



HARBOURFRONT
WEALTH MANAGEMENT

**WATERMARK
PRIVATE PORTFOLIOS**

NOVEMBER 2023 COMMENTARY



TRUE INDEPENDENCE™

Market Review in Minutes

Equities

- The S&P 500 and the S&P/TSX Composite both snapped their 3-month losing streak in November as equity markets appear to have bottomed in late October.
- The energy sector lagged the other sectors, recording its second consecutive monthly loss.
- The technology sector was the highest outperformer this month amongst other sectors. Tech giants Apple and NVIDIA both announced a beat on earnings expectations.
- The rally broadened out to include most large companies, evidenced by the S&P 500 Equal Weighted Index posting a gain in November.

Fixed Income

- The market continues to exhibit uncertainty regarding the direction of rate hikes. Some signs of support for a pause in continued rate increases were received during November, when both inflation and employment numbers showed softening.
- Overall, the Canadian Universe Bond had a great month, gaining 4.29%, marking its largest monthly gain since April 2020.

Commodities

- Crude oil, which has a significant tie to inflation, ended lower at around \$76 per barrel as the US recorded a steep rise in its crude inventories and production while demand in China has waned.
- Gold ended higher in November. There are growing expectations that the Treasury yields have peaked and the U.S Federal Reserve may be done hiking interest rates; thus, gold ended positive for the month. In addition, China has been actively buying gold on the international market and is now estimated to be the fifth largest country in the world that holds gold reserves.

As at November 30, 2023	Monthly % Total Return	YTD % Total Return
Canadian Bonds <i>FTSE Canada Universe Bond Index</i>	4.29%	3.15%
Canadian Equities <i>S&P/TSX Composite Index</i>	7.48%	7.54%
US Equities S&P 500, in C\$	6.59%	20.88%
Gold	3.15%	12.65%
Oil <i>West Texas Intermediate Crude</i>	-6.24%	-5.36%
Canadian Dollar	2.36%	-0.16%

Notable Monthly Highlights

USA – The US Federal Reserve decided to hold its key policy rate at 5.50%

- As expected, the US Federal Reserve held its key policy rate at 5.5% as some economic data continued to point to a slowdown in inflation; however, the US Federal Reserve has once again reiterated that inflation is still elevated and reconfirmed its commitment to bring the inflation rate down to its 2% target level. The US Federal Reserve continues to monitor economic data for their next announcement on December 13:
 - The US labour market is showing signs of cooling as hiring and wage gains have slowed and the unemployment rate ticked up in October.
 - The closely watched core CPI, an inflation metric that excludes volatile food and energy prices, rose by 0.2% from September to October, which was less than the 0.3% expected.

Canada – Canadian economy shrunk unexpectedly but avoids recession...so far

- Canada posted a decline of 0.3% in the third quarter of 2023 as exports declined and household spending remained flat. Canada will make its next interest rate announcement on December 6, but in the meantime, it continues to monitor key economic data points:
 - The Bank of Canada's annual inflation rate eased at 3.1% in October vs the 3.2% expected, and the closely followed measure of core inflation declined to 2.7%, which is at its lowest levels in about two years.
 - Canada's Producer Price Index (the costs for raw materials for businesses) declined by 1% in October.
 - The labour market is starting to cool with unemployment numbers increasing.

World – Several parts of the world are seeing a slowdown in inflation

- China decided to keep lending benchmark rates unchanged, like many central banks around the world. The Chinese economy—a key contributor to global growth—improved in October as it beat expectations: GDP growth rose by 4.6%, led by consumer consumption gaining 7.6%, seeing a rise in both auto and restaurant sales. That said, China still faces property concerns as home prices slipped for the fourth month.
- The United Kingdom witnessed a slowdown in inflation as annual CPI slumped to 4.6%, which was lower-than-expected; this increased investor confidence that Bank of England may cut rates by next year.

