CARDINAL | POINT

quarter ending in June 30, 2024

Quarterly Newsletter

The U.S. Extends its Lead

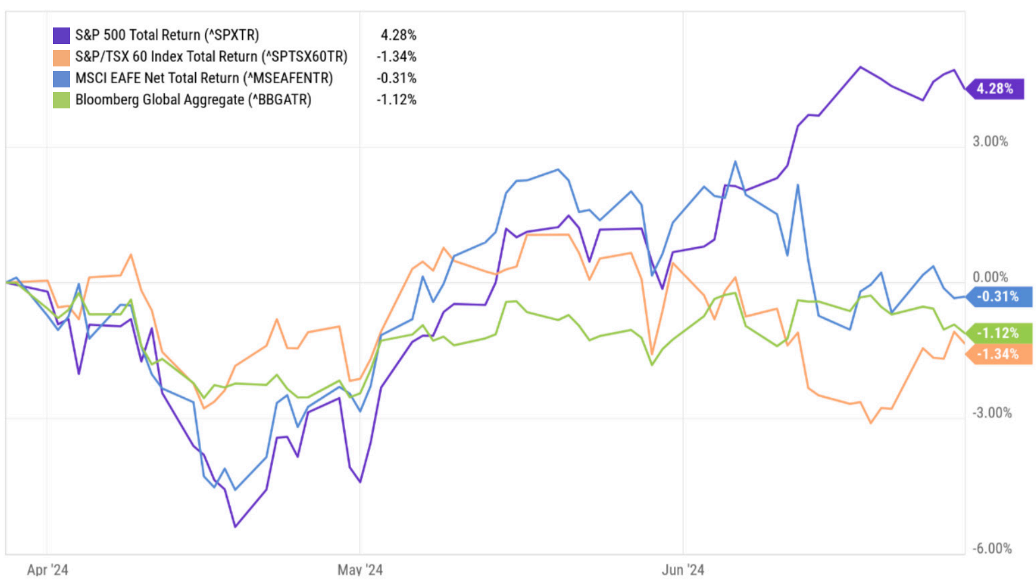
By Matthew Carvalho, CFA, CFP ®
Chief Investment Officer

During the second quarter of 2024, U.S. stocks, as measured by the S&P 500, gained 4.3%, as continued excitement in the Artificial Intelligence space fueled further gains in many large tech companies. That brings year-to-date gains to 15.3% and is a remarkable 25% increase over the previous 12 months. While some individual companies like Nvidia had extraordinary returns in the U.S., most other investment markets were less exuberant.

Canadian markets could not keep up, as a few of the larger stocks faced setbacks that brought the index down by 1.3% for the quarter. International Developed saw a minor setback, while Emerging Markets posted solid gains. Bond markets were relatively flat during a quarter that saw some central banks, including the Bank of Canada, implement their first rate cut of the cycle.

As we reflect on the journey from early 2023 – when recession fears dominated headlines – to today's robust economic landscape, we're reminded of the futility in predicting short-term market movements. The past 18 months have seen significant growth in the economy, job market, corporate profits, and most financial sectors.

Q2 2024 Index Returns



As we look toward the second half of 2024, several factors are likely to influence market performance. On the one hand, we face potential headwinds: a contentious U.S. political environment, moderating economic growth rates, and a cautious, data-dependent Federal Reserve. On the other hand, we see promising tailwinds: continued growth in corporate profits, potential productivity gains from AI investments, and the possibility of declining U.S. interest rates.

In this quarterly report, we'll delve deeper into these dynamics, with a special focus on key considerations for investors as we approach the U.S. election cycle. As always, we remain committed to helping you navigate these complex and often-shifting market conditions with confidence.

Clients of Cardinal Point are strategically invested with a focus on long-term performance objectives. We evaluate and report on market and economic conditions to provide our investors with perspective and to put portfolio performance in context, but we do not make sweeping model changes based on short term market movements.

Navigating Presidential Elections: A Guide for Long-Term Investors

As another U.S. presidential election approaches, speculation about its potential impact on financial markets intensifies. Many investors contemplate adjusting their portfolios based on anticipated outcomes. However, historical evidence and financial wisdom suggest that while elections are crucial for shaping public policy, their influence on long-term investment strategies is often overstated.

