CARDINAL POINT | quarter ending in September 30, 2024

QUARTERLY NEWSLETTER

No Landing?

By Matthew Carvalho, CFA, CFP ®
Chief Investment Officer

Economists and investment market commentators have debated in recent years how economies might overcome the highest inflation rates seen in the last few decades. Historically it often took slamming on the brakes for the economy in order to break the trend of inflation. Think back to the U.S. economy and the Paul Volker period of the early 1980s, when as Chairman of the Federal Reserve he had to raise borrowing costs so dramatically to combat inflation that it threw the economy into a recession.

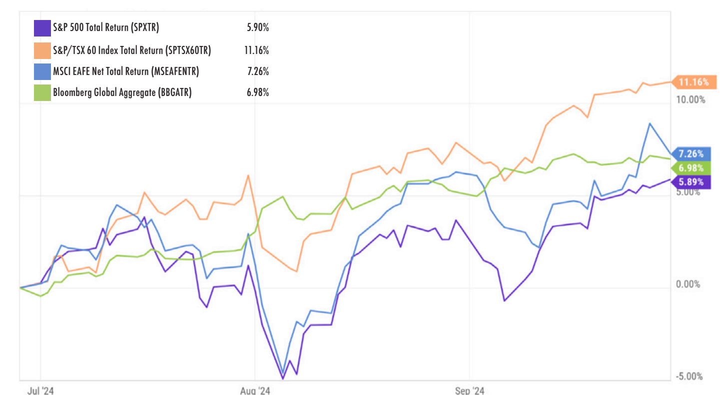
Scenarios such as that would be viewed as a ’hard landing” because the inflation number comes down but at the expense of a sudden and negative shock to the economy and unemployment levels may double from their recent lows. Many pundits believed that would be the case again and at one point in late 2022, 100% of the economists in one significant survey felt a recession would occur within the next 12 months.

By contrast, a “soft landing” scenario occurs when inflation gradually comes down, and economic growth slows meaningfully but does not recede. For example, inflation might be at 2%, and economic growth at 0-1%, while unemployment rises but not dramatically. Think of a bird smoothly landing on a lake, as opposed to crashing against a patio door.

Until recently, there had been little discussion of a ”no landing” scenario. This scenario would entail inflation coming down toward the 2% target for most central banks, but with economic activity remaining robust and unemployment staying largely unchanged. Yet when we look at the recent economic data for the U.S. economy, inflation has trended down below 3%, GDP growth continues at high nominal and real rates, and unemployment has only minimally ticked up. So it does seem that a ”no landing” scenario – where the economy continues to hum along very well for several more quarters or years – is at least a possibility.

We can’t know exactly how the short term will play out. But what we’ve seen this year is an environment of surprisingly strong economic growth, great corporate earnings, a resilient labor force, enthusiasm around AI, and Central Banks actively reducing rates/borrowing costs. All of that tends to represent a favorable environment for most asset classes, as was reflected in the Q3 numbers below:

Q3 2024 Index Returns



During the quarter markets did experience some pockets of volatility but ended up meaningfully higher. In the case of U.S. stocks, that meant gains of 5.9% for the quarter in USD, with

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.

the S&P 500 now up 21.9% year-to-date. Remarkably, that is the strongest year-to-date performance yet for the index in the 21st century, and a whopping 65.6% since October 2022. What's perhaps equally impressive is that the recent quarter's gains came from virtually all segments of the market. Medium and smaller sized companies outperformed dramatically, while some of the tech giants like NVIDIA, that had fueled much of the prior growth, saw small declines for the quarter.

Canadian markets were extremely impressive during the quarter, rising by 11.2% in CAD, bringing the return on the S&P/TSX 60 to 17.2% for 2024 – a gain of 38.7% over the last two years. International Developed did well, capped off by the benefits of some appreciating currencies for the first time in a long while – up 7.3% in USD for the quarter. Emerging Markets rocketed higher, up 8.7% in USD, following some major economic stimulus proposals by China to help bolster its economy.

