Q3 2024 – The Quarter That Was

Kyle Smith

Everything together all at once

In the third quarter, news flow, economic data and investor sentiment changed on a weekly, or in some cases, on a daily basis. Public markets moved in both directions, and the frenetic environment highlighted **the importance of being able to decipher real signals from noise**.

Concerns over a potential recession were re-ignited in early July after job data in the U.S. suggested the labour market was cooling. A few weeks later, a soft payroll report, a spike in U.S. unemployment and concerns over the unwind of the Yen carry trade in Japan, spooked investors at the exact same moment.

This caused public equity markets to throw an intense but short-lived temper tantrum. The S&P 500 fell 6% in the first three trading days of August while the "Magnificent 7" mega-cap technology stocks dropped 10% in the first week. At intra-day lows on August 5th, the collective market capitalization of those seven companies was down US$1.43 trillion.

In response, the U.S. Federal Reserve started to actively signal that it would cut interest rates in September. It worked. By Labour Day, public equities had rebounded off their early August lows, and U.S. Treasury bonds posted their first consecutive four month advance since 2020. By quarter end, the slope between the 2-and-10-year U.S. Treasuries shifted into positive territory for the first time in 26-months.

The 50-basis point cut on September 18th was the first in the U.S. since the early days of the pandemic. In addition to stubborn inflation, the strength of the U.S. economy allowed the Fed to hold out longer than the European Central Bank and the Bank of Canada, which both started cutting rates earlier in the summer.

More than 60% of the companies in the S&P 500 outperformed the Index in the quarter, a significant increase over the 25% that did so in the first half of the year. In short, optimism that lower rates would promote economic growth fuelled investor appetite for a wider range of stocks. An increase in breadth is not only indicative of a healthier economy, but it also benefits Newport's diversified approach to public equities.

At home, the S&P TSX rebounded to lead major indices with a 9.23% gain. Rate cuts helped interest rate sensitive sectors such as financials and real estate and geo-political concerns have propped up commodity prices, providing a tailwind to the Canadian energy sector.

What does it mean, and what is Newport doing?

Even with the extreme bout of mid-quarter volatility, year to date, all five of Newport's mandates are either at or have surpassed the high end of their respective target ranges.

Our portfolios are purpose-built, and Newport's Investment Committee has spent the last couple of years making decisions in anticipation of lower rates and a broadening of the equity markets. This active approach to managing our clients' wealth was evident in the third quarter.

Newport began to allocate funds to the public bond market in 2023, and that trend has continued this year, bringing our public bond weighting to approximately 14% in a Balanced mandate. With a material position established, we will

It is rare that the world is ever free from these larger-than-life risks, so investment decisions are always made to ensure that unnecessary exposure with our clients' capital are not taken.

continue to use short-term volatility as an opportunity to round out our exposure.

We also continued strategically allocating to public equities, keeping our weighting above our target levels for the time being. Volatility brings opportunity, and with a broader range of stocks contributing to strong public market performance, our Investment Committee gains added flexibility to add to this asset class.

We rounded out our active investments in Q3 with allocations to private credit and private mortgages. These asset classes fall under Newport's alternative investments, comprising approximately 30-35% of our portfolio holdings. The universe of alternatives in which Newport invests are not bought or sold on a public exchange and therefore do not have daily closing price. This insulates these investments from the wild swings in sentiment that often override the public markets.

What's next?

Interest rates and inflation are not the only things we are monitoring. Beyond the obvious and more important human, social and emotional toll, the ongoing conflict in the Middle East carries ramifications for global markets, economies and commodities.

Closer to home, the U.S. will vote for a new president on November 5th. If recent history is an indicator, the election and all that follows may once again skew more towards spectacle than a first-world election. While we are not in the business of political prognosticating, we noted in a recent communication that over the long term, financial market performance is far more sensitive to economic variables than the actual party in power.

In addition to a portfolio diversified across 13 asset classes, the cash balance within our funds of approximately 8% acts as a hedge against some of these difficult-to-handicap global realities. If we view it as prudent, we will let this cash balance increase. It is rare that the world is ever free from these larger-than-life risks, so investment decisions are always made to ensure that unnecessary exposure with our clients' capital is not taken.

Newport's Investment Committee stays committed to our foundational values: keeping a diversified portfolio, managing risk wisely, and actively capturing opportunities as they arise.

Looking ahead, our focus remains on guiding our clients toward their long-term objectives while skillfully navigating today's complex environment.

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