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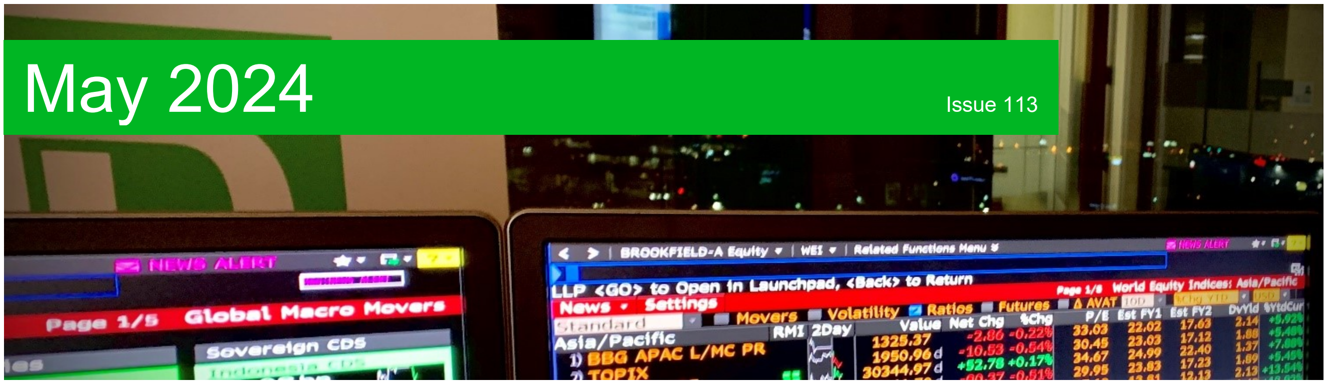

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Economic & Market Update

Survive till '25 [1]

I have written numerous times here in the *Monthy Letter* about the persistent hope that we will, at some point, head back to the market landscape of the 2010's. What's *not* to like about the conditions back then? Interest rates were historically low, and were even negative in some countries. Inflation was almost non-existent. Bond markets were sleepy and peaceful. Growth stocks soared on the promises of eventual blockbuster technological breakthroughs. And, a whole plethora of speculative and non-traditional investments thrived in that world of low-cost-to-no-cost capital. It is understandable why pondering a return to that era is so seductive.

For the last four years, it seemed that the return to pre-Pandemic economic conditions was always just a year away when listening to optimistic policymakers, central bankers, political leaders, business leaders, and market strategists. When these proclamations were made, the investments that did well pre-Pandemic often shot upwards. When being told that there was light at the end of the tunnel, fear of missing out pervaded.

Central bankers are at it again.

They are confident that inflation will return back to the 2% target and stay there indefinitely.

That's good news for investors in products that did will in the previous low-inflation, low-interest rate decade.

But what if this is not the case?

[1] This phrase is courtesy of Jim Grant. "Long live the worrywarts." *Grant's Interest Rate Observer*, Vol. 42, No. 8, April 26, 2024.

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Last Wednesday May 1st, Jerome Powell, the Chair of the U.S. Federal Reserve Board (the Fed), stated that "We *will* return inflation to 2%."[2] Sounds confident to me! And, the markets thought so as well as was evidenced by the 1.98% gain in the S&P 500 Index and the 3.42% gain in the NASDAQ Index from the beginning of Powell's press conference through to the end of the week.[3] The market was also likely helped by some concurrent economic news that U.S. employment may have softened slightly, which supposedly would enable the Fed to cut rates sooner than later. But, traders look like they are responding to any morsel of data or commentary that comes out because of the apparent lack of clarity on where the economy is going.

It is reasonable to assume that most leaders of central banks are dovish based on their comments from the past few years.

There is much encouragement to look beyond inflation and be bullish.