The Complexity of Market Reactions

Financial markets are influenced by numerous factors, making predictions based solely on election results unreliable. Vanguard's research dating back all the way to the year 1860 demonstrates this complexity, showing no statistically significant difference in performance between election and non-election years for a balanced 60/40 portfolio. This underscores the futility of basing investment decisions solely on political cycles.

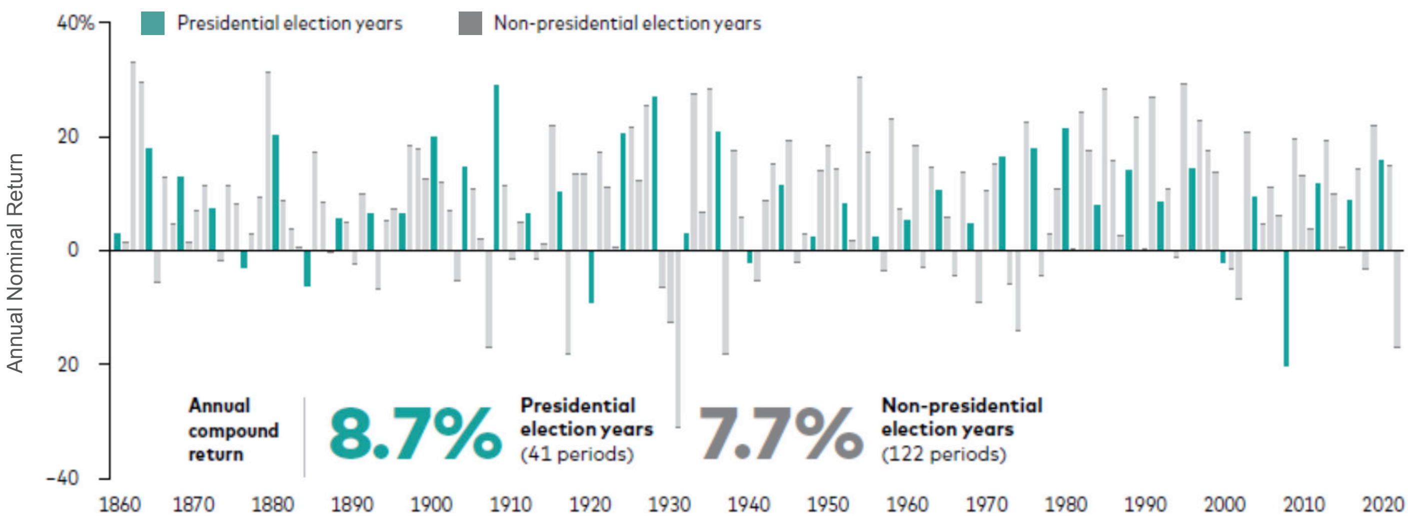
Contrary to popular belief, periods surrounding presidential elections have often experienced lower volatility than broader timeframes. Analysis from 1984 to 2020 reveals that the S&P 500's annualized volatility was slightly lower in the 100 days before and after elections compared to average volatility over the same period. This suggests that while elections generate headlines, their direct impact on market stability may be less significant than anticipated.

Historical Performance Perspective

Examining markets on both a yearly and a full presidential term basis reveals that a balanced portfolio has historically provided meaningful returns while managing risk. Since 1936, only one 4-year presidential term out of 22 elections resulted in negative annualized returns for a balanced portfolio.

Recent elections provide valuable insights. Following Obama's 2008 victory, initial concerns gave way to robust market

Comparing presidential election years versus non-presidential election years:
60% stock / 40% bond portfolio returns show no statistical difference

