Wealth Management
Dominion Securities

NOVEMBER *’23 EDITION*

not your ORDinary newsletter

“Nothin’ lasts forever, even cold November rain”
– W. Axl Rose

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NOVEMBER MARKET UPDATE

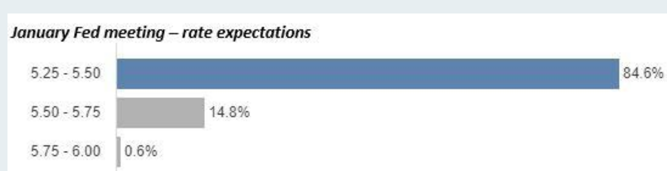
Starting off our November newsletter with these particular Guns N' Roses lyrics makes sense for a couple reasons. For one: it is in fact, November (I double checked - and the rain is cold). More importantly, these words serve as a reminder that **a lot of things in life end up being temporary, despite how we may perceive them in the moment. As investors, this sentiment is time and again proven by the stock market.** For the previous 3 months, the market was in the midst of a correction that may have felt to some like it would last forever. From July 27th to October 27th, the S&P 500 sank from its annual high of 4,607 to an intraday low of 4,103. That amounts to a drop of just over 10%, which qualifies as an official market correction for those keeping score at home. The TSX index in Canada also squeaked out correction status with its own 10% drop culminating on October 27th as well. The good news (as Axl would say) - "Nothin' lasts forever!"

In our last newsletter, we had highlighted that even strong years for the stock market may see a correction as part of its choppy path higher. Since that low on October 27th, the S&P 500 has already bounced back over 6.5% to its current level of 4,378 (as of close on November 7th), with the TSX not too far behind. The reasons for this sudden turnaround? There are several of them, but we'll highlight a few of the recent trends that have something in common with that November rain: they just might be nearing their end!

THE "WON'T LAST FOREVER" CLUB:

1) The Federal Reserve's Rate Hiking Cycle – Appears to be over!

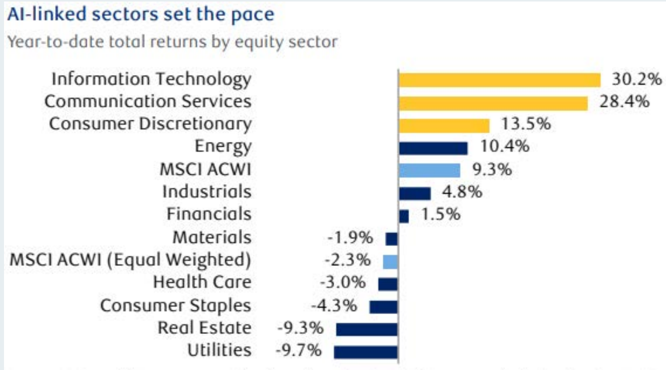
We've been flagging for a while the possibility that the Fed could be done with hiking rates, even with U.S. economic conditions remaining stronger than expected. On November 1st, the clearest signs yet came from Fed chairman Jerome Powell that the hikes are almost certainly done. This was the second meeting in a row that the Federal Reserve held their funds rate at the 5.25%-5.50% range, which is unchanged since July. While the messaging from the Fed chairman will still likely be "higher for longer" for a while, the combined tightness in financial and credit conditions has provided them some cover to hit the pause button and wait for additional economic data to change their minds. **Markets are now only pricing in a roughly 15% chance that we see an additional rate hike this cycle.** On the flip side, there is a greater than 50% expectation of the first rate cut happening by May 2024. This is perhaps the biggest reason that markets have rallied strongly to start the month.



Source - Investing.com

2) 5% yields on the US 10-year treasury note

In concert with the Fed raising rates, we have seen longer term treasury yields push higher and higher (and bond prices push lower and lower) for the better part of 3 years. For a brief moment on October 23rd, the US 10-year yield spiked up to 5.02%, before closing the day at 4.84%. If you blinked, you may have missed that "5-handle". Historically, that 5% mark has been an important psychological level for equity investors, as long-term rates staying above 5% has not been ideal for stock market returns in the past. However, **if the Fed has officially changed tactics and has no plans to hike again, then we have almost certainly seen the highs on treasury yields.** That environment is much more positive for equities, and any forthcoming cuts could be even more so. The leaders of the stock market in 2023 have predominantly been in the technology/communication/consumer discretionary sectors (see chart below). Interestingly, those are often the same sectors that benefit most from rate cuts, as their higher growth rates and future earnings are deemed more attractive when interest rates are lower. At the same time, higher dividend stocks that have been punished so far this year (utilities; real estate; banks) could also expect to see a boost as dividend yields regain their appeal in comparison to the decreasing "risk-free" rates of treasury bonds.



Source - RBC Wealth Management, Bloomberg; data through 10/19/23; return calculations based on MSCI ACWI sector index series.

3) Negative Sentiment

Believe us: we know when market sentiment changes for the worse! You can hear it during client conversations or see it in the daily news headlines (which seem to only try and leave a bitter taste in your mouth!) Fortunately, you can also track it rather easily using the various sentiment indicators that are out there. We made a point to mention this in last month's newsletter as sentiment on the Fear & Greed Index was reaching “Extreme Fear”. Additionally, the AAII Investor Sentiment Survey recently posted its highest “bearish” reading since 2022. These types of readings often suggest the market is close to finding a bottom. So far, that logic is tracking much like it did in October 2022 or March 2023.

Some other notable items helping this rally:

Earnings season has been outstanding so far this quarter. At last check, over 80% of the companies in the S&P 500 had reported stronger Earnings Per Share (EPS) than expected. Profit margins also appear to be expanding considerably. **Corporate America is not signaling recession just yet!**

US mutual funds have a deadline to wrap up their tax loss selling transactions by October 31st every year. With many stocks (and bonds) this year trading at a loss, that may have enhanced the selling pressure we saw at the end of this correction in late October. That temporary headwind to stocks became a non-issue on November 1st.

Finally, just a reminder that we are currently in the strongest period of the year historically for equity returns, as November has been the month providing the highest returns since 1950. It’s been a strong start, so here’s hoping November continues its “reign” at the top! May it last forever.

Source: LPL Research, FactSet, Bloomberg 10/31/23 (1950 - current)
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.

FINANCIAL LITERACY – SOMETHING THAT DOES LAST FOREVER

By November, children and young adults are usually settled back into school, but finances tend to be a topic not well covered in most curriculums. This means that most of the financial understanding young people pick up often comes from family and friends they interact with. Because of this, pressure is often on the parents to make sure their families pick up good habits. As a parent, it can be tricky to decide what to teach them and when.

This article, "Building financial literacy among the younger generations", has some useful suggestions as to what sort of information and practices you could expose kids to at various ages. **Showing them the right concepts at an appropriate age can give your children an advantage as they grow up and allow them to feel more confident with a topic they will be dealing with the rest of their lives.**

For a more detailed approach, The RBC Wealth Management Financial Literacy Program is a learning platform to help individuals build sound financial management skills. This holistic learning model is targeted for Canadians who are 16 years of age or older, and features a series of learning modules along with plenty of useful information.

We would strongly recommend our clients to take a look at this program if they feel they could benefit from this. It could be especially useful for those with teenage or young adult children, so feel free to share with others that you know.

Please reach out to us if you would like any further information or materials. We are always happy to help educate our clients, so please let us know if our team can be of assistance with any of your financial matters.

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

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

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