Bond markets rallied significantly during the quarter with inflation coming down across North America. The U.S. Federal Reserve telegraphed and then implemented its first interest rate cuts since 2020, and the Bank of Canada also continued their rate cutting cycle. For the quarter U.S. Bonds were up 5.2%, in Canada by 4.2%, and both markets are up over 11% during the last 12 months. That's an impressive turnaround for fixed income, which had experienced a few painful years due to higher inflation.

If you paid attention to financial headlines over the past few years, you were told that a recession was eminent, that geopolitical events around the world would derail markets, and/or that the Fed was always making a mistake. Yet, the stock market is now 18% higher than the average Wall Street strategist anticipated for 2024, and nearly 7% higher than the most optimistic forecast of the bunch.

For those investors who simply tuned out the noise and stuck to their long-term plan, these last 24 months have provided excellent returns in just about every asset class. Make no mistake – investing won't always be this easy. There are plenty of potential risks on the horizon, and we expect markets to have some meaningful correction in coming periods- as they always tend to do.

But this is a great time to review financial planning projections and see if you are ahead of schedule, since many investors saw gains over the last 12 months equal to the assumed returns over 3-4 years. If that happened for you, you may be well ahead of what was originally forecast, making this an opportunity to reevaluate the risk in your portfolio to ensure that it is aligned with your current situation.

For all clients, we look to maintain vast diversification among stocks and bonds, adding in some elements like commodities, private debt, or managed futures as smaller positions to complement those core elements and potentially reduce the impact of unknown volatility ahead. Other than that, the biggest impacts to our long-term financial plan will come from the elements we can control: the level of savings during accumulation mode, tax efficient flexibility in spending needs during withdrawal phases, thoughtful planning to pass along wealth to beneficiaries, and finding the right level of risk to successfully ride out the ups and downs that are going to occur along the way.

Navigating Presidential Elections: Guidance for long-term investors

Last quarter we discussed the broad impact of U.S. presidential elections on a diversified portfolio, and this quarter we wanted to dive a bit further into a few specific examples to determine if any investment edge could be had by predicting the election winner.

Charlie Bilello, Chief Market Strategist at Creative Planning, pulled together data looking at several stock sector returns during recent presidential terms, as shown in the table below, with data through September 25.

Sector	Obama 1st Term (Jan 09 - Jan 13)	Obama 2nd Term (Jan 13 - Jan 17)	Trump (Jan 17 - Jan 21)	Biden (Jan 21 - Sep 24)
Clean Energy	-54%	22%	306%	-52%
Traditional Energy	84%	8%	-29%	131%
Defense	90%	111%	41%	61%
Banks	113%	82%	17%	25%
S&P 500 Index	100%	66%	83%	57%

The relationship between politics and market performance is often misunderstood. Despite prevalent media narratives, long-term market trends are not dictated by political parties.

Mr Bilello had several other compelling points to consider when thinking through politics:

- Market Color, Not Party Color: Over the long run, markets tend to be "green" (profitable), regardless of which party is in power.
- Media Misrepresentation: News outlets often make predictions about sector performance based on political leadership, but these are frequently inaccurate.
- Empirical Evidence:
    - Expectations for an Obama presidency were that clean energy would outperform and that banks would face crippling restrictions after the Great Financial Crisis. However, traditional energy beat clean energy and banks generated fantastic returns.
    - Trump pledged to help energy producers by reducing regulation. However, investments in the traditional energy sector underperformed all other sectors during his tenure, while clean energy did extremely well.
    - The opposite of what mainstream narratives predicted came true under the Biden administration, as traditional energy companies burned brightest.
- Market Size vs. Political Influence: The markets and economy are too vast and complex to be significantly swayed by a single political party or candidate.
- The "Terrible Trifecta" of Poor Investment Decisions:
    - Fear
    - Greed
    - Political bias (especially during election seasons)

Political rhetoric often fails to align with market data. Investors should be cautious about making decisions based on political predictions or affiliations. Rather than speculating about whether or not a second Trump term would be good for a certain company or sector compared to a Harris term, focus instead on long-term investment strategies that transcend political cycles.