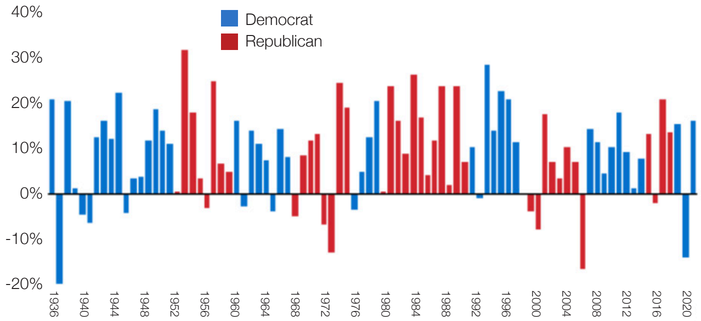


Sources: Vanguard calculations, based on data from Global Financial Data (GFD) as of December 31, 2022. The 60% GFD US-100 Index and 40% GFD US Bond Index, is calculated by GFD. The GFD US-100 Index includes the top 25 companies from 1825 to 1850, the top 50 companies from 1850 to 1900, and the top 100 companies by capitalization from 1900 to present. In January of each year, the largest companies in the United States are ranked by capitalization, and the largest companies are chosen to be part of the index for that year. The next year, a new list is created and chain-linked to the previous year's index. The index is capitalization-weighted, and both price and return indices are calculated. The GFD US Bond Index uses the U.S. government bond closest to a 10-year maturity without exceeding 10 years from 1786 until 1941 and the Federal Reserve's 10-year constant maturity yield beginning in 1941. Each month, changes in the price of the underlying bond are calculated to determine any capital gain or loss. The index assumes a laddered portfolio that pays interest monthly.

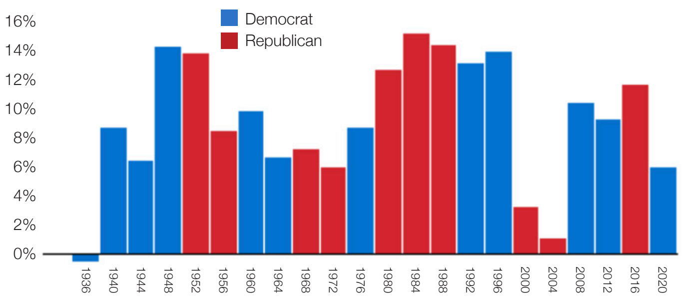
Markets are highly efficient at pricing in current events, swiftly incorporating new information, including election outcomes, into asset valuations. Attempting to attribute market movements to a single cause overlooks the multitude of variables at play.

performance, with the S&P 500 growing at an annualized rate of 14.5% over eight years. Similarly, Trump's unexpected win in 2016 initially sparked uncertainty – yet markets rallied, gaining 13.6% a year by November 2020. These examples illustrate that while campaign promises and policies may influence sentiment, broader economic factors often exert more substantial long-term influence on market outcomes.

Yearly 60s/40b returns have been positive most of the time regardless of which party held the presidency



4-year annualized 60s/40b returns provide even further confirmation



Past performance is no guarantee of future results.The returns of an index do not represent actual investor returns as one cannot invest directly in an index.
Sources: Vanguard calculations based on data provided by Morningstar and SBBI, as of December 31, 2023.
Notes: A 60s/40b model portfolio consists of: 60% IA SBBI US Large Stock Total Return Index and 40% IA SBBI US Intermediate-Term Government Total Return Index

Contested Elections and Market Resilience

It's important to address the impact of contested elections, such as the 2000 Bush vs. Gore scenario. Historically, even these periods of heightened uncertainty have not led to dramatic shifts in investment performance. Markets have demonstrated remarkable resilience and adaptability in the face of prolonged electoral uncertainty.

The 2000 election, which wasn't decided until December of that year, provides a valuable case study. While there was initial volatility, as shown in this chart from BlackRock, markets quickly stabilized once the outcome was determined. Keep in mind, this was also during a period of the dot-com bubble collapsing – so markets were already experiencing a downturn. This example underscores the market's ability to process and adapt to political uncertainty, further supporting the argument for maintaining a steady investment approach regardless of electoral outcomes. During the initial uncertainty around the 2020 election, markets rallied meaningfully.

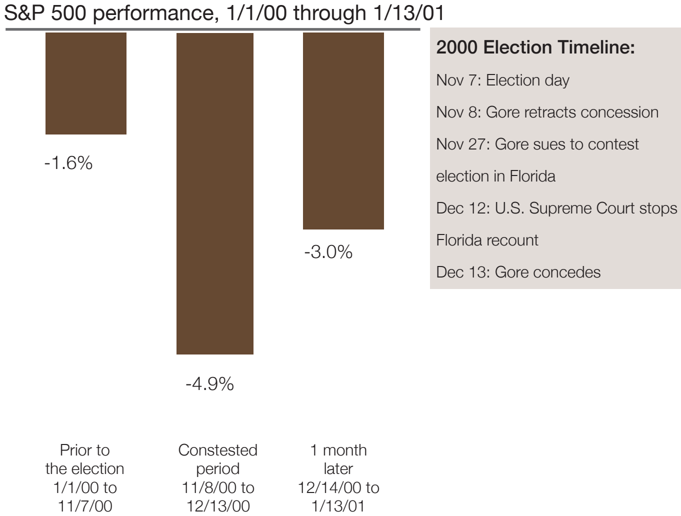
Global Elections in 2024

Looking beyond U.S. borders, it's crucial to consider the broader global political landscape. 2024 is set to be a significant year for elections worldwide, with several major economies heading to the polls. Key elections beyond the U.S. include India, the European Parliament, the UK, France, Mexico, South Africa and Taiwan.