Watermark Private Portfolios Outlook and Positioning

In late October, WPP sold the floating rate note positions to bring the equity exposure closer to the benchmark after global equity markets softened, providing an attractive entry point. This change has benefitted client portfolios in November as equity markets snapped their 3-month losing streak and appeared to have bottomed in October.

	Underweight	Target	Overweight	October End	November End
Equities		●		Global equity markets softened in October, posting a 3rd consecutive negative month. We saw equity markets hold above key technical levels – the S&P 500 held at 4100. We changed our positioning from underweight to neutral public equities as we believe that equity markets could rally in the short- to medium-term before entering a recession. In addition, with share buybacks starting up again and with the equity markets historically performing well during November to May (seasonality), we are comfortable with the current equity market allocation.	As public equities saw a strong November, we continue to hold public equity exposure at the target weight. Although there has been historical evidence of strong seasonality and strong consumer spending, as reported by the Black Friday and Cyber Monday sales in the USA, we believe equities are fairly valued after the strong run-up in November.
Fixed Income	●			We believe interest rates are at or near their peak. From this level, there is greater uncertainty about rates rising vs. rates dropping, particularly as we begin to see the impact of previous rate increases be reflected in slowing domestic economic data. Our fixed income allocation was moved to a longer duration asset in anticipation of possible rate drops. Our weight reduction helped fund our equity purchase.	For conservative portfolios, we are using proceeds from private credit to allocate to high-quality Canadian corporate bonds as we believe rates have peaked and the Bank of Canada is likely done raising rates.
Private Credit		●		Although we believe public market yields have become more attractive, we nonetheless continue to see strong merit in a stable allocation to private credit. We prefer to reserve our exposure to floating rate credit to this segment of the portfolio. Further, as increased regulation continues to limit bank lending, the support for private lending and the diversification it provides is meaningful to returns.	We continue to see strong merit in a stable allocation to private credit. However, we have trimmed our long-term strategic holding to a new target for the conservative and balanced portfolios to enhance liquidity. Proceeds of the sale were used to fund high-quality Canadian corporate bonds and the Conservative Balanced ETF.
Private Real Estate		●		We continue to see strong tailwinds in support of private real estate; therefore, we are maintaining a long-term allocation to private real estate. Strong immigration in Canada, the significant gap between housing supply and demand, and increasing rents continue to benefit our private real estate holdings. As an equity holding in the portfolio, we view this as a stable and defensive equity exposure.	No changes. We are maintaining long-term allocation to private real estate.

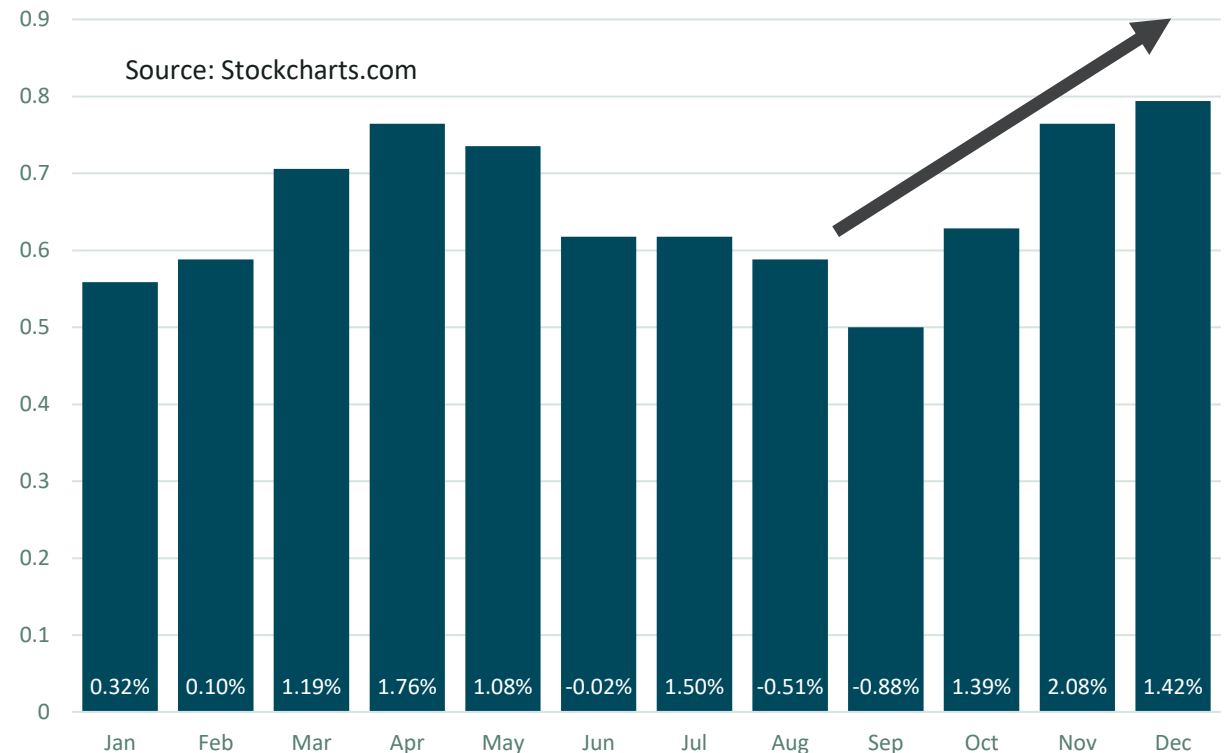
Did You Know?

