Year End 2024 Commentary

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Schacter Palazzi | Wealth Management

TD Wealth

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The Importance of Focusing on Things that Never Change

Let's just start with the good news that 2024 was a very positive year for equities – the second in a row. The beginning and middle portion of the year felt more comfortable. We ended with confidence in stocks beginning to soften as inflation was proving a little stubborn in the United States, leading markets to discount a much more gradual pace of interest rate declines in coming months.

With a second Trump Presidency imminent, lower interest rates, and geopolitical concerns around the world, is it any surprise that the most frequent questions we receive from our clients right now are, what will 2025 bring; and what changes are going to matter to my personal finances?

While change often captures our attention because it is surprising and exciting, what we are most focused on now are behaviours that never change. Certainly the second Trump Presidency and what looks to be a probable election of the conservative party in Canada in 2025 represent change on a large scale. Yet what we are most interested in is what "won't change".

As is often the case going into a new year, we are seeing plenty of questions and so, without further delay, lets get to them....

Q: Can you explain your position on interest rates and where you think they will be headed and what effect they could have on our portfolio?

A: Interest rates eased along with inflation throughout 2024. This was particularly true in Canada where recent data has shown that Canadian inflation has fallen to the Bank of Canada target of 2%. This led the Bank of Canada to cut rates 5 times with three 25 bps cuts starting with its June meeting and then two cuts of 50 bps to end the year. South of the border, the U.S. Federal Reserve also began to lower interest rates delaying its start to September with a 50 bps cut and following that with a pair of 25 bps cuts in November and December. One change we are monitoring that could affect everyone's portfolio is a recent trend to higher long term (10 year) interest rates particularly as the year ended. The rise has been caused by a variety of factors. One of those factors was the re-election of President Donald Trump. His promised policies carry a mix of risk of opportunities and challenges. His promise of tariffs on goods imported from countries around the world is inflationary and while it remains to be seen if these tariffs will become policy or whether they are just a negotiation tactic, the market is beginning to factor in higher inflation.

We think fixed income investments will prove to be successful but admit that, if inflation was to return in the U.S., capital gains from bonds will be challenging and the somewhat elevated equity market valuations could come under pressure, dropping values from current high levels.

Q: What are your expectations on the U.S. and Canadian economy, and do you feel the best is behind it with a new President coming in?

A: We believe the news of the resignation of our Canadian Prime Minister adds a cloud of uncertainty over the Canadian economy. Coming as it does at the start of the fiscal year for most companies and leaving many tax changes from last year to die on the order paper, with an election to follow in May or June, planning will be difficult. Note that we are most focused on Canadian companies that get a larger share of their sales outside of Canada.

We borrowed from Argus Research to answer this question and have included their forecast on the US economy.

“We expect the U.S. economy to continue expanding in 2024, remaining on a growth path that is supported by three factors: an employed consumer, solid corporate investment, and above-trend government spending. For the past two years, with short-term interest rates at cycle-high levels, we argued that the economy was only a wrong turn or two away from a recession. U.S. GDP looks healthier now. By our reckoning, the U.S. economy will have grown at a 2.6% pace in 2024, down slightly from the 2.9% rate in 2023 but still above the estimated long-term trend growth rate of 2.0%. The key in 2025, as usual, will be consumer spending, which accounts for approximately two-thirds of overall GDP. At this juncture, the consumer is bolstered by low unemployment (4.2%), record-high stock prices, and rising home prices. A downturn among any of these three could lead to a slowdown. We will be watching unemployment claims closely this year. The recent trend is a benign 200,000 per week. If that data point rises above 300k, the unemployment rate could be pushing toward 5.0%. That's when the recession fears will return to Wall Street. Currently, our estimate for GDP growth in 2025 is 1.8%, compared to 2.0% in 2023. Our preliminary forecast for 2026 is also close to that long-run average rate.”

Source : John Eade, “Eight Fundamental Forecasts for 2025”, Dec 31, 2025, Argus Research

Q: What are your forecasts on the Canadian dollar and the US dollar, and can you comment on oil as well?

A: The Canadian currency has been weak relative to the US dollar over the last several months. We believe a major factor has been the focus of President Trump on tariffs and his targeting Canada with a 25% rate on all goods crossing the border. It is not unreasonable then to think there exists a possibility that the Canadian dollar shows relative strength given our domestic political change at the federal level and the possibility that tariff negotiations go better than what is currently being discounted. We think the Canadian dollar weakness could persist through the first half of the year. On the flipside, we look for the US dollar to remain at high levels especially if incoming President Trump can enact his pro-growth platform. It should also be noted that the US economy has been outperforming the economies of all its major trading partners (Canada, Japan, Europe and China) leading to market talk of "American Exceptionalism." This talk of exceptionalism has also been driven by the high number of innovative global technology leaders in the country, helping to justify the higher-than-average valuations of those companies. We believe this dynamic will keep the US dollar firm in 2025.

It is not often we get a question on oil, but we would say the most important factor for the price of oil will be the supply and demand equations which looks to favor supply over the next 2 years as per Argus Research.

Q: What is your outlook for the stock market for 2025 and are you optimistic on what you see are big changes coming to both the US and Canada?

A: We do not normally like to give a market outlook as forecasting is next to impossible at the best of times. When we add in the on-going geo-political dynamics (including the Canadian political scene) and it becomes even harder. We suspect that if recent long term interest rate rises start to slow we should see stabilisation and some positive momentum in the Canadian economy but the uncertainty of the political environment will keep risk a little elevated relative to normal.

John Eade, President and Director of Portfolio Strategies at Argus Research did publish his forecast for the US Stock market and we have included it below. Again, we will caution to take all forecasts with a degree of skepticism with world changes seemingly happening daily!

"Our base case outlook for U.S. markets calls for a modestly above-average year for S&P 500 returns, in the 10%-15% range. We note that the U.S. stock market has not had a "normal" year since 2016, with six years of above-average market returns (2017, 2019, 2020, 2021, 2023 and 2024) and two negative years (2018 and 2022). Domestic investors also endured two bear markets and one pandemic-induced recession during the period. But we note that the stock market over the past 60 years has generated positive annual returns approximately three-quarters of the time. The most frequent landing spot for those returns has been in the 10%-20% range, which has occurred 25% of the time. The second most-frequent decile has been 20%-30%, which has occurred 20% of the time, including in 2024. We anticipate that an expanding economy, growing earnings, and declining inflation and interest rates can result in double-digit results, with the S&P 500 continuing to establish all-time highs throughout 2025 and stocks ending the year in the black."

Source : John Eade, "Eight Fundamental Forecasts for 2025", Dec 31, 2025, Argus Research

Final Thoughts

One question we had from numerous people was our perspective on the new Capital gains tax enacted by the Liberal Government last summer. We did not want to speculate on the final outcome of this in recent light of the fact the Canadian Prime Minister has resigned but will update all of you during your regular annual reviews when we know more details so stay tuned.

As always we recognize you and your family may have some specific financial needs or questions regarding your own situation not covered here so, please reach out to Jeff, Jessica, James or Andrew directly. The entire Schacter Palazzi Wealth Management team wishes everyone a healthy and wealthy 2025!

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