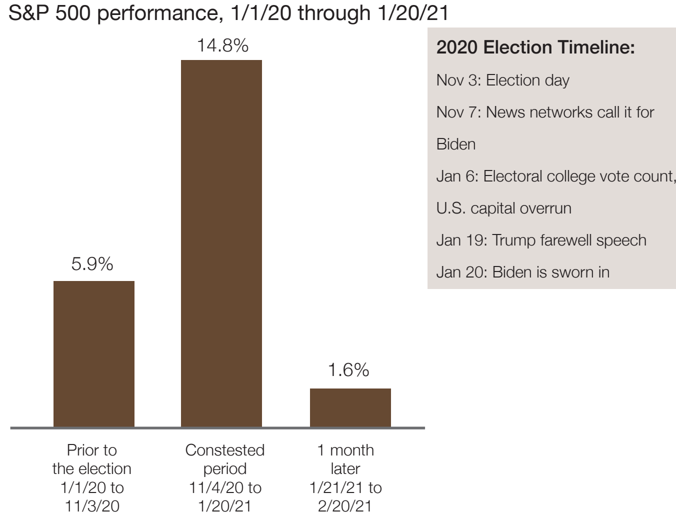
These political developments will undoubtedly capture international attention and may influence investor sentiment on a global scale. However, it's important to note that while markets often show initial reactions to election results, they frequently revert to previous levels or readjust based on broader economic factors.

For instance, after the Brexit referendum in 2016, global markets experienced immediate volatility, with the FTSE 100 dropping sharply. However, within a week the index had recovered its losses and even reached new highs. Similarly,

2000 U.S. presidential election
S&P 500 performance, 1/1/00 through 1/13/01



2020 U.S. presidential election
S&P 500 performance, 1/1/20 through 1/20/21



the surprise outcome of the 2016 U.S. presidential election caused a brief market dip, followed by a quick recovery and subsequent rally.

These examples illustrate that while elections can trigger short-term market movements, long-term trends are typically driven by fundamental economic factors rather than political events alone. This pattern of initial reaction followed by reversion further supports the argument for maintaining a steady, long-term investment approach.

The Role of Investor Discipline

At Cardinal Point, we advocate for maintaining discipline and a long-term perspective in all investment strategies. Our experience underscores the importance of sticking to a well-crafted financial plan through various market cycles, including election seasons. Emotions and short-term volatility should not dictate investment decisions that are intended to achieve long-term financial goals.

Additional Supporting Evidence

1. **Sector Performance Variability:** Research by Fidelity Investments shows that different market sectors can perform well under various administrations, regardless of party affiliation. This suggests that diversification across sectors is more crucial than aligning investments with political expectations.

2. **Global Market Influence:** As global markets become increasingly interconnected, U.S. presidential elections have a diminishing impact on overall market performance. International economic factors, trade relationships, and global events often play a much more significant role in shaping market trends.

3. **Corporate Adaptability:** Companies have demonstrated their ability to adapt to changing political landscapes. A study by the National Bureau of Economic Research found that firms often adjust their operations and strategies in response to policy changes, mitigating potential negative impacts on their long-term performance.

4. **Long-Term Market Trends:** Data from Dimensional Fund Advisors shows that over the past century, the U.S. stock market has trended upward regardless of which party controls the White House. This long-term growth trajectory emphasizes the importance of staying invested rather than trying to time the market based on election cycles.

5. **The Perils of Market Timing:** Numerous studies, including those by Dalbar Inc., consistently show that investors who attempt to time the market based on external events, including elections, often underperform compared to those who maintain a consistent, long-term investment strategy.

Conclusion: Maintaining a Steady Course

While presidential elections are significant political events, their impact on long-term investment portfolios is often less substantial than commonly perceived. Historical data, market research, and financial principles consistently demonstrate the resilience of markets through political transitions. By maintaining a disciplined approach, adhering to a well-crafted financial plan, and focusing on fundamental investment principles, investors can navigate election cycles with confidence and work toward achieving their long-term financial objectives.

