BREZER, VOS, MANDELL, REEMS & HAO
WEALTH MANAGEMENT GROUP
BMO Nesbitt Burns

December 2023 Newsletter

The Difference a Month Makes.

November has been the best month for the S&P 500 and the Nasdaq 100 in 16 months, while globally bonds are soaring at the fastest pace since the 2008 financial crisis. So what changed from September and October?

In our last newsletter we explained how it was all about interest rates and how the stock and bond markets had come to believe that interest rates would be 'higher for longer'. We also explained that we did not necessarily see it occurring, the underlying data we were looking at was showing inflation coming down quite rapidly. We also pointed out that we thought that we were already at 'Peak Rates'.

What happened in November was the US Consumer Price Index came in lower than expected, showing that inflation was indeed slowing. The US Federal Reserve also met and echoed those sentiments, keeping interest rates where they were: going on 'Hold.' However, they also pointed to the improving inflationary data and reduced their expectation for the need to raise higher rates next year."

The market took this as a pretty clear sign that we were at 'Peak Rates' and started to rally. One of the things that had weighed on the stock market in Sept and October was the movement of the US 10yr T-Bill, whose yield had climbed to 5%. The 10yr T-Bill is so important, as it sets the interest rates for a whole host of loans, cars, mortgages etc. in America. Finally coming into November the 10yr yield reversed course quite sharply. This was helped by the fact that a number of very high profile US Hedge fund managers, that had been shorting the US Bond market, came out publicly and declared that they had sold all their shorts and reversed direction. Basically declaring that 'Peak Rates' had occurred and so the Bond market started to rally alongside the stock market.

What we saw was a very quick change in rhetoric in many of the financial news outlets that we follow. It went from 'Higher and Longer' to how soon will the US Fed cut interest rates. Goldman Sachs and Morgan Stanley weighed in with competing reports of when they thought rates cuts would occur. Bill Ackman of Perishing Square who had shorted the Bond market now believes the US Fed will have to cut rate in the first quarter of next year. (Bloomberg Nov 29th.) The final few Economists that had been holding out with their recession calls finally through in the towel. Pretty tough to call a recession when you have 5% GDP!!

Q3 economic activity in the U.S. was the strongest in almost two years. Driven by consumers and fiscal spending, the second estimate of real GDP growth underscored a robust pickup of 4.9% annualized in the third quarter. Today, look for the final report to show the economy actually grew by more than 5% annualized in Q3. In this last quarter we have seen the lowest number of S&P500 companies citing 'inflation' on their earnings calls and similarly citing 'recession' on earnings calls since Q4 in 2021. Encouragingly we have also seen over **80% S&P companies reporting a positive earnings surprise and over 60% reporting a positive profit surprise.** (Equity Strategy BMO Economics Nov 29th)

595 Burrard Street, 9th Floor Vancouver BC V7X 1L7 · T: 604- 665-7500 (Greg Vos) 778-331-9428 (Jed Brezer) · F: 604 665-7461

Net result of all of this is that we have had a very strong and sustained rally through November in the markets. What is equally important, is the change in sentiment from negative to positive as the stock and bond markets see stable and declining interest rates ahead. So will this continue?

Russ Visch our technical analyst points out the following: As such it's entirely possible that we see nothing more than some sideways consolidative action over the next week or two while this situation works itself out. That wouldn't be too surprising given the recent breadth thrust that occurred at the beginning of the month and the rapid expansion in bullish sentiment, both of which reflect a major sea change in investor's enthusiasm for equities. (**Our Composite Sentiment indicator just registered the biggest four week increase in the number of bulls in more than thirteen years.**) We are still working under the assumption that both the S&P 500 and Nasdaq Composite break above their July peaks (SPX: 4607, Nasdaq: 14,446) at some point reasonably soon. Breakouts there would likely result in a challenge of their all-time highs (SPX: 4818, Nasdaq: 16,212) since there is no significant price resistance between the July peaks and the all-time highs. (Daily Action Report November 29)

We think the market can power higher through year-end and beyond. That, in a nutshell, has been our call for the last few months, despite the pervasive negativity surrounding the geopolitical environment as well as the interest rate and economic outlook. First, as we have discussed, interest rates have come off the boil with the U.S. 10-year treasury coming down to the 4.3% range after briefly topping 5%. That is a significant tailwind for equities and, not surprisingly, Tech stocks that were hurt the most by higher rates in 2022. Much has been said about the rally of the 'Magnificent 7' tech stocks, however now we are seeing that the participation in the market has broadened to include other sectors and stocks beyond Tech. That is an encouraging signal and a good omen for better performance to come. Insiders are now buying back their shares and we are reading about 'value stocks' in the market again.

Will it continue? Corporate America certainly thinks so, with the ratio of **insider buyers to sellers** at the highest in six months, Bank of America's buyback desk becoming the busiest it's ever been and Goldman corporate clients in deep share-repurchasing mode. (Bloomberg Nov 29th)

Canada vs US?

