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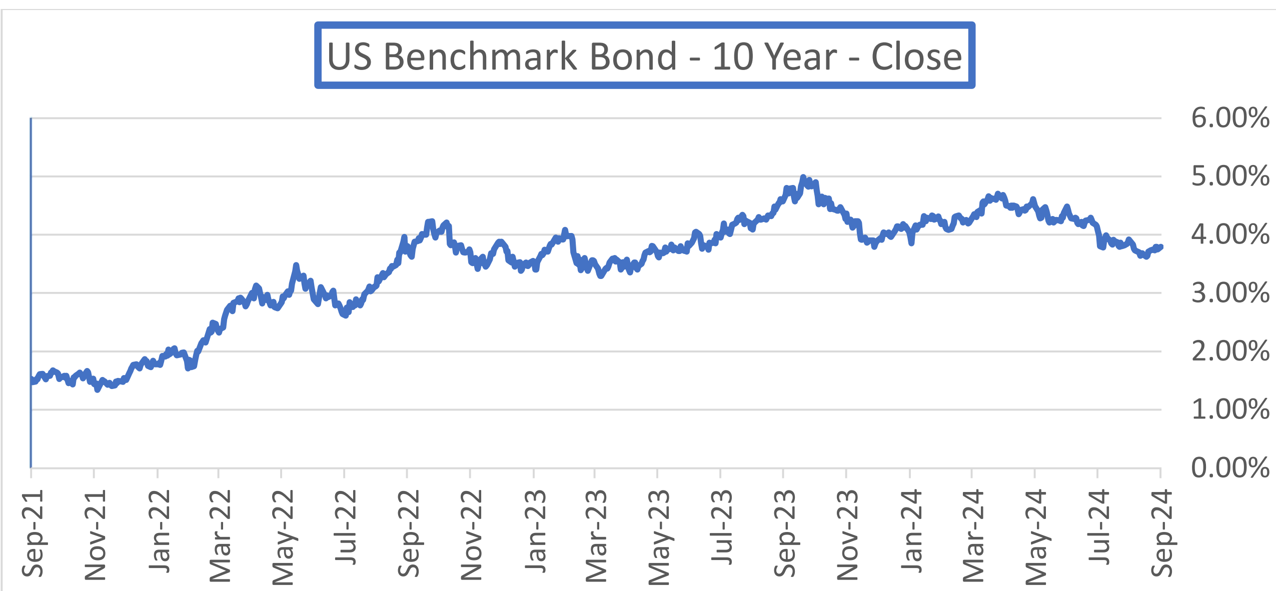
Third Quarter 2024

The stock market needs a wall of worry to climb. Looking back to my quarterly letter of a year ago reminded me that last Thanksgiving worry abounded. Wars, a seemingly imminent recession, a frighteningly concentrated stock market whose only gains came from the Magnificent Seven giant tech companies, these were some of the worries I listed a year ago. But "the single issue" (Tom Lee, October 5, 2023) the stock market was focused on a year ago was interest rates. In the summer of 2023 10-year U.S. government bond yields had shot up to 4.74%, a 16-year high. This is what makes 12 months ago such a great starting point to measure returns from. The decline in bond yields over the last 12 months to 3.83% has been a powerful tonic for the bond and stock markets. Central banks write the tune investors dance to.



Factset Research Systems Inc 2024 as of October 3, 2024 in USD 3:13:16PM

Completely unlike last year, the stock market rally in the third quarter of 2024 was broad based: Canada (TSX Composite) total return was 10.5%, United States (S&P 500) up 4.7% in Canadian dollars. The behemoth Mag 7 continued to contribute to the U.S. market's gains, but they did not carry the index like they had in 2023. Recently the equally weighted S&P 500 (up +9.1 in U.S.) has outperformed the regular capitalization weighted, which the big technology companies dominate, S&P 500 (+5.9% in U.S.). Even the long-suffering Emerging Markets (MSCI EM) has rallied 7.5% (in Canadian) thanks to promised economic stimulus from the government of China.

Interest sensitive sectors of the Canadian stock market which I was bemoaning in my letter a year ago benefited this year from the Bank of Canada's three consecutive 0.25% rate cuts. Financials (+5.9%), Real Estate (5.6%) and Utilities (6.2%) led in the third quarter of 2024, almost exactly the opposite of 2023's third quarter.

On September 18 the Federal Reserve cut interest rates, for the first time in 4 years, by half of a percent to 4.9%, down from a more than two-decade high. Further progress on inflation and more rate cuts are expected. The hoped for economic soft landing is still uncertain but the U.S. economy is doing fine so far. The next 4 weeks, at least until the U.S. election November 5, will likely be volatile with quarterly earnings reports and economic data which will guide the Fed at their next scheduled meeting dates November 6-7. Stay tuned.

On a personal note (or should that be personnel), Margarita's daughter just celebrated her first birthday and Margarita is back to work full time, for which Elena and I are thankful. I would like to thank Matthew Pascale for filling in during Margarita's maternity leave. Her shoes are not easy to step into and Matthew did so well and in good cheer. We wish him all the best. I have been isolating and recovering at the cottage (not a chalet, it is in Ontario) this week and it is a great comfort knowing that the best team in the business (everybody says so) is looking after things at the office. Elena and Margarita, I give you my thanks.

Thanks for reading.

Sincerely,

George Stedman, CFA

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