As seen in the chart below, during the past November and December months from 1989 to 2022, the S&P 500 has shown positive gains almost 80% of the time, averaging 2.08% and 1.42% monthly gains, respectively. There are many factors that contribute to this seasonality effect, but a common explanation is the “Santa Claus rally,” which is the tendency for the stock market to rally during the Christmas holiday season.

Our opinion:

Do we believe in Santa? History has shown a high probability that the S&P 500 finishes strong and post more gains until the end of the year. However, Santa may have come early this year with the S&P 500 rallying 8.9% in November, which is significantly higher than the average November and December gains, leaving the S&P 500 valued fairly. We currently hold our equity exposure at the target weight but continually monitor the markets for profit-taking opportunities.

% of Months in Which S&P 500 Closed Higher Than It Opened From October 1989 to October 2023



Changes in Portfolio Positioning Over the Past Month

In the Enhanced Conservative Plus Portfolios:

- We trimmed Rockridge Private Debt Pool and used proceeds to add to the iShares Canadian Short Term Corporate Bond ETF and the Dynamic Active Enhanced Yield ETF.

In the Enhanced Conservative Core Portfolios:

- We trimmed Rockridge Private Debt Pool and used proceeds to add to the iShares Core Conservative Balanced ETF.

In the Enhanced Low-Cost and Enhanced Balanced Portfolios:

- We reduced the weighting on Rockridge Private Debt Pool and will rebalance client portfolios using on-going fund flows.

New Product Update – Liquid Portfolios!

- We have recently launched an enhancement to our WPP product offerings:
 - Liquid Conservative (35 EQ/65 FI)
 - Liquid Balanced (50 EQ/50 FI)
 - Liquid Growth (70 EQ/30 FI)
 - Liquid Maximum Growth (100 EQ)

Key Economic Indicators

	Inflation Rate		Interest Rate		Unemployment Rate		GDP Annual Growth Rate		Stock Market Valuation (Forward P/E)	
	Last	Chg.	Last	Chg.	Last	Chg.	Last	Chg.	Last	Chg.
USA	3.20%	▼	5.50%	▬	3.90%	▲	3.00%	▲	19.2	▲
Canada	3.10%	▼	5.00%	▬	5.70%	▲	1.12%	▼	12.8	▲
China	-0.20%	▼	3.45%	▬	5.00%	▬	4.90%	▼	9.5	▼
Japan	3.30%	▲	-0.10%	▬	2.60%	▼	1.60%	▼	14.3	▲
United Kingdom	4.60%	▼	5.25%	▬	4.20%	▬	0.60%	▬	10.3	▼

Source: Trading Economics

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