For additional content related to investment and the upcoming U.S. election, please see our recent blog you can access here: https://cardinalpointwealth.com/2024/09/21/navigating-presidential-elections-guidance-for-long-term-investors/

Understanding the Tax Implications of Leaving Canada

Leaving Canada involves more than just relocation; it has significant tax implications that require careful planning. The Canadian government has specific rules and procedures in place to ensure that individuals properly settle their tax affairs before departure. Here's a breakdown of the key points to consider:

- Tax residency status changes upon severing residential ties with Canada, affecting tax obligations.
- In the departure year, worldwide income is taxed as a resident until the leaving date, then only Canadian-source income is taxed.
- A departure tax applies to the deemed disposition of certain assets at fair market value.
- Various investment accounts and pensions have different rules:
    - Non-registered accounts face deemed disposition
    - TFSAs and RESPs aren't subject to deemed disposition but may have other tax implications
    - RRSPs, CPP, OAS, and RPPs generally avoid deemed disposition but have specific regulations
- Canadian real property isn't subject to deemed disposition, but rental income is taxed for non-residents.
- Several tax forms must be filed in the departure year, including the T1 Emigration Income Tax Return.

Given the complexity of these regulations, it's crucial to plan ahead and potentially seek professional advice. Proper handling of these tax matters can ensure a smoother transition and help avoid unexpected tax liabilities. Remember, each individual's situation is unique, and tailored advice may be necessary to successfully and effectively navigate the intricacies of cross-border taxation.

For more details on the above scenario, please visit our website: https://cardinalpointwealth.com/2024/08/29/understanding-the-tax-implications-of-leaving-canada/

Financial Markets Review

The USD View

Data from recent months indicates that the economy is still growing and may have even recently accelerated from some slightly sluggish numbers mid-year. Job growth had looked lackluster in the months leading up to September, but then we saw a whopping 254,000 jobs added during that month. Unemployment fell for the month, and was consistent with the previous quarter at 4.1%. Multiple strikes and natural disasters could introduce volatility into near term economic data but 2024 is likely to end in strong economic shape.

Our most recent measure of overall growth in GDP came in at 3.0% for Q2 2024, a solid recovery from the lower Q1 growth rate of 1.6%. As we start to get the last of the data for Q3 2024, early indications are that growth has remained very strong around the 3.2% level. That shows that the economy is still nowhere near the recession or hard landing feared and predicted over the last few years.

The pace of inflation shows continued signs of improvement. Through August, the previous 12 months saw consumer prices increase by

just 2.5%. 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 continue at moderate 2-3% levels, and the Fed now appears to be content with that.

Against this economic backdrop, bond market returns in the U.S. saw great results. The quarter saw a total return of +5.2% as represented by the Bloomberg U.S. Aggregate Bond Index. The Fed instituted

Asset Classes Ranked By Annual Returns (In USD)

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 YTD	2024 Q3
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 22.1%	US REITs 15.6%
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 16.9%	Canadian Stocks 12.5%
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%	US REITs 14.9%	US Small Value 10.2%
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%	Canadian Stocks 14.7%	Emerging Markets 8.7%
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%	Intl Stocks 13.0%	Intl Stocks 7.3%
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%	US Small Value 9.2%	US Stocks 5.9%
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%	Alternatives 6.3%	US Bonds 5.2%
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 4.4%	Alternatives 2.6%
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%	Cash 4.0%	Cash 1.3%

their first rate cut since 2020, in a well telegraphed move during their September meeting. Markets expect another 50 basis points of cuts in the remaining two meetings this calendar year, and for the Fed to eventually end up in the 3% range around mid-2025. This has been a meaningful departure from a very data-dependent Fed over recent quarters, and the path now looks clear. The only question is how quickly the next Fed moves will unfold.

For stock markets, the S&P 500 continued the momentum from recent quarters and added 5.9%. Looking back at the last 12 months, the total return of the index was a remarkable gain of 36% – and International Developed Market companies, as measured by the MSCI EAFE Index, turned in a very robust gain of 7.3% for the quarter. Emerging Markets, as measured by MSCI Emerging Markets, were not to be outdone and thanks to late strength in China, registered a 16.9% gain in the quarter.

