Wealth Management
Dominion Securities

DECEMBER '23 *EDITION*

not your ORDinary newsletter

Winter wonderland

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DECEMBER MARKET UPDATE

Season's Greetings everyone! What a difference a month can make. November kept its crown as the best-performing month for stocks on the calendar (as discussed in our last newsletter), and investors are feeling a sense of relief after the 3-month correction that preceded it. As we close in on the end of 2023, we thought we'd look at what this recent rally could mean for markets going forward, and sprinkle in a bit of commentary on the Canadian economy. To help illustrate our points, we'll get into the festive spirit and borrow a few lines from the classic, "Winter Wonderland". We're sure to be hearing it a bunch over the next few weeks.

"A beautiful sight. We're happy tonight!" – For an investor, few sights are as beautiful as an 8% return in a single month. The S&P 500 finished November up 8.92% for its best month in well over a year, making a lot of people very happy! It may not come as a shock that this type of outsize return is quite rare. Since 1950, there have only been 31 months (out of 890) that have eclipsed the 8% mark. Digging into the numbers, we can see that these exceptional months have usually been a great omen for the next year in the stock market. As the chart below shows, **the average S&P 500 return one year after an 8% month has been 15.7%, nearly double the average of any other period.** Here's hoping this trend continues and Santa can continue to rally the market forward at the end of the month.

"He'll say are you ready? We'll say 'no, man!'" – As Canadians, we love to differentiate ourselves from our neighbours (with a "u") to the South. It appears that spending habits are another one of those things. During the pandemic, plenty of "excess savings" made their way into both countries' economy from a combination of government stimulus payments and cheap debt. Initially, those additional savings grew quite large (to about 9-10% of GDP) by

Strong Monthly Returns Preceed Strong Years on Average

S&P 500 Index Annual Returns Segregated by Preceding Months Return

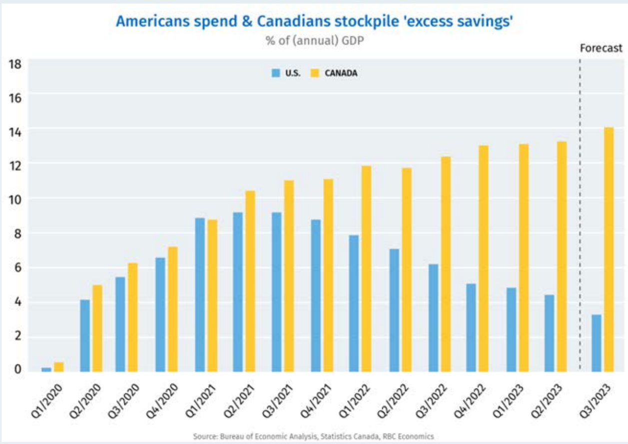
	Occurrences		S&P 500 Return Forward 1 Yr.
S&P 500 Monthly Return >8%	31	Average Return	15.7%
		Median Return	15.1%
		% Positive	86.7%
S&P 500 Monthly Return <8%	859	Average Return	8.7%
		Median Return	10.0%
		% Positive	73.1%

Source: LPL Research, FactSet 11/30/2023 (1950 - Current)

Source - Investing.com

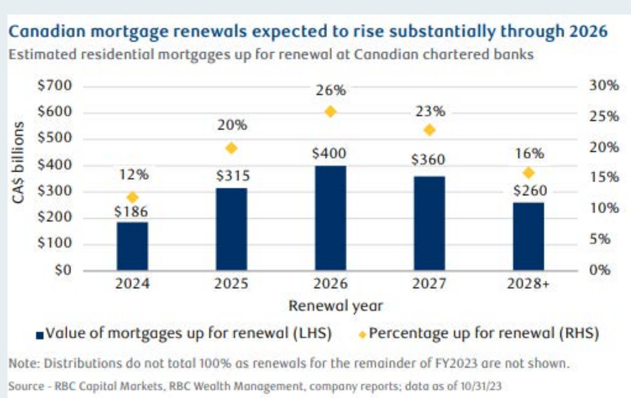
All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.



mid-2021. Since then, American consumers have had no issue dipping into their savings to spend more despite higher prices brought on by inflation and central bank policy. This is part of the reason that the U.S. economy has continued to churn along at a stronger pace, with consumer spending remaining resilient. Have Canadians followed suit with a frenzy of spending? No, man! Our cumulative excess savings have continued to grow to 13% of GDP, showing we are not yet ready to spend at any price. Granted, the vast majority of these extra dollars are held by the highest-income earners, but this key difference in how Canadians treat their stockpile of cash can help partially explain why our country has not seen the same economic (or stock market) strength as the U.S. **Consumer spending is a vital part of a strong economy.**