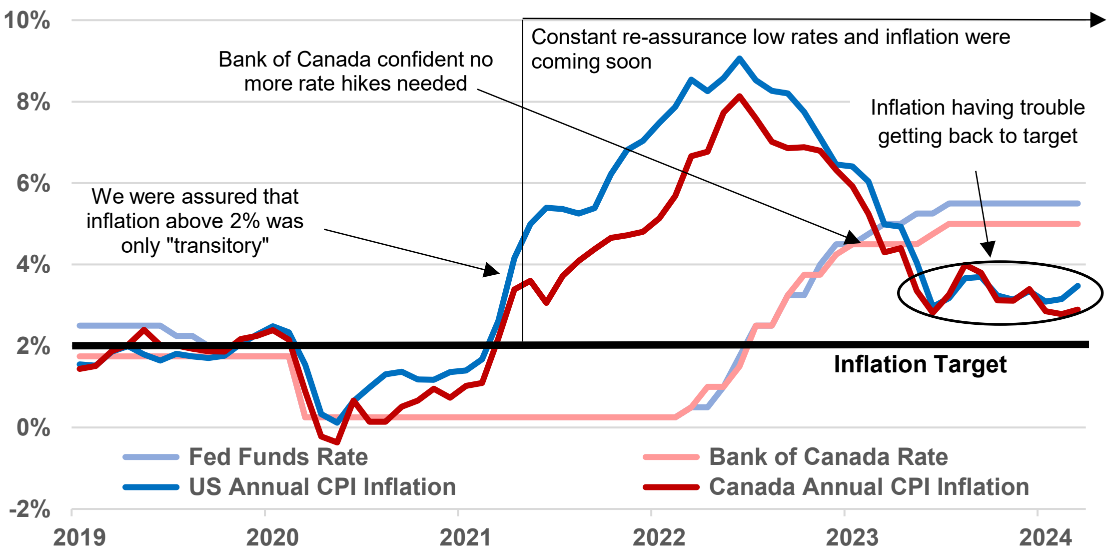
But what if inflation does not fade?

Then, on Thursday, Tiff Macklem, the Governor of the Bank of Canada also got into the act by declaring that we are getting closer to cutting rates.[4]

However, in both cases, this was a continuation of a low inflation/low interest rate theme that these two central bank leaders had been espousing for the last few years (**Chart 1**). For example, both had been emphatic that inflation was "transitory." Governor Macklem went even further in July 2020 by stating that "Interest rates will be low for a long time."[5]

Chart 1:

Inflation Rates and Policy Interest Rates - The Last 5 Years



Source: Bloomberg Finance L.P. for the interval from May 1, 2023 to April 30, 2024

[2] "Transcript of Chair Powell's Press Conference." The Board of Governors of the Federal Reserve System, May 1, 2024.
[3] Source: Bloomberg Finance L.P. May 7, 2024, using intraday pricing.
[4] "'We are getting closer' to cutting interest rates, Bank of Canada governor tells MPs." CBC News, May 2, 2024.
[5] "'Interest rates will be low for a long time': Macklem." BNN Bloomberg, July 15, 2020.

As mentioned, last week's reaffirmation did help stocks as well as bonds which generally benefit from rate cuts. In addition, it was good news for a number of the other interest rate-sensitive vehicles into which one can place money such as private equity, private credit, venture capital, high-growth companies with weaker balance sheets, real estate-related securities, and speculative endeavors (including crypto). Many of these did fantastically well in the 2010's and it is understandable that investors, speculators, and the companies that provide these products are really hoping that the good times return.

However, in some cases, it may require *holding on* as there has been some deterioration in the fortunes in some of these products. In the case of private equity, there has been some fraying around the edges caused by the higher interest rates. From what the central bankers are saying, it sounds like if one could just hang on until 2025, things will be better. It also helps that many of these unorthodox interest rate-sensitive investments are not marked-to-market like publicly-listed investments are. As a result, they are able to appear steady in terms of price (only periodically updated) which may obscure some of the difficulties they are facing. That said, if it isn't all "puppy dogs and rainbows" soon, as hinted by central bankers' comments, then it would imply that more of the managers of these products will face increasing difficulty, especially if they are required update the pricing to reflect reality.

In some unorthodox investments that did well up to the Pandemic, the experience since has not been great.

