Wealth Management
Dominion Securities

JANUARY '24 *EDITION*

not your ORDinary newsletter

Year In Review:

Taking a Look Back at our 2023 Commentary

Written by: JOHN ORD & TIM WALLER

ORD PRIVATE WEALTH MANAGEMENT
RBC Dominion Securities Inc.

JANUARY MARKET UPDATE

A belated Happy New Year to everyone!

We usually aim our focus on the future when it comes to investing. However, this time we are going to shift gears and look back at the year that was, by revisiting some of our previous commentary from the "Not Your ORDinary Newsletter." As we start off 2024, investors are generally feeling more positive about the stock market. We feel it is helpful to review how we got to this point, as it was not always the easiest decision to remain positive on markets last year. Currently, the S&P 500 is back to near all-time highs at a level of 4,784 (as of January 12th). At the beginning of 2023, investor sentiment was much more negative than where it is today. Most forecasters also had extremely low expectations for 2023, with the resulting 24% annual gain in the S&P 500 catching almost all of them off guard (see August 2023 comments below). As for us, did our previously published comments from 2023 line up with the recovery in markets last year? Let's take a look and assess how we did:

From January 2023: (S&P 500 at 3839.50 at start of month) - "SKATE TO WHERE THE PUCK IS GOING, NOT WHERE IT IS". At that time, the stock market has already bounced quite a bit from its October 2022 bottom, but had just come off a very tough December. Sentiment was low due to increasing interest rates and still-high inflation. In this letter, we wanted to offer some context as to why we felt that we were beginning to shift in a very positive direction and were not going to re-experience the downside of 2022.

From the newsletter: "We are not in the same situation with inflation that we were in the spring/summer of 2022. Many commodities have already come back to levels seen at the beginning of the year... Many other parts of the CPI calculation have come down as well, while others (ie. housing) do take longer to feel effects of the recent hikes in interest rates. Central banks may still be considering more interest rate hikes in the near term to keep their word and maintain credibility, but at some-point their strategy doesn't line up with what is actually happening in the current economy. When they pause hikes in 2023 (or eventually even cut), that should be quite positive for equities... FOR INVESTORS, KEEP YOUR DISCIPLINE BY FOCUSING ON PROPER ASSET ALLOCATION, AND STAYING INVESTED THROUGH ANY SHORT-TERM NOISE. GO TO WHERE THE PUCK IS GOING, NOT WHERE IT IS."

Self-Assessment: As the year unfolded, it would take quite a while for the narrative around inflation to shift to the new reality apparent in the data. The CPI was coming down (quickly) and you wouldn't want to be on the sidelines when the market adjusted to it (see the chart below for the reason why). The Federal Reserve ended up raising rates at a slower pace in February, and the last hike was in July. Rate cuts have not yet occurred but are clearly on the agenda for 2024, which has helped propel the major rally in the past couple months. We'll give ourselves a retroactive pat on the back for that call!

Average S&P 500 total returns: 1929 – 2022			
	Rising Inflation	Falling Inflation	Entire Period
Average	7.4%	14.0%	**11.2%**
Median	6.2%	18.0%	**13.9%**
% Positive	61%	80%	**72%**

Source: RBC Wealth Management, Bloomberg; data through 12/31/22

From February 2023: (S&P 500 at 4,076.60 at start of month – up 6.17% YTD) – "ARE WE FINALLY EXITING THE 'GROUNDHOG DAY' DOOM LOOP OF RATE HIKES?". January ended up being a strong month and we could sense a greater shift in the market was happening:

"Investor and market sentiment is turning positive. Inflation data is steadily improving and it's not a stretch to see it falling back close to the Fed's preferred target of 2% THIS YEAR. Recession is not a slam dunk guarantee like it seemed for some back in October. It pays to stay invested and well-diversified, as some of the hardest hit stocks of 2022 are back with a vengeance (For example, as of February 1st: Amazon is up 25% YTD, Nvidia up 43%; UBER up 27%; Shopify up 42%. There are others, and they're predominantly growth companies). Markets are forward-looking and won't relive the same day over and over.. and over"

Self-Assessment: US inflation numbers (CPI) got as low as 3.0% YoY in June and are currently 3.4% as of December (CPI was reading 6.5% when this was initially written). So, we didn't quite get to 2%, but pretty close. Recession also has not yet materialized, allowing for markets to elevate higher than many thought at the time. Combining those two calls, maybe we deserve a solid B+ grade on the inflation/recession analysis. As for stock picks: we had been adding to quality growth stocks in January at bargain levels within our discretionary model (when many investors had shifted to dividend-focused stocks under the assumption they were "safer"). That decision to lean into growth would provide the basis for outperformance throughout the year – worthy of an A grade (in our humble opinion).

