Q4 2023 – The Quarter That Was

A LATE YEAR RALLY TO THE RESCUE

Kyle Smith

Optimism about potential interest rate cuts in 2024 fueled fourth quarter rallies in both equities and bonds. This resulted in the yield on the 10-year U.S. Treasury falling from 5.05% in October to 3.88% by year end and it sparked an equity market rebound that finally included more than just the "Magnificent 7" mega cap technology companies.

For sake of context, the small-cap focused Russell 2000 Index posted a +24.3% return over the last nine weeks of the year and an equal-weight version of the S&P 500 Index outperformed the main market-cap weighted index in the fourth quarter. Improvements in equity market breadth typically point towards healthier and more sustainable rallies. On the fixed income side, the FTSE Canada Universe Bond Index was up +6.69%.

Private asset classes experienced a far less dramatic 2023. All were relatively steady throughout the year and finished in positive territory. However, this group trended lower than in recent years due to slower growth attributable to higher rates.

The big three – interest rates, inflation, and the economy

By year end, central banks adopted a more dovish tone towards interest rates in 2024. This was welcome news as lower interest rates spur economic growth and benefit both public and private asset classes.

Inflation remains the linchpin in this equation as prices need to continue to trend downward if we are to experience a material reversal in rates. Should this happen, the recession that had been widely predicted might be avoided, and an economic soft landing could be a reality.

New investments: an active quarter capped off a busy year

Fixed Income: We renewed our focus on the bond market in 2023 as higher interest rates put a new shine on this asset class. In addition to earning elevated yields, we wanted to be positioned ahead of potential interest rate cuts. Recall that a drop in rates would increase bond prices and boost overall returns.

As a long-term investment strategy, cash lags nearly every asset class and routinely trails inflation. Given this reality, and with potential interest rate cuts on the horizon, we will be looking to implement investment strategies for any excess cash currently held by our clients.

Public Equity: After a brief pause during the sell off in August and September, we were keen to exploit the market bottom and allocated money to public equities in the fourth quarter. An investment was made with a Toronto-based manager focused on investing in high dividend paying Canadian companies.

Real Estate: One of our private multi-family residential managers acquired properties in Florida and Texas from over-extended developers at what they believe to be below market prices. This is an experienced manager with whom we have an extensive and successful track record.

Cashing in

Newport's clients receive a preferred rate on uninvested cash of prime rate less 2%, which at the time of writing equated to 5.20%. By early summer, GIC rates of 5.00% or higher were available. In retrospect, 2023 was the first year in a long time where holding cash provided attractive risk adjusted returns.

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A busy and important political year

In 2024, 76 countries will hold national elections. While many cannot be categorized as "free and fair", it is first time in history that more than 50% of the world's population will vote in the same year. Like the headline act at a concert, the U.S. election in November will capture the spotlight and close the show.

While political predictions are beyond our capabilities, we are hopeful for the state of global democracy. Rest assured that our Investment Committee will work closely with our managers to monitor and manage risks, and to respond to opportunities as they emerge.

To find out more about Newport's unique investment approach, **get in touch**.

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