Q4 2024 – The Quarter That Was

PLUS THEMES, TRENDS, AND SIGNALS FOR THE YEAR AHEAD

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A healthy economy, declining interest rates, easing inflation, and strong corporate earnings powered major U.S. indices higher in the fourth quarter of 2024. Canadian equity markets also delivered impressive returns, driven by a robust energy sector supported by rising oil prices and lower interest rates.

Markets broadened considerably in 2024, with small- and mid-cap indices, as well as equal-weight indices, posting significant gains. However, these successes did not come at the expense of mega-cap tech companies, with the so-called "Magnificent 7" accounting for more than half of the S&P 500's annual gains.

Public bonds had a bumpier ride. The 10-year U.S. Treasury bond yield fell from 4.70% to 3.60% through the summer as the benchmark bond was purchased as "recession insurance". After the September rate cut, investors sold the 10-year Treasury and its yield climbed to 4.60% by year end.

Meanwhile, the Canadian dollar ended the year at five-year lows due to interest rate differentials, economic concerns, and tariff risks. For portfolios holding significant U.S.-dollar-denominated assets, this currency dynamic provided a tailwind. Newport's strategy of holding 50% of our investments in U.S. dollar- denominated assets means we have benefited from a weaker Canadian dollar. We continue to manage volatility and protect returns with a hedging program.

Newport's Investment Activity, Strategy, and Outlook

As active managers, our approach in the fourth quarter included allocating new capital and strategically repositioning existing allocations across managers and strategies. This activity reflects our proactive management philosophy. Some highlights include:

Public equity: October's market selloff presented opportunities to reallocate significant capital across U.S., Canadian, international, and emerging markets.

Our diversified approach is well-aligned with the current broadening of markets. At the same time, we maintain strategic positions in key mega-cap technology companies to leverage their ongoing strength. Volatility driven by policy uncertainty is anticipated, and we remain ready to deploy capital from our cash reserves as opportunities arise.

Public bonds: With the reversal in interest rates, we increased allocations to public bonds. These assets, offering attractive yields, are expected to see increased demand in scenarios involving further rate cuts or heightened market volatility.

Private equity: We allocated $17 million to a U.S.-based manager for a fund focused on the private equity secondaries market. We expect lower interest rates to be supportive of private equity returns in 2025.

Private debt: Allocations were made to private debt strategies emphasizing mortgages and consumer loans. These investments, which tend to exhibit less volatility than public bonds, also feature floating interest rates, offering a hedge against inflation and rising rates.

Private real estate: We remain optimistic about multi-family real estate due to stabilizing supply, economic strength, and high homeownership costs. Allocations to experienced managers in this sector underscore our confidence in this asset class.

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Private mortgages: This core component of our yield strategy continues to perform as expected. Allocations were made to trusted managers with whom we have long-standing relationships.

Looking Ahead

A familiar face returned to the White House on January 20th. From a policy standpoint, deregulation, tax cuts and spending cuts would typically provide tailwinds. However, tariffs would make life more expensive and deportations would shrink the labour force, likely adding to inflationary pressures.

The first 90 days will prove interesting. Will the priority be on pro-growth initiatives or will new policies put brakes on the economy? An "America-first" agenda helped return the President-elect to office—and tariffs appear to be a matter of "when", not "if". From a Canadian perspective, increasing the difficulty of cross-border trade is immediately concerning.

Headlines suggesting bold and unconventional policy initiatives highlight the need for vigilance. While it is difficult to take everything literally, as stewards of our clients' wealth, we must take everything seriously. We remain committed to an unemotional and disciplined investment strategy. Our multi-asset, multi-geographic approach ensures that risks are effectively managed in a rapidly changing environment.

To find out more about Newport's unique investment approach and discuss how our strategies align with your goals for 2025 and beyond, **get in touch**.

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