Wealth Management
Dominion Securities

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Scaling New Heights:

What to Expect When the Market Reaches All-Time Highs

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FEBRUARY MARKET UPDATE

Welcome to February!

The most romantic of months that coincidentally has investors falling in love with the stock market all over again! **It took over 500 trading days between January 4th, 2022 and January 19th, 2024 for the S&P 500 to reclaim a new high.** Thankfully, this unfortunate streak is now over as the S&P 500 has broken above its previous peak of 4,818 and is closing in on a nice, round 5,000! While it may just be an arbitrary milestone to reach, it would nevertheless be pleasing to the eyes (and portfolios) of many market participants.

Keep in mind that we are less than 3 years since the S&P 500 first reached 4,000. Perhaps more shockingly, it was only 4 ½ years ago that 3,000 was first achieved, and 9 ½ years since we first saw 2,000 light up the ticker on August 26, 2014. Why do we bring this up? Each of those levels were at one point the "All-Time High" in the market. As we now sit on top of a new mountain that has been ascended, we need to point out that **new stock market highs are not something to fear. Far from it!** We can now confidently state that **every single time in history the US stock market has had a rough decline, it ends up returning to previous highs and surpassing them!** (Yes, this will eventually happen with the TSX in Canada as well… it will just require additional patience). Fortunately, **once those new highs are reached, the stock market usually puts in some additional gains over the next year.**

To make this previous point crystal clear, please refer to the below chart showing how the S&P 500 has performed historically in the following scenario (which echoes today's market):

1) New high has been achieved in the S&P 500 (CHECK)
2) It's been more than a full calendar year since the previous peak (CHECK)

First new high after 1 year bullish going forward, on average

S&P 500 Index Performance After First Record High in at Least One Year

Date	# Days Since Previous High	21 Days Later (%)	63 Days Later (%)	126 Days Later (%)	252 Days Later (%)
9/22/1954	7261	0.4	10.4	14.5	41.8
9/24/1958	539	2.4	8.7	11.4	14.1
1/27/1961	374	3.6	6.7	9.0	11.3
9/3/1963	433	-0.5	1.6	7.4	13.3
5/4/1967	309	-6.2	1.4	-1.7	4.9
3/6/1972	819	0.2	0.1	2.5	5.0
7/17/1980	1897	3.5	10.1	11.0	7.7
11/3/1982	487	-2.9	0.3	14.3	14.5
1/21/1985	323	3.4	3.1	10.9	17.4
7/26/1989	484	4.0	1.7	-2.3	5.6
2/14/1995	259	2.7	9.5	15.8	36.9
5/30/2007	1802	-1.6	-6.4	-6.7	-8.6
3/28/2013	1375	1.6	2.8	8.3	18.4
7/11/2016	285	2.1	0.8	6.2	13.5
Mean		**0.9**	**3.6**	**7.2**	**14.0**
Median		**1.8**	**2.2**	**8.6**	**13.4**
% Positive		**71.4**	**92.9**	**78.6**	**92.9**
All Periods Mean		**0.6**	**1.8**	**3.6**	**7.5**

One year = 252 trading days. Start date 1/3/1928. Source: S&P Dow Jones Indices

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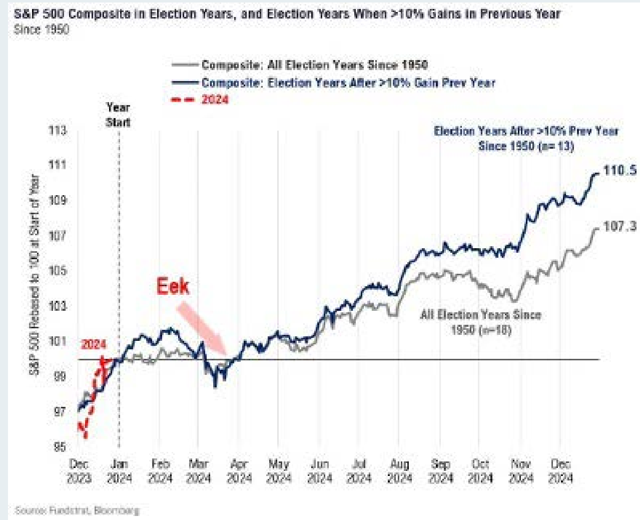
Notice that in the **14 times this scenario has occurred since 1928, 13 have seen a positive annual return a year later** (2007 is the lone exception, and that ended up being due to the Global Financial Crisis). **The average annual return was 14% across all these periods, with a 93% success rate.** This is one of the reasons we are still positive on the prospect of decent equity returns by the end of 2024.

On the other hand, this doesn't mean we are immune to a potential bout of market volatility in the first part of this year! It's been almost a straight line up since October, and at some point a breather may be warranted (and could even be viewed as healthy). There are a few potential catalysts that could cause this, including:

1. The Federal Reserve takes longer than the market expects to confirm the first interest rate cut, which could raise fears of a policy error by keeping financial conditions too restrictive and weakening the overall economy
2. Investor sentiment - which is now at extremely bullish levels. For instance, the CNN Fear & Greed Index is hovering around the Extreme Greed level of 75. Also, the most recent AAII Investor Sentiment Survey from January 31st also has a Bullish sentiment reading of 49.1% (well above the average of 37.5%). Bearish sentiment is sitting at 24.5% currently, below the 31% average. As we've talked about in previous newsletters, these are both contrarian indicators that can often be a sign of a stretched market in the short term.
3. The U.S. Presidential Election of 2024 and the circus that will undoubtedly go along with it.