Perhaps these investors can hang on until 2025. But will they be able to hang on for longer if central bank forecasts do not materialize?

As readers of this *Monthly Letter* will know, I think that interest rates and inflation will remain elevated enough to be a political issue as well as an investment problem. There are still dozens of factors that have the potential of maintaining inflation and that are unlikely to dissipate much over the next decade or longer (de-globalization, global geopolitics, re-militarization, historical levels of deficit spending, and massively subsidized industrial policies just to name a few).

Going forward it may boil down to two main choices: 1) placing faith in investments that did well during economic and geopolitical "peacetime" of the 2010's and trying to "Survive till '25" when we are encouraged to believe that all will be great again, or 2) seeking investments that can provide defense as well as opportunity in a world that may not be so friendly, thereby aiming to "Survive till '35" in case central bankers don't have as many of the answers as they think they do.

Model Portfolio Update[6]

The Charter Group Balanced Portfolio
(A Pension-Style Portfolio)

	Target Allocation %	Change
Equities:		
Canadian Equities	12.0	None
U.S. Equities	38.0	None
International Equities	8.0	None
Fixed Income:		
Canadian Bonds	22.0	None
U.S. Bonds	6.0	None
Alternative Investments:		
Gold	8.0	None
Silver	1.0	None
Commodities & Agriculture	3.0	None
Cash	2.0	None

The asset allocations in the model portfolios remained unchanged in April.

No changes in the asset allocations during April.

However, we did sell United Healthcare and replace it with GE Vernova, the new energy company that was spun off from the original GE.

However, we did swap out the position in United Healthcare (UNH) for a full weighting in GE Vernova (GEV) which was spun out of the GE shares that we hold. UNH was the benefactor of consumer tolerance for rising healthcare delivery costs in the U.S. over the last decade. It now appears that the Baby Boomers, who reflected that tolerance, are losing strength as a voting bloc and that voting power is beginning to migrate towards the Millennials who are more impacted by cost-of-living issues. As a result, the federal government is not as accommodating towards the healthcare and insurance providers as previously. So, it was time to exit the position which was up 230% from its inception on June 15, 2016 for a compounded return of 16.5% over the holding period. So, not bad.

GEV was attractive based on the industry in which it operates, as well as its valuation. It is at the forefront of systems that produce and deliver energy, including nuclear and renewables. It was GE's expertise in reactors that was one of the factors that kept us

[6] The asset allocation represents the current *target* asset allocation of the Balanced Model Portfolio as of May 7, 2024. The asset allocations of individual clients invested in this Portfolio may differ because of the relative performance of the asset classes since the last rebalancing and because of differences in the timing of deposits and withdrawals. The Balanced Model Portfolio is part of a sequence of five portfolios ranging from conservative to aggressive: Conservative, Balanced Income, Balanced, Balanced Growth, and Growth.

invested in GE stock, so it was not surprising that we would follow that business as it was spun out into a new stock.

April began with concerns over inflation.

The month ended with a focus on rate cuts and positive earnings news.

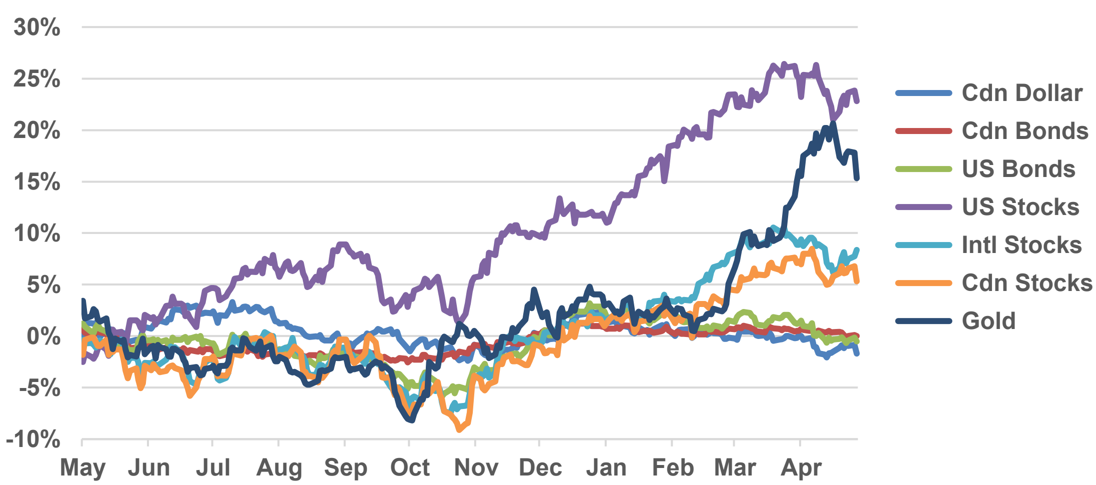
The months going forward could be characterized by these types of intra-month reversals.