Upcoming Webinar

Cardinal Point is planning a webinar for October in which we will discuss some of the concepts above in further detail, as well as evaluate any financial, estate or investment planning considerations which may change depending on the election outcome.

Stay Tuned for Further Details

RDSPs Can Grow Savings Tax-Free Without Loss of Disability Payments

In Canada, Registered Disability Savings Plans (RDSPs) are often overlooked because of a misconception that using one can reduce disability benefits. But most provinces and territories no longer include RDSP income and assets when determining eligibility for disability benefits. The only exceptions are Quebec, New Brunswick, and Prince Edward Island.

In many cases this is a missed opportunity for persons living with disabilities and their families, because Canadian government funding is available even without personal contributions. To open an RDSP, the beneficiary must be a Canadian resident with a Social Insurance Number, under 60 years of age. They also must have been declared eligible for, and have applied for, the disability tax credit (DTC).

The government offers Canada Disability Savings Bond (CDSB) payments and Canada Disability Savings Grant (CDSG) payments. For adult beneficiaries, government contributions are based on the net income of the beneficiary and their spouse, but not the beneficiary's parents, even if the beneficiary resides with their parents. For minor beneficiaries, government funding is based on the income of the parents. Income information will be substantiated from the two prior years of tax returns.

Bond (CDSB) payments do not depend on personal contributions and can total up to $20,000. The maximum payment is $1,000 per year, paid in 2023 where 2021 (the second preceding year) net income was below $34,863. A partial payment is applied for income below $53,359.

Grant (CDSG) payments depend on the non-government contributions made, and can total up to $70,000: $3,500 per year for 20 years. If net income from 2021 was below $106,717, then in 2023, the CDSG entitlement is $3,500 based on $1,500 in contributions.

Funds contributed personally and by the government grow tax-free inside the RDSP, which provides income starting at age 60. Withdrawals, aside from non-government contributions, are taxed.

Beneficiaries can access significant government funding through an RDSP, creating an additional financial resource for their later years without impacting provincial disability benefits. For more information, please visit our website:

https://cardinalpointwealth.com/?s=rdsp and

https://www.canada.ca/en/employment-social-development/programs/disability/savings.html

Financial Markets Review

The USD View

Data from recent months indicates that the economy is still growing but has started to see a deceleration from the above trend growth rates of 2023. Job growth has been steady in 2024, with around 200k net new adds per month. That's about the same level we saw for much of the 2014-2019 period. Unemployment increased modestly to 4.1%, breaching the 4% threshold during the quarter for the first time since the start of 2022. While that is still historically on the very low end, it does mark a 0.5% rise over the last year, after hitting all time lows in early 2023. That is another sign that the economy is still in decent shape but not as robust as a year ago.

Our most recent measure of overall growth in GDP came in at 1.4% for Q1 2024, down meaningfully from the strong previous two quarters, but still in line with the long-term growth rate of 1-2% that most economists expected. As we start to get the last of the data for Q2 2024, early indications are that growth has remained around the 1.5% level.

The pace of inflation has shown signs of improvement. Through May, the previous 12 months saw consumer prices increase by just 3.3%. After a brief spike earlier in the year, most readings now indicate a cooling trend, and expectations are that the year-over-year number should fall below 3% in the second half of the year.

With this economic backdrop, bond market returns in the U.S. were nearly flat, as yields ticked up a few basis points offset by the ongoing yield. The quarter saw a total return of +0.1% as represented by the Bloomberg U.S. Aggregate Bond Index. In Q1 the fast pace of projected Fed rate cuts was quickly reversed with higher than expected inflation, and in the second quarter expectations were relatively unchanged, with the market anticipating that the first rate cut will occur in either September or November – closing out the year about 0.5% below where we stand today. The Fed will remain in a data-dependent mode, and the statistics forthcoming over the next few months will determine the timing of the first cut.

For stock markets, the S&P 500 continued the momentum from the last 18 months and added 4.3% during the quarter. Looking back at the last 12 months, even with the correction last fall, the total return of the index was a gain of 25%. International Developed Market companies, as measured by the MSCI EAFE Index, took a breather, down 0.4% for the quarter. Emerging Markets, as measured by MSCI Emerging Markets, registered a 5.0% gain in the quarter.

