

Market Update

May 2024

Since my last update in March, markets have retracted a little bit after a strong run of performance in the U.S. market followed by somewhat weaker performance here in Canada. In particular, we can see retraction the U.S. technology sector in the last 4-6 weeks.

YTD Market Performance...

TSX +3.3% Canadian broad market
SPX 5.2% U.S. broad market
Nasdaq 4.5% U.S. technology focused index

A tale of two markets.

The American economy is doing quite well and I think that is being reflected in the broader SPX market performance. Interest sensitive technology stocks have pulled back a bit recently as predictions for interest rate cuts are not as relevant today. With a stronger economy than many thought six months ago, the central bank in the U.S. isn't likely in any hurry to start cutting interest rates today, particularly as they have stated a desire to see inflation get down to 2%. Globally, the U.S. market is providing growth in our portfolios.

Here in Canada we have a much more challenging economy.

Government spending is *excessive* in an economy where most job creation is in the public, not private sector. Government debt has increased substantially as has taxation. The Federal budget this week provided a new Federal wealth tax, increasing the taxable portion of capital gains to 66.7% from 50% if your gains are over \$250,000 (individual). This is a rude awakening for anyone with assets beyond their personal residence. **(I have included a summary of the Federal Budget separately).**

We have sought to weight Canadian portfolios to the Financials (banks) over the last year or so which has worked out well. However, I believe banks will be anchored to arguably almost zero GDP growth if you factor out immigration. Productivity in Canada is currently 'zero'. While we have enjoyed constant dividend growth in this sector, that will likely get muted over the near future. The banks with the best ROE right now appear to be National and RBC.

Another sector we have favoured is Energy which has performed fairly well on the production side though infrastructure (pipes) remains weak. I believe this will change as we have two pipelines to tidewater about to open here in Canada. As confusing as it may sound, the Federal government owns the Trans Mountain pipeline on one hand, while seemingly being opposed to fossil fuels on the other. Oil and gas remain a very significant source of revenue for Canada while our carbon taxes are among the highest in the world. Canada is responsible for 1.4% of global CO2 emissions. The good news about energy to tidewater is that demand will allow us to finally realize world pricing for this commodity as opposed to selling it for what we can realize from our only current market, the

U.S. This is particularly relevant with the new LNG facility at Kitimat opening soon where ships can be directed to where the demand and money is for LNG.

Summary.

I think that there is more likelihood of Canada reducing interest rates than the U.S. in the coming months. I believe Canada is slipping toward recession and stimulus might come in rate cuts. Inflation in March came in at 2.9%.

I often hear Canada compared to Australia because like Australia, we are arguably, the most resource rich countries on the earth. When comparing Canada to other countries, I have often said, that 'our wealth is beneath our feet'. However, while both countries are resource rich, Australians are considered to be 20% wealthier than Canadians.

I have prepared this commentary to give you my thoughts on various investment alternatives and considerations which may be relevant to your portfolio. This commentary reflects my opinions alone and may not reflect the views of National Bank Financial Group. In expressing these opinions, I bring my best judgment and professional experience from the perspective of someone who surveys a broad range of investments. Therefore, this report should be viewed as a reflection of my informed opinions rather than analyses produced by the Research Department of National Bank Financial.

Best,

National Bank Financial

Rob Hunter

Senior Wealth Advisor

Sources: National Bank Economics, Hamilton ETFS, BNN, Bloomberg

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I have prepared this report to the best of my judgment and professional experience to give you my thoughts on various financial aspects and considerations. The opinions expressed represent solely my informed opinions and may not reflect the views of NBF.

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