Let's touch on point #3 briefly, as spending too much time thinking about U.S. politics is not advisable!

First, let's look at an interesting graph from Fundstrat, which maps the return profile of the S&P 500 in all U.S. election years since 1950:



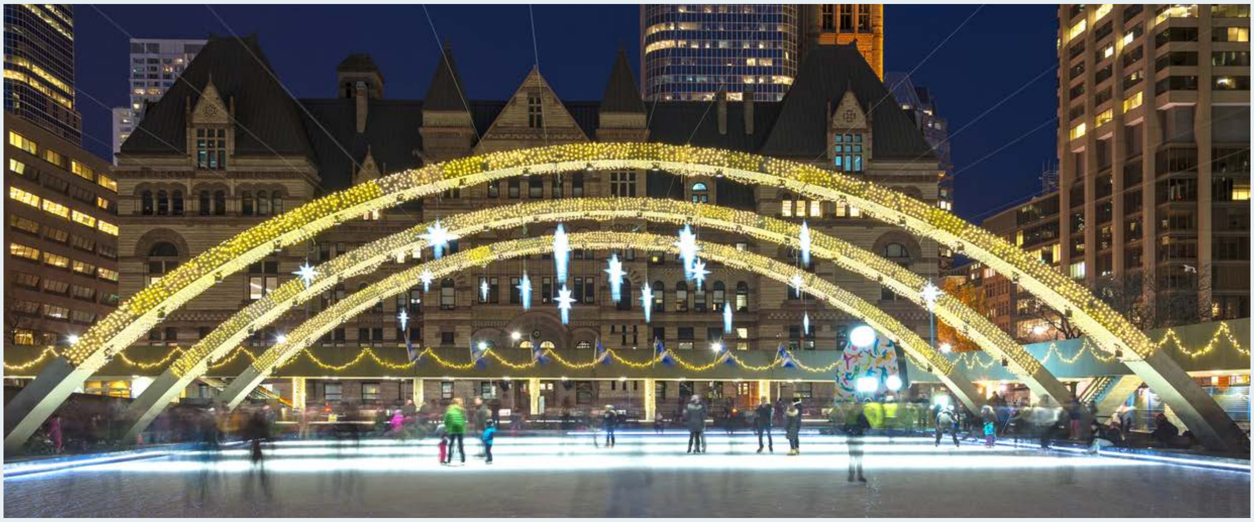
You'll notice that in general, **returns are relatively good in U.S Election years.** This is especially true in years where the S&P 500 has just finished returning over 10% (as shown by the blue line). That appears to be additional positive news for our full year outlook. However, there are a couple time frames throughout election years that have tended to be a bit difficult for markets historically:

1. That 2-month period leading into the November election, which is understandable. Markets dislike uncertainty with a passion, and not knowing who is going to lead the largest economy in the world for the next four years can cause some risk-off behaviour in September and October (before the certainty of the final result usually leads to a strong rally at year-end).
2. More timely: There appears to be a pattern of weakness from mid-February through late March in election years (especially after a strong previous year). The chart does not guarantee this will happen exactly as described in 2024 of course, but there is enough of a sample size to give this scenario some credibility. If we start to see the market correct in the first quarter after getting close to 5,000, it would not be a major shock.

All this is to say it's possible that the market will go back down a bit before it continues on its way to reach additional all-time highs in the future. Be prepared for that possibility in advance, and don't fret over a 5-10% drawdown from the current level. To put it in context, if the S&P 500 fell 10% to around 4,500, we'd just be back at levels seen 3 months ago in November! **A reminder that 10% corrections happen about once a year on average.** We just had one conclude in October that ended up being a healthy consolidation before the last leg up toward the current record high. It definitely did not signal a continuation of a bear market, which was a common talking point from some at the time.

Here's one final piece of advice that we think all investors could benefit from: and that is to **bank the experience of these last two years in your memory.** Remember that **predictions of doom and gloom are easiest to find (and are more often sought out) when the stock market is falling and people are fearful.** In those difficult times, there are lots of receptive ears for a negative story to match the mood of the moment, which can generate plenty of eyeballs for the creators of that content. This may sound too simplistic: but ignore the doomsayers next time (and you can bet they will be back!)

Remember the lessons of the past couple years. Remember the lessons learned during and after the pandemic market of 2020. You can even look to 2018, which had both a 10% and 19% drawdown in the same year. **Every time the market returned to an all-time high.** You want to be sure you are there for it!



ARTIE- A HELPING HAND FOR EXECUTORS IN NEED

Anyone who has ever been an executor of an estate knows how much work is involved and how challenging it can be. To help with this, RBC Royal Trust has introduced "Artie". **Artie is a dynamic set of free online tools and resources,** which can help you prepare for the key tasks in the estate settlement process. Some highlights of the tools includes:

• An **estate complexity calculator** that uses a short questionnaire to estimate the complexity of the estate to be settled. The calculator provides guidance to executors in the initial stages of the estate settlement process.

• **A guided executor checklist** that offers resources and educational tips to assist with key executor tasks and duties. It also tracks progress of the tasks to keep you informed on the status of the estate settlement.

If you think this this service may be useful for you or someone you know, you can create your free Artie account here.

While we are hopeful that many will find Artie useful, the job of an executor can still be daunting task. If this is the case, we would also be happy to connect you with one of our partners at RBC Royal Trust. Royal Trust provides professional executor services, meaning a family member does not need to shoulder all the responsibility for this difficult job on their own. Please let us know if you would like us to arrange a complimentary discovery meeting with a Senior Trust Advisor.

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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