market Committee confidence that cutting interest rates wouldn't quickly re-ignite another inflation surge.

The Fed, economy, innovation, and profits tend to matter more to stock market performance than politics and election outcomes. Developments at the White House and on Capitol Hill usually don't make or break America's $28 trillion economy or the profits of most S&P 500 companies. Rather, the Fed's monetary policies have historically influenced the economy, inflation, bank lending, and credit availability much more.

There are a bevy of election issues that we think markets will be paying attention to during this campaign season, and soon after the election, related to economic policy, foreign policy, and sectors and industries. Wall Street's priorities, which are shown in the lists below, can differ from what large portions of the electorate prioritize. This election cycle, we think three issues on the list will stand out for Wall Street: Tax rates on individuals, tariff and trade policies, and the U.S.-China rivalry.

A bevy of election issues for markets to focus on

Economic policy	Foreign policy	Sectors & industries
• inflation	• tariff & trade policies	• energy policy
• tax policy	• sanctions	• energy transition
• federal spending	• U.S.-China rivalry	• green initiatives
• federal debt & deficit	• onshoring, near-shoring	• infrastructure spending
• immigration	• friend-shoring	• tech subsidies
• student loan debt	• deglobalization	• tech & AI regulations
• Treasury/Fed appointments	• de-dollarization	• health care policy
• Washington gridlock	• U.S./NATO-Russia risks	• FDA rules
	• a wider Middle East conflict?	• defense spending
	• multipolar world	• banking regulations

Source - RBC Wealth Management

Americans and observers outside the country who are interested in politics and public policy rightly assign high importance to U.S. election outcomes. But we think U.S. financial markets are typically more influenced by Fed policies in the short run and by economic trends, innovation, and profit growth over a longer time frame.

What are we doing?

Amid the number of headline news stories that we continue to fight off, we remain very constructive on the continued growth on both sides of the border – more so in the United States. In lieu of the market correcting around 7% back in early April, we used the opportunity to add to some of our high-quality equities that have continued to be the market leaders over the past year and a half. While these same equities names have catapulted from their 2022 lows, it is important to remember that these same companies have grown their earnings at an above market rate. We remain committed to equities, but are watchful. Markets are exhibiting sustained upward momentum that may deliver further new highs in the coming weeks and months. Corrections can't be ruled out, but some important precursors of bear markets — very high investor sentiment and declining market breadth — are not yet in evidence.

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