

The Upside of Canada's Economic woes

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Living in Canada, most of us are aware that over the past year and a half to two years interest rates and inflation have dominated the economic discussion. Whether it be through our own financial lives, whether it be through seeing a declining housing market or whether it be through going to the grocery store and looking at and becoming enraged by elevated prices, the mood of Canadians with regards to their own economy has been very pessimistic. This is reasonable, especially given our neighbors to the south have seen stronger stock markets in the last year as well as declining unemployment, rising wages and, in 2023 onwards, growing per capita wealth.

With that backdrop, it seems natural that Canadians might be concerned about their stock market or feel that we are going to remain in an inferior return position to the United States or other major markets. It's in moments of pessimism that a lot of great returns are made in the stock market. When everyone is optimistic, that tends to be the time when stocks might be overvalued, or people have already bought and don't have cash on the sidelines to fuel a new stock market rally. In Canada, I think the next couple of months will bring better economic news and relief on the interest rate front.

Although the stock market follows the economy over time, there are times that the economy and the stock market can diverge. In Canada, the Toronto stock market is made up of a very different set of sector weights than the economy itself. In the Canadian stock market, consumer stocks are only approximately a 7% weight, whereas in the economy the consumer has 55% of the weight. Consumer weakness within Canada does not mean stock market weakness.

In the coming months we are confident that the Bank of Canada will need to cut rates in order to address economic weakness and disinflationary impulses across almost all areas of the economy. In fact, inflation is already below 2% if one excludes the impact of mortgage interest costs caused by the Bank of Canada's interest rate hikes themselves!

Once it becomes clear to Canadian investors that a 5% GIC is almost impossible to get, Canadians looking for reasonable returns will migrate to stocks, corporate bonds or preferred shares that continue to offer up healthy yields. As well, we think that once the rate cutting cycle begins, international investors will become more aware that Canada is very unlikely to face a housing crash, and this will restore confidence in their ability to invest in Canada's banks where financial services make up approximately 30% of the stock market value.

Within the Canadian Equity Alpha strategy, we remain committed to the Canadian stock market with a diversity of industries, whether it be utilities or miners, banks, or telecom companies. While each of those have different drivers of their earnings, we think each of them can do well as the Canadian economy stabilizes and the cheap valuation of Canadian stocks causes investors to take notice and buy.

Combined top 15 equity holdings as of March 28th, 2024 of the Assante Private Portfolios 40i60e Standard portfolio with Alphastyle exposure:

1. NVIDIA Corporation	6. ASML Holding NV	11. London Stock Exchange
2. Microsoft Corporation	7. Novo Nordisk A/S Class B	Group plc
3. Amazon.com, Inc.	8. Service Now, Inc.	12. Constellation Energy
4. Meta Platforms Inc. Class A	9. Hemnet Group AB	Corporation
5. Constellation Software Inc.	10. CRH Public Limited Company	13. Rheinmetall AG
		14. Hermes International SCA
		15. Eli Lilly and Company



For more information, we encourage you to speak to your advisor or visit us at assante.com

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