With respect to the markets, the month of April could be split into two chapters. The first chapter was characterized by the anxiety over stronger-than-expected inflation reports. This hurt growth stocks and interest rate-sensitive investments. The second chapter reversed course with better-than-expected earnings announcements that reinvigorated hope with respect to the future profitability of artificial intelligence. That second chapter of April was then extended into the first days of May by dovish central bank commentary and a U.S. employment report that was marginally weaker-than-expected.

April was an example of just how sensitive markets were to minor changes in the data, with hope and fear flipping from one week to another. Without any clear near-term direction for the economies in North America and elsewhere, this back-and-forth may continue for a while. Also, the seasonality captured by the saying "sell in May and go away" could amplify any stress in the markets.

Below is the 12-month performance of the asset classes that we have used in the construction of The Charter Group's model portfolios. (**Chart 2**).[7]

Chart 2:
12-Month Performance of the Asset Classes (in Canadian dollars)



Source: Bloomberg Finance L.P. for the interval from May 1, 2023 to April 30, 2024

[7] Source: Bloomberg Finance L.P. – The Canadian dollar rate is the CAD/USD cross rate which is the amount of Canadian dollars per one U.S. dollar; Canadian bonds are represented by the current 3-year Government of Canada Bond; US bonds are represented by Barclays US Aggregate Bond Index; U.S. stocks are represented by the S&P 500 Index; International stocks are represented by the MSCI EAFE Index; Canadian stocks are represented by the S&P/TSX 60 Composite Index; Gold is represented by the Gold to US Dollar spot price.

Top Investment Issues[8]

Issue	Importance	Potential Impact
1. Global Geopolitics	Significant	Negative
2. Canadian Federal Industrial Policy	Moderate	Negative
5. Inflation (Portfolio Impact)	Moderate	Positive
3. China's Economic Growth	Moderate	Negative
4. Canadian Dollar Decline	Moderate	Positive
7. Short-term U.S. Interest Rates	Medium	Negative
6. U.S. Fiscal Spending Stimulus	Medium	Positive
8. Long-term U.S. Interest Rates	Medium	Negative
9. Global Trade Wars	Medium	Negative
10. Canada's Economic Growth	Light	Positive

[8] This is a list of the issues that we currently deem to be the ten most important with respect to the potential impact on our model portfolios over the next 12 months. This is only a ranking of importance and potential impact and *not* an explicit forecast. The list is to illustrate where our attention is focused at the present time. If you would like an in-depth discussion as to the potential magnitude and direction of the issues potentially affecting the model portfolios, I encourage you to email me at mark.jasayko@td.com or call me directly on my mobile at 778-995-8872.

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Accountability is further enhanced by the fact that we commit our own investable wealth to the same model portfolios in which our clients are invested.

The information contained herein is current as of May 7, 2024.

The information contained herein has been provided by Mark Jasayko, Senior Portfolio Manager and Senior Investment Advisor, TD Wealth Private Investment Advice, and is for information purposes only. The information has been drawn from sources believed to be reliable. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any investment. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual's objectives and risk tolerance.

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Thank you from The Charter Group at TD Wealth

Thank you to our clients and community for voting The Charter Group, your favorite for Investment Management and Financial Planning in Langley for the fourth year in a row.

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