"To face unafraid, the plans that we've made" – Speaking of the Canadian consumer, one of the most common expenses that many are concerned about is the mortgage on their home. During the pandemic, many prospective homeowners made big plans for their future and bought a home (and locked in a mortgage) during a time when interest rates were extremely low, and house prices were accelerating higher. Fast forward a couple of years and we have seen fixed mortgage rates jump from below 2% to over 6% during the Bank of Canada's (BoC) rate-hiking cycle. This move has understandably made homeowners nervous, especially those who have mortgages coming up for renewal in the next couple of years. However, with the assumption that the Bank of Canada will no longer be raising rates, we are starting to see a bit of a relief in the mortgage market. Typically, 5-year fixed-rate mortgages are priced close to 1.50% above the 5-year rate (currently 3.41% as of Dec. 6th), meaning a discerning buyer could potentially find a fixed mortgage rate under 5%. This is about 1% lower than just 2 months ago! Variable rates are a different story, as they are based on a discount to the Prime rate (currently at 7.20%) and will only decrease once the Bank of Canada actually makes their first cut, which is currently projected to happen in 2024. Why is this important? The chart below shows the massive amount of mortgage renewals coming up in the next



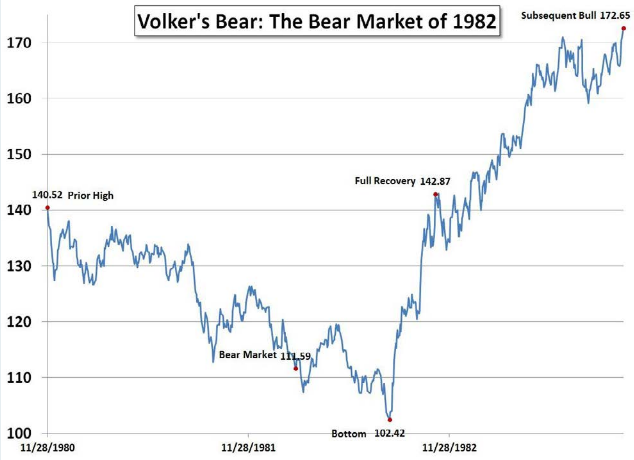
few years, which at current rates would be extremely difficult for many homeowners to afford. On the other hand, there is some potential for a sharp correction in rates, with two potential catalysts.

1) A recession does arrive in Canada, which likely means the BoC would cut rates quickly to attempt to minimize damage to the economy, or

2) Inflation continues downward on its current path until the BoC is satisfied they have tightened conditions enough.

In other words: **there would be no need to keep interest rates over 5% when inflation is consistently running under 3%.** Clearly Option 2 is more desirable than Option 1, but either of these potential situations would result in lower mortgage costs for homeowners.

"Walking in a Winter Wonderland!" – Finally, let's end with some positive vibes and consider a best-case scenario for the stock market (a "Wonderland" scenario, if you will). Exactly one year ago, this newsletter was pointing out the similarities of the current market to the one we had in 1982 (you can find the December 2022 edition here). Our point was that the economy was currently going through a period of high (but cooling) inflation; interest rates had increased dramatically due to Fed policy; the S&P 500 had fallen 27% from its highs and was in a "Bear Market; and there was currently no sign of a strategy change by the Federal Reserve. Yet in the 1982 example, the S&P 500 recovered that loss quickly, and would go on to set new highs shortly after a change in policy from Fed chair Paul Volcker. A lot of that seemed to rhyme with the current market back then, and still does to a large degree. Perhaps a little "Christmas magic" can inspire the stock market to recreate this chart below from over 40 years ago. (Note: we would be just shy of the "Full Recovery" data point as of now). Your move, Santa!



Source: "Volker's Bear: The Bear Market of 1982," David John Marotta, Forbes.com

We wish every one of you a safe and happy Holiday Season!

’TIS THE SEASON OF GIVING

The holiday season is a time of giving, and the time of year when the most donations to charity occur. We thought this was an ideal time to introduce The RBC Charitable Gift Program. To those who may not know about it, The RBC Charitable Gift Program provides many of the same advantages as a private foundation—without the upfront costs, complexities, and ongoing administration responsibilities.

All administration is done by the program partner, Charitable Gift Funds Canada Foundation, an independent, non-profit charitable organization registered as a public foundation with the Canada Revenue Agency. Meanwhile, the holdings in your charitable gift fund remain invested with Ord Private Wealth Management.

Charitable giving goes hand in hand with financial and estate planning. This is why it makes **sense to use all of RBC Wealth Management’s resources in unison.** Our team is supported by RBC Wealth Management’s philanthropic advisory services team, a group of professionals with years of experience in philanthropic planning and the charitable sector. The team works closely with us to identify strategies and solutions to align your charitable giving intentions with your wealth planning objectives and goals.

This Program provides an efficient way to give during your lifetime and/or from your estate that **combines immediate tax benefits with the flexibility to support your favourite charities over time and across generations.**

If this is something you may be interested in and would like some more information, please contact our team.

AS ALWAYS, PLEASE REACH OUT TO US DIRECTLY IF YOU HAVE ANY QUESTIONS OR CONCERNS RELATED TO YOUR PORTFOLIO.

ORD PRIVATE WEALTH MANAGEMENT

Best regards, John, David, Tim, Liam & Mikail

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