From June 2023: (S&P 500 at 4,179.83 at start of month – up 8.86% YTD) - "WHY MARKETS DON'T ACT THE WAY WE FEEL". The market had undergone some up and downs during the February to May period (including a semi-crisis in the U.S. banking sector), but had quickly shrugged off this negativity and was climbing steadily again. Despite the recovery, investor sentiment was at **extreme** negative levels and we knew from history this is often a very bullish sign going forward:

"Most recently, only 24.1% of investors surveyed considered themselves "Bullish". Historically, the best 12-month returns for the S&P 500 come at a time when this reading is below 29%, with a median return of 16.1% over the next year when investors are at their least bullish. Conversely, the worst returns occur when investors are at their most bullish (as seen in the chart). So, perhaps the question shouldn't be "Why is the market doing well right now?", but "WHY IS IT CONSTANTLY A SURPRISE WHEN THE MARKET DOES WHAT IT USUALLY DOES?"

S&P 500 Index

Bullish Sentiment Quintile	1st <29	2nd 30-35	3rd 36-40	4th 40-46	5th 47+
Median Fwd. 12m Total Return	16.1%	11.0%	13.0%	9.9%	7.2%
Median Fwd. Change in P/E	1.1x	0.5x	-0.1x	-0.3x	-0.5x

Current: 24.1

Self-Assessment: In times of heightened volatility, markets can act in contradiction to the underlying narrative. This is something that can only be understood with enough experience and historical precedent to base decisions from. We wanted to drive the point home that this is more of a time to be bullish despite all the apparent risks out there. From May 4th, 2023 when that 24.1 bullish reading was taken (about 8 months ago), the S&P 500 has increased 17.8%, making this analysis pretty spot-on. A good reminder that unbiased data and history deserve more respect than what the latest news cycle considers important.

From August 2023: (S&P 500 at 4,588.96 at start of month – up 19.52% YTD) - "WHAT'S HOT AND WHAT'S NOT?". If you click on this link, you will find a table showing the 2023 Wall Street projections that were made in January. Clearly the majority of Wall Street had misread the bullishness that would occur in 2023, and were now adjusting their year-end forecasts upward (so obviously a 10% correction immediately followed through October – nice timing on the upgrades!). Here's what we were saying about the market action at the time:

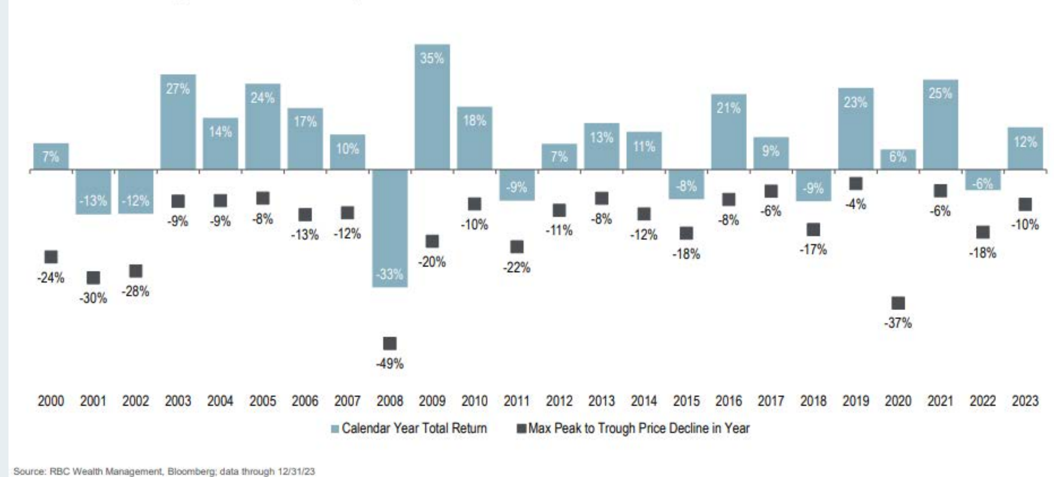
"Reminder #1: Both declines and rallies in the stock market can move very quickly, and at a larger magnitude than expected. Reminder #2: Missing out on an upside rally can be just as damaging to your long-term returns as staying invested during a correction... Neither fear nor greed should ever guide your investment strategy... Avoid chasing the hot trendy sectors with new money after they have run up significantly; and don't be afraid to take some profits on the companies you still want to own long-term to manage your risk. Today's "Boiling Hot" could become "Freezing Cold" before you know it."