Within the U.S. market, returns were clustered into the Large Growth area, while most other segments saw small losses. Large Growth companies were led by technology companies like Nvidia which is now up over 150% in 2024 and is challenging Apple and Microsoft for title of the world's most valuable publicly traded stock.

International Developed Markets saw minor losses across most segments. Large Value companies did the best for the quarter, eking out a marginal gain. The USD showed continued strength in Q2, which hurt the return on International markets.

US Stocks
Q2 2024

	Value	Blend	Growth
Large	-2.2%	3.6%	8.3%
Mid	-3.4%	-3.3%	-3.2%
Small	-3.6%	-3.3%	-2.9%

International Stocks
Q2 2024

	Value	Blend	Growth
Large	0.1%	-0.3%	-0.5%
Mid	-1.1%	-1.9%	-2.8%
Small	-1.8%	-1.6%	-1.3%

Asset Classes Ranked By Annual Returns (In USD)

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 YTD	2024 Q2
US REITs 4.5%	US Small Value 31.7%	Emerging Markets 37.3%	Cash 1.9%	US Stocks 31.5%	US Stocks 18.4%	US Small Value 28.3%	Cash 1.5%	US Stocks 26.3%	US Stocks 15.3%	Emerging Markets 5.0%
US Stocks 1.4%	Canadian Stocks 24.9%	Intl Stocks 25.0%	US Bonds 0.0%	Canadian Stocks 29.5%	Emerging Markets 18.3%	US REITs 24.5%	Alternatives -5.7%	Intl Stocks 18.2%	Emerging Markets 7.5%	US Stocks 4.3%
US Bonds 0.5%	US Stocks 12.0%	US Stocks 21.8%	Alternatives -3.2%	US REITs 23.1%	Intl Stocks 7.8%	Canadian Stocks 19.8%	Canadian Stocks -11.4%	Canadian Stocks 16.0%	Intl Stocks 5.3%	Cash 1.3%
Cash 0.1%	Emerging Markets 11.2%	Canadian Stocks 16.8%	US REITs -4.2%	US Small Value 22.4%	US Bonds 7.5%	US Stocks 15.9%	Intl Stocks -14.5%	US Small Value 14.6%	Alternatives 3.7%	Alternatives 0.5%
Alternatives -0.7%	US REITs 6.7%	US Small Value 7.8%	US Stocks -4.4%	Intl Stocks 22.0%	Canadian Stocks 6.6%	Intl Stocks 11.3%	US Bonds -13.0%	US REITs 14.0%	Cash 2.6%	US Bonds 0.1%
Intl Stocks -0.8%	Intl Stocks 1.0%	Alternatives 7.1%	US Small Value -12.9%	Emerging Markets 18.4%	Alternatives 6.4%	Alternatives 7.2%	US Small Value -14.5%	Emerging Markets 9.8%	Canadian Stocks 1.9%	US REITs -0.2%
US Small Value -7.5%	US Bonds 2.6%	US REITs 3.8%	Intl Stocks -13.8%	Alternatives 9.3%	US Small Value 4.6%	Cash 0.1%	US Stocks -18.1%	US Bonds 5.5%	US REITs -0.6%	Intl Stocks -0.4%
Emerging Markets -14.9%	Alternatives 1.3%	US Bonds 3.5%	Emerging Markets -14.6%	US Bonds 8.7%	Cash 0.7%	Emerging Markets -1.2%	Emerging Markets -20.1%	Alternatives 4.4%	US Bonds -0.7%	Canadian Stocks -2.3%
Canadian Stocks -23.5%	Cash 0.3%	Cash 0.8%	Canadian Stocks -15.3%	Cash 2.3%	US REITs -11.2%	US Bonds -1.6%	US REITs -26.0%	Cash 5.0%	US Small Value -0.8%	US Small Value -3.6%

The CAD View

Growth and employment rates for the Canadian economy continue to lag behind the U.S. The unemployment rate ratcheted up to 6.4% during the quarter, which was the highest rate since early 2022, though roughly in line with the average seen in the mid 2010s. New job creation turned slightly negative in June, with the economy losing 1.4k jobs, a sharp reversal from April's positive gain of 90.4k.

After flatlining for much of 2023, Real GDP growth has been positive every month in 2024, averaging about a 2% annualized growth rate. The gains were fueled by increased activity in manufacturing, rental and leasing, and finance and insurance – but were hurt by a drop in retail and wholesale trade.

