The Wrap Up

Joy to the World- the Market's Up

When the market wants to go up, it will simply go up. This week is the exclamation point on what has been a remarkable and resilient market rally that has defied the expectations of many.

Not many would have predicted, after the fastest rate hike in modern history, that few things would break (a handful of medium sized banks did fail, after all), earnings would hold up against expectations and optimism would permeate markets to the point of all three US indices rising double digits this year. The Canadian markets did not keep pace but so far have posted a respectable 7%+ increase, due in part to the economy's greater sensitivity towards real estate as well as the dynamics (specifically 5 year terms versus 30 year terms) that differentiate the two markets. Market strength was also exhibited across the world with the Nikkei 225 posting a 26% increase, the DAX up 20% and the CAC 40 up 17%. In recent days, we have seen the Canadian bond market also pick up with Federal bonds up 4.75% while the corporate world has pushed up 7%.

There's no doubt that this is a good moment and investors should breathe a sigh of relief that our battle with inflation has yielded few scars so far. However, there are a few points worth noting before we get overly excited. While the S&P 500 is up 22%, the equal weight index is only up 7.5% which, unless you're 25% invested in a few large cap tech companies, is a closer approximation to what many investors see on their statements. Market breadth has improved greatly since the early November rally, meaning more companies are participating in the rise, however, small caps, the energy sector and telecommunications have had challenging years. Investors whose sector allocation resembles the index will have had a happier year than those who built out more defensive strategies (which would not have been a farfetched approach as this year's strong performance was far from a given).

The most important reality to confront is that central banks are more hawkish than markets are expressing. It is true that Fed chair Jerome Powell's language during this week's FOMC policy meeting was milder, having said that the timing of rate cuts was discussed at the meeting (the meeting minutes have yet to be released) but the market appears to be overly optimistic about when

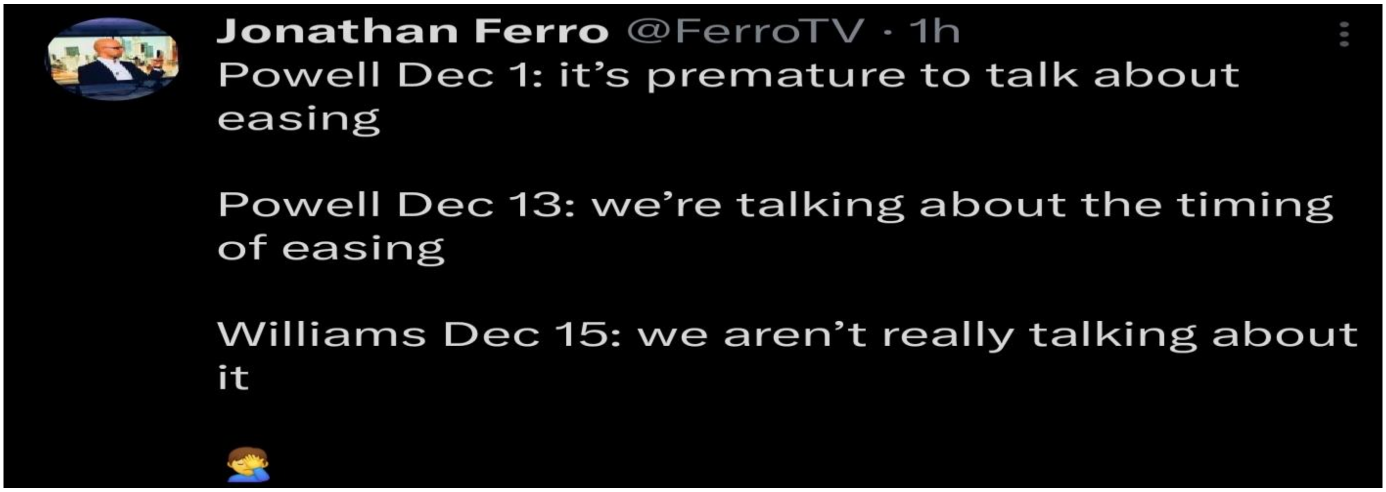
Let's connect

David Colasurdo, CFA, Fin. Pl.
Portfolio Manager and Investment Advisor
Tel: 514-286-3563
david.colasurdo@nbpcd.com

Leon Sabbaghian Fin. Pl., MBA
Investment Advisor & Financial Planner
Bureau: 450-978-2531
Cell: 514 -557-8055
leon.sabbaghian@nbpcd.com

Myles Strong
Client Service Associate
Tel: 514-282-5996
myles.strong@nbpcd.com

the rate cuts will start. As of this morning, market participants have priced in a 72% chance of a rate cut in March, which would come as a bit of surprise. Economic activity in the US has slowed down but is still strong and, outside of real estate, is not showing significant signs of needing support form lower rates. NY Fed President spoke this morning stating that ‘we aren’t really talking about rate cuts right now’ and ‘it’s premature to be even thinking about March cuts’. For the technical analysts out there, Goldman Sachs noted that the SPX is the most overbought in well over a decade, while 46% of stocks trading with a 14 day RSI above 70, the most in over 30 years.



(Bloomberg TV’s Jonathan Ferro – an AC Milan fan by the way!)

The question turns to, what should we do in the face of this reality? We will be writing our 2024 predictions next week, so we’ll be light on the forecast for now, however, it is worth taking a measured approach at this junction. If you’re sitting on cash, you may want to consider deploying some of it; it is important not to let FOMO (fear of missing out) on the rally take control of you. Look for ideas that have good reason to continue rising but also, that you would feel comfortable to hold in the event of a short term pullback. There is still value in the market (*cough* US banks *cough*), patient investors can still find good opportunities if they look hard enough. Our ‘cautious’ approach has not changed from here as our opinion is built on a multi year picture where we will have to confront either high debt loads, tight labour markets, rapidly evolving geopolitical events and a bewildering American election cycle. A quick note on that: some polls show the presumed Republican Presidential nominee, Donald Trump, to be gaining momentum while the market is approaching all time highs, the labour market is very strong with real wage gains (meaning that every dollar earned can afford more, not less) and the US leading all developed countries with its momentum. A sobering reminder that in this world, perception is reality for many, including market participants who may be discounting some risks.

We’ve all experienced positive streaks; be it a 10 consecutive games with a goal, 12 winning hands in a row at blackjack or just coming home to the kids doing their homework and cleaning up after themselves. It’s at this moment that we begin to ask: when is this going to end? Well, the market is on a streak and we do not know when it will end (anyone who claims to have the ability to predict this is selling you magic beans). What we must rely on is discipline; try not to meddle too much with your portfolios if you think that the rally will continue. Conversely, if you are concerned about this all coming to an end, do not be afraid to take some money off the table.

Healthy Distraction

It is definitely an anecdotal observation more than a scientific one, but it seems as though everyone has gotten sick in the last few weeks. While there is nothing remarkable about catching a cold or getting the flu, what I have come to admire is how people have to respond to the challenges getting sick can create.

Take Leon, for example, whose wife and children are under the weather and yet, still shows up for our clients every single day. Or Myles, sick and who can't even see well right now due to an eye infection but still finds time to log in and to help us out with some requests (of his own accord by the way). Here, in Quebec, with teachers on strike, flu season must only be amplifying the amount that parents need to juggle as they go about their days.

To everyone that is struggling right now; you will find a way to get through this! Whether people are depending on you or you're relying on yourself, you have all the tools you need to power through towards easier times.