US Stocks
Q3 2024

	Value	Blend	Growth
Large	9.4%	6.1%	3.2%
Mid	10.1%	9.2%	6.5%
Small	10.2%	9.3%	8.4%

International Stocks
Q3 2024

	Value	Blend	Growth
Large	9.6%	7.2%	5.0%
Mid	10.0%	9.9%	9.9%
Small	10.9%	10.4%	10.0%

Within the U.S. market, returns were highest among smaller and more Value oriented companies. This quarter represented a broadening out of the rally that had in recent periods been mostly fueled by large Growth firms like Nvidia.

International Developed Markets saw very similar results. Small Value companies did the best for the quarter, while all gains were significant. The USD saw a bit of reversal in Q3, falling for the first time in a while, which helped the return on International markets.

The CAD View

Growth and employment rates for the Canadian economy continue to lag behind the U.S. The unemployment rate ratcheted up to 6.6% 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 positive in Aug with 22,000 jobs added, but it came on the heels of two small declines in June and July.

Cdn Stocks
Q3 2024

	Value	Blend	Growth
Large	15.3%	11.2%	6.1%
Mid	10.9%	7.7%	6.6%
Small	10.2%	8.1%	6.2%

After flatlining for much of 2023, Real GDP growth has been headed in the right direction, most recently with a gain of 0.5% in the second quarter. The gains were fueled by increased business investment and government spending – while household spending slowed.

Inflation has continued to be a bright spot, with year-over-year price increases falling to just 2.0% in August, reaching the central bank's target for the first time in more than three years. Monthly readings have been volatile this year, but expectations are for the year-over-year number to remain around 2% in the near term.

Bond yields in Canada declined during the quarter, causing the Bloomberg Barclays Global Canada Index to rise by 4.5%, now positive by 3.5% for the year-to-date. Canadian stocks, as measured by the S&P/TSX 60, found their footing and vaulted higher with a 11.2% return in Q3. U.S. stocks, as measured by the S&P 500, rose by 4.5% in CAD for the quarter. International stocks gained 5.9% in CAD for the quarter, up 15.8% YTD.

Canadian markets saw robust gains across the board. Large, value priced firms saw remarkable gains of 15.3% during the quarter, while growth priced firms advanced to smaller degrees.

Asset Classes Ranked By Annual Returns (In CAD)

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 YTD	2024 Q3
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 25.1%	Canadian Stocks 11.2%
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%	Canadian Stocks 16.6%	Intl Stocks 5.9%
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%	Intl Stocks 15.8%	US Stocks 4.5%
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 3.5%	Canadian Bonds 4.2%

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. ETFs were used to represent sector returns, Clean Energy represented by iShares Global Clean Energy ICLN, Energy by The Energy Select Sector SPDR Fund XLE, Defense by iShares US Aerospace & Defense ETF ITA, and Financials by SPDR S&P Bank ETF KBE.

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, Creative Planning "Q3 2024 Market Commentary", 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, YCharts, Morningstar Direct 2024.

Indexes are unmanaged baskets of securities that are not available for direct investment by investors. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Foreign securities involve additional risks, including foreign currency changes, political risks, foreign taxes, and different methods of accounting and financial reporting. Emerging markets involve additional risks, including, but not limited to, currency fluctuation, political instability, foreign taxes, and different methods of accounting and financial reporting. All investments involve risk, including the loss of principal and cannot be guaranteed against loss by a bank, custodian, or any other financial institution.

CARDINAL | POINT

Copyright © 2024 Cardinal Point Capital Management, ULC. All Rights Reserved.

"Cardinal Point" is the brand under which dedicated professionals within Cardinal Point Capital Management, ULC provide financial, tax and investment advisory, risk management, financial planning and tax services to selected clients. Cardinal Point Capital Management, ULC is a US registered investment advisor and a registered portfolio manager in Canada (ON, QC, MB, SK, NS, NB, AB, BC, PEI). Advisory services are only offered to clients or prospective clients where Cardinal Point and its representatives are properly registered or exempt from registration. This website is solely for informational purposes. Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal capital.

All expressions of opinion are subject to change. This newsletter is intended for educational purposes, and it is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, products, or services. Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal capital.