



Wealth Management  
Dominion Securities

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RBC Dominion Securities Inc.

Cooper Wealth Management of  
RBC Dominion Securities

# Thoughts on the market

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## On the Road in 2024



“Great things are not accomplished by those who yield to trends and fads and popular opinion.”

– Jack Kerouac, Author, “On the Road”

With his 1957 novel “On the Road”, Jack Kerouac helped launch the Beat Generation. His stream of consciousness style and focus on independent thought and action made him an icon of his generation. In the investment world, popular opinion definitely drives the market, but it is independent thought and willingness to consider all factors that lead to better decision making and results. This month, we will consider the recent dramatic swing in market direction with an objective eye to determine what warning signs are on our investment road to investment success in 2024.

There has rarely been such a dramatic change in market sentiment as we saw from October to November. In October, we worried about interest rates being higher for longer with a possible recession, to November where the

sentiment is for no recession, easing inflation and up to six interest rate cuts. December was another positive month as momentum continued to build. The trigger for this rally was a lower-than-expected Consumer Price Index reading in November and subsequent dovish interest rate comments from Chairman Powell of the Federal Reserve where he actually discussed the probability of rate cuts this year. This led to a significant drop in US Treasury yields where the 10-year moved down to 3.87%, back where it started the year. US inflation started the year at 6.4% and ended at 3.2%. This pronounced decline in inflation was the last piece of evidence the market needed to move substantially higher across most sectors. While market conditions are much improved, large scale price movements, either up or down, are never sustainable. At this point, it is an excellent opportunity to review where we are on our investment road and determine where any potholes may be.

The major trouble spot we see is geopolitics. The Ukrainian invasion remains in a troubling stalemate with no easy end in sight. Should the conflict continue to escalate, there could be inflationary pressure on food and commodity prices. There has been some resistance from US legislators to continue funding Ukraine's defence, but we expect cooler heads to prevail.

The war in Israel continues but we expect this conflict to resolve quicker and with a much smaller economic impact on the global economy. Israel is the dominant military force in the region and the one fear is that this conflict will escalate into the Middle East. While we view this as unlikely, it would affect global energy prices.

The final armed conflict of note is the Houthi rebel strikes on commercial shipping in the Red Sea, which is interrupting commercial shipping through the Suez Canal. Several major shipping container companies have rerouted around Africa, delaying deliveries, and increasing costs. If this continues, global inflation could rise slightly as 12% of global shipments pass through the Suez. However, with US and NATO nations bringing a military presence into the area, we expect this threat to be subdued but we continue to monitor developments.

Another topic of continued discussion will be the US election in November. As the year progresses, we expect the media to teach fever pitch with dire predictions about either party winning. This noise could create some volatility later in the year, but we expect any effect to be temporary.

Finally, it is impossible to discuss geopolitics without mentioning China. The Chinese economy is currently struggling with an aging population, weak consumer demand, a deep and widespread housing crisis and businesses relocating to their home countries. While the rest of the world is fighting inflation, China is actually experiencing deflation. At some point soon, China will be forced to add financial stimulus to their economy but in the meantime, China's deflation will continue to put downward pressure on global inflation.

The only other short term concern we