As all of you know, we have for decades maintained a strong US bias in all of our portfolios. This is due to our belief that the US market has and will continue to outperform the CDN market over the different market cycles. Occasionally like in 2022, the CDN market outperformed the US market, solely due to the Oil and Gas crisis caused by the invasion of Ukraine. This is the exception rather than the rule.

Our US exposure this year has helped all portfolios handily outperform the Canadian markets and something that we see continuing this coming year. We do however see the Canadian market improving, as interest rate cuts become a reality. Approximately 39% of the TSX index is made up of interest rate sensitive stocks, think Banks, Insurance, Telcos, Real Estate and Utilities. These stocks and sectors will definitely benefit from rate cuts and so will give us a nice lift in our dividend names in the portfolio. These stocks have been paying us a very nice dividend over the last year and we expect to start to see some decent capital gains from these sectors in the coming year.

The Canadian economy is not as robust as the US, as our GDP is barely positive and may even be slightly negative by year end. Remember the US has 5% GDP. This may mean that the Bank of Canada has to cut interest rates ahead of the US Fed in order to stimulate the economy.

595 Burrard Street, 9th Floor Vancouver BC V7X 1L7 · T: 604- 665-7500 (Greg Vos) 778-331-9428 (Jed Brezer) · F: 604 665-7461

The Canadian consumer is much more in debt than their US counterparts, due to the heavy mortgages that the many carry and the fact that Canadian mortgages reset every 5 years, where in the US it is quite common to lock in a mortgage for 30 years.

The Canadian indices are also more tied to the commodities markets, with oil and gas and mining making up a pretty big part of the market. In order to see commodity markets come back strongly we need to see global economic growth come back strongly and most importantly a strong Chinese economy; something that seems a ways off for now.

As much as lower interest rates will help Canadian stocks rally in the coming year we still believe that the US markets will continue to drive great performance for the portfolios. We see the market breadth increasing and so many of the Technology names outside of the 'Magnificent 7', will start to lead the market alongside the US industrials and consumer names. The US Consumer is in much better shape than the Canadian consumer and that will help US markets continue to lead into 2024.

Bottom line is that we feel well positioned with the portfolios and are happy to report strong performance for the year across the board. We have a little cash on hand which we will be looking to deploy in the coming month. The cash came from taking a little profit from some of our winners and doing some strategic tax loss selling in order to try and reduce any capital gains for clients. We are looking for a strong start to 2024 and will provide further updates in January as we reposition portfolios.

Happy Holidays.
As always thanks for your support over the last year and we wish all of you the **Best of the Season and Happy Holidays** from all of our team. We will be making charitable donations in lieu of sending out Xmas cards to help those in need over the Xmas season.

All the best from our team members.

Jed, Greg, Dave, Marion, Lili, Samantha, Kenzy, Mahad, Ling, Tracy, Kelly, Sarah, Jennifer and Mui

595 Burrard Street, 9th Floor Vancouver BC V7X 1L7 · T: 604- 665-7500 (Greg Vos) 778-331-9428 (Jed Brezer) · F: 604 665-7461

BMO Private Wealth is a brand name for a business group consisting of Bank of Montreal and certain of its affiliates in providing Private wealth management products and services. Not all products and services are offered by all legal entities within BMO Private Wealth. Banking services are offered through Bank of Montreal. Investment management, wealth planning, tax planning, philanthropy planning services are offered through BMO Nesbitt Burns Inc. and BMO Private Investment Counsel Inc. Estate, trust, and custodial services are offered through BMO Trust Company. Insurance services and products are offered through BMO Estate Insurance Advisory Services Inc., a wholly-owned subsidiary of BMO Nesbitt Burns Inc. BMO Private Wealth legal entities do not offer tax advice. BMO Nesbitt Burns Inc. is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. BMO Trust Company and BMO Bank of Montreal are Members of CDIC. ® Registered trademark of Bank of Montreal, used under license.

IA Newsletter & Securities Disclaimer

The opinions, estimates and projections contained herein are those of the author as of the date hereof and are subject to change without notice and may not reflect those of BMO Nesbitt Burns Inc. ("BMO NBI"). Every effort has been made to ensure that the contents have been compiled or derived from sources believed to be reliable and contain information and opinions that are accurate and complete. Information may be available to BMO NBI or its affiliates that is not reflected herein. However, neither the author nor BMO NBI makes any representation or warranty, express or implied, in respect thereof, takes any responsibility for any errors or omissions which may be contained herein or accepts any liability whatsoever for any loss arising from any use of or reliance on this report or its contents. This report is not to be construed as an offer to sell or a solicitation for or an offer to buy any securities. BMO NBI, its affiliates and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities mentioned herein as principal or agent. BMO NBI -will buy from or sell to customers securities of issuers mentioned herein on a principal basis. BMO NBI, its affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO NBI or its affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. A significant lending relationship may exist between Bank of Montreal, or its affiliates, and certain of the issuers mentioned herein. BMO NBI is a wholly owned subsidiary of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Nesbitt Burns Corp. Member-Canadian Investor Protection Fund.

595 Burrard Street, 9th Floor Vancouver BC V7X 1L7 · T: 604- 665-7500 (Greg Vos) 778-331-9428 (Jed Brezer) · F: 604 665-7461