Self-Assessment: As referenced above, the S&P 500 would find a short-term top around 4,600 in late July and begin a 3-month 10%+ correction down to 4,104 on October 27th. On a related note, the bullish reading on July 20th was 51.36% (not a good sign - the average is 37.6%) and ran all the way down to 24.31% on November 2nd (bullish signal!) Taking some profits at the time of the newsletter was correct, as was the advice to stay invested through the correction that followed (as we now know – a major rally soon followed). That's a passing grade for sure.

From October 2023: (S&P 500 at 4,193.80 at start of month – up 9.23% YTD but fresh off a 10% correction) – "TRICK OR TREAT: WHAT WILL THE STOCK MARKET PROVIDE". We'll end the journey to the recent past with two points from our October commentary:

1. **"Interestingly, the level of fear exhibited in markets right now is eerily similar to exactly one year ago, at a time when the S&P 500 was down over 25% on the year. The popular "Fear & Greed Index" from CNN Business has recently dropped as low as 18 (well into the "Extreme Fear" range), which is almost the same level seen in October 2022 when the market ultimately found its bottom. As we have discussed before, measures of extreme fear or greed are often seen near major inflection points in the market when the current trend is ready to become exhausted."**

2. **"Since 2000, any year that the TSX keeps its maximum drawdown to -13% or better, it has ended up with positive returns in ALL 13 of 13 occurrences, with the lowest annual return being 7% (2012). As of now, the TSX is slightly negative for the year. For this trend to continue, it would require the market finding a bottom soon along with a late-year rally.**



Given that we are headed into what is usually the best-performing time of year (October to January) and adding in the extreme levels of fear, there is some reason to be hopeful for this to occur."

Self-Assessment: For Comment #1? Almost exactly the same situation that happened in October 2022 happened again. Markets had reached their peak level of fear and then the S&P 500 went on a gigantic rally to end the year up 24.2%. Thumbs up.

For Comment #2? Make that 14 for 14. See above.

Our thoughts on 2024? Bullish sentiment reached over 50% again in late December after this unrelenting rally, and the Fear & Greed Index reached "Extreme Greed" levels. For our discretionary clients, we have taken this opportunity to shift 5% of their equity exposure to fixed income (see our detailed thought process here). It may be a choppy start to the year if the positive vibes cool off , but we still currently foresee a decent path for the stock market to continue higher by the end of 2024. Inflation should still grind lower, and central banks are likely to start cutting interest rates in the next quarter or two. It's also hard to suggest a U.S. recession is imminent based on current data, which will be vital for any continued rally. Canada may be in a tougher spot, but perhaps incoming rate cuts by the Bank of Canada can help with softening the impact to our economy (especially the housing market) before it reaches recessionary levels. For now, we are taking a more cautious approach to start the year as downside risks are elevated in the near term.

Apologies for the longer format this time, but hopefully this retrospective can help make sense of the great anti-consensus rally of 2023! Since we started putting this newsletter out in June 2022, we've aimed to educate and explain our real-time thinking on a monthly basis. We hope it provides value to you or at least makes you think (and very occasionally laugh!).

We'll leave the grading to you. Have a happy and prosperous 2024!

ALWAYS TAKE ADVANTAGE OF THE TAX BENEFITS WITH REGISTERED ACCOUNTS

The New Year means it is time for our team to remind our clients to contribute to their registered plans. For those of you that are unfamiliar with the various benefits of these accounts, some information on RSPs; TFSAs and the new FHSA can be found here:

Understanding Registered Retirement Savings Plans

Tax-Free Savings Accounts

First Home Savings Account

Clients are always encouraged to contribute to their registered plans near the beginning of the year as opposed to the end because this will allow for a full year of tax-free or tax deferred growth. However, if you have not made an RSP contribution for 2023 yet, the contribution deadline for the 2023 tax year is February 29, 2024. The annual RRSP contribution limit for the 2023 tax year is $30,780. For the 2024 tax year, the contribution limit is $31,560.

In order to determine your personal contribution limit, please check your latest Notice of Assessment, Notice of Reassessment or RRSP Deduction Limit Statement, or contact Canada Revenue Agency directly (1-800-959-8281).

The federal government has raised the contribution limit for TFSAs this year. The new limit for 2024 is $7,000. For those of you who have never contributed to a TFSA, that means the lifetime contribution limit as of 2024 is now $95,000 if you were born in 1991 or earlier.

2023 saw the introduction of the Tax-Free First Home Savings Account (FHSA). This is a new registered account designed to help more Canadians purchase their first home. The FHSA will allow investors to contribute $8,000 a year, up to a total of $40,000 on a tax-free basis to purchase their first home. These contributions will also be tax-deductible, similar to an RSP.

If you do not have an RSP, TFSA or FHSA account with us currently at RBC DS, you can also contact us about opening one for you.

As always, please reach out to us directly if you have any questions or concerns related to your portfolio.

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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