Inflation has continued to be a bright spot, with year-over-year price increases falling below the 2% level this quarter for the first time since 2021. The current rate is below Canada's average inflation rate of 2.3% over the past 40 years.

Bond yields in Canada were nearly flat for the quarter and the Bloomberg Barclays Global Canada Index rose by 0.8% for the quarter, still off 0.6% for the year. Canadian stocks, as measured by the S&P/TSX 60, fell by 1.8% for the quarter. U.S. stocks, as measured by the S&P 500, rose by 5.4% in CAD for the quarter, helped by a minor 0.5% depreciation in the value of the loonie compared to the greenback during the quarter. International stocks gained 0.7% in CAD for the quarter, up 9.3% YTD.

Canadian markets saw a wide mix of returns, large growth stocks fell the most (led down by Shopify), and mid cap value firms saw the strongest returns as all small cap sectors advanced.

Cdn Stocks
Q2 2024

	Value	Blend	Growth
Large	-1.2%	-2.1%	-2.9%
Mid	5.7%	3.7%	3.0%
Small	0.5%	2.3%	4.0%

Asset Classes Ranked By Annual Returns (In CAD)

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 YTD	2024 Q2
US Stocks 21.6%	Canadian Stocks 21.1%	Intl Stocks 16.8%	US Stocks 4.2%	US Stocks 24.8%	US Stocks 16.3%	Canadian Stocks 17.5%	Canadian Stocks -5.8%	US Stocks 22.9%	US Stocks 19.6%	US Stocks 5.4%
Intl Stocks 19.0%	US Stocks 8.1%	US Stocks 13.8%	Canadian Bonds 2.5%	Canadian Stocks 22.9%	Canadian Bonds 7.4%	US Stocks 15.3%	Intl Stocks -8.2%	Intl Stocks 15.1%	Intl Stocks 9.3%	Canadian Bonds 0.8%
Canadian Bonds 3.7%	Canadian Bonds -0.3%	Canadian Stocks 9.1%	Intl Stocks -6.0%	Intl Stocks 15.8%	Intl Stocks 5.9%	Intl Stocks 7.7%	Canadian Bonds -9.9%	Canadian Stocks 12.1%	Canadian Stocks 4.9%	Intl Stocks 0.7%
Canadian Stocks -8.3%	Intl Stocks -2.5%	Canadian Bonds 0.1%	Canadian Stocks -8.9%	Canadian Bonds 3.7%	Canadian Stocks 5.6%	Canadian Bonds -3.8%	US Stocks -12.2%	Canadian Bonds 5.0%	Canadian Bonds -0.6%	Canadian Stocks -1.3%

Indexes used: Cash represented by ICE BofAML 3M U.S. Treasury Notes. MSCI Canada, MSCI World Ex USA and U.S. Russell series used for Large Value, Large Blend, Large
Indexes used: Cash represented by ICE BofAML 3M U.S. Treasury Notes. MSCI Canada, MSCI World Ex USA and U.S. Russell series used for Large Value, Large Blend, Large
Growth, Mid Value, Mid Blend, Mid Growth, Small Value, Small Blend, Small Growth representations. Alternatives in USD and CAD charts represented by Credit Suisse Liquid Alternative TR USD . Nominal Broad U.S. Dollar index for USD comparisons. Additional representations in CAD: Canadian Bonds- Bloomberg Barclays Global Canada, Canadian Stocks- S&P/TSX Composite TR, U.S. Stocks S&P 500 TR, International Stocks- MSCI EAFE NR. Additional representations in USD: Short International Bonds- FTSE WGBI 1-5Yr Hdg, U.S. stocks- S&P 500, U.S. Value- Russell 1000 Value, U.S. Small- Russell 2000, U.S. REITs- DJ U.S. Select REIT, Canadian Stocks- FTSE Canada, Intl Stocks- MSCI World Ex USA Large, Emerging Markets- MSCI EM NR.

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Bank of Canada, Capital Economics, Bloomberg Economic Calendar, U.S. Department of the Treasury, CME Group, Trading Economics, Dimensional Fund Advisors "How Much Impact Does the President Have on Stocks?" Nov 2022, Vanguard "Investing in an Election Year", Mar 2024, Fidelity "Election 2024: Anticipating the market impact" May 2024, BlackRock "How the U.S. Election may impact your portfolio" Feb 2024, JP Morgan Guide to the Markets Q2 2024, Morningstar Direct 2024.

CARDINAL | POINT