NEWPORT PRIVATE WEALTH

Q2 2024 – The Quarter That Was

<u>**Kyle Smith**</u>

Will they, or won't they?

Would central bankers play nice and cut interest rates? This was the million-dollar question, and ever-changing shifts in sentiment resulted in a volatile second quarter for public markets.

Hopes for a policy pivot in the U.S. were put on hold in April with the lack of progress on inflation. As a result, the S&P 500 sold off 4.2%, ending a five-month run of gains for the index. The Dow Jones Industrial Average was down 5%, its worst month since September 2022, and the small-cap focused Russell 2000, typically a decent proxy for investor risk appetite, declined 7.1%.

In a sign that what goes down can easily go up, by May 31st, the S&P 500 had climbed 4.8%, the Dow had jumped 2.4%, and the Nasdaq was up 6.9%, predicated on positive consumer data. While the rally continued into June, the markets once again found themselves overly reliant on the performance of a small basket of mega-cap technology companies. Such shallow breadth is not typically indicative of healthy markets.

Bond market returns followed a similar path. In April, when the rate cut outlook was most bleak, markets retreated. As sentiment improved, performance reversed. As a result, the FTSE Canada Universe Bond Index posted monthly returns of -2.13%, +1.43% and +1.13%, respectively, in Q2.

A delicate balancing act

The second quarter was a real time lesson in the delicate balancing act of preserving a healthy economy and labour market, despite high interest rates, the hot topic of Q2.

In Canada, domestic inflation had a multi-month run of landing within target ranges and our economy was showing signs of weakness. The Bank of Canada acted and become the first G7 central bank to cut rates when it lowered our key interest rate from 5% to 4.75% in June, the first reduction since March 2020.

Bank of Canada Governor Tiff Macklem's proclamation that, if inflation headed sustainably to the two per cent target, further cuts to the policy interest rate were reasonable. This came to pass in July.

In the U.S. the Fed did not reduce rates in the second quarter, but Fed Chairman Jerome Powell gave recent signals pointing towards a September rate cut.

Strategic investments in Q2

With these positive signs at this late juncture in the third quarter, decisions we made in Q2 are proving to be fruitful. We allocated $85 million in new investments, bringing total activity for 2024 to almost $200 million.

Private debt and private real estate, public equity and public bonds were all asset classes where we bolstered our holdings.

For public equities, our preference is to consistently add new capital to the asset class, outside of periods of extreme market volatility, and we have continued to add to public bonds to be positioned ahead of the next interest rate tightening cycle.

We have purpose-built our mandates to include a diversified mix of twelve public and private asset classes, these returns have been achieved without taking unnecessary investment risks with our clients' capital.

Cash as an asset class

Lower rates diminish the viability of cash as a long-term investment strategy. Cash will not see any price appreciation in a declining rate environment, and interest income receives far less favourable tax treatment than dividends and capital gains.

Cash balances in Newport's five proprietary mandates are at approximately 8%, providing an extra degree of safety many clients had looked to their cash to provide. Now, with the path to further interest rate cuts clearer, we are putting more cash to work.

Taking a long view

Newport's five mandates are on pace to fall within their target ranges in 2024. History has shown that over longer dated annual time horizons we typically outperform our benchmarks with significantly less volatility.

Given how we have purpose-built our mandates to include a diversified mix of twelve public and private asset classes, these returns have been achieved without taking unnecessary investment risks with our clients' capital.

Looking ahead

The economies in the U.S. and Canada appear relatively strong, with few indications of a significant slowdown.

Consumers remain resilient, housing is in short supply, and economic conditions are stable despite what the financial media might report. Careful deployment of our client's capital is the best way to preserve it and to achieve attractive returns at reasonable risk.

Newport's Investment Committee continues to make decisions grounded in our core principles: maintaining diversification, exercising prudent risk management, and seizing opportunities as they present themselves.

As we look forward, our attention remains firmly on helping our clients achieve their long-term goals while managing the challenges presented by the current landscape.

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

Kyle Smith, MBA, CFA® is a Managing Director & Portfolio Manager and a member of Newport Private Wealth's Investment Committee.

Head Office
469 King Street West, 4th Floor
Toronto, Ontario, Canada M5V 1K4
Telephone: 416.867.7555
Toll-free: 1.866.534.5402

Other Locations
Calgary, Alberta
Kelowna, British Columbia
Kingston, Ontario
Waterloo, Ontario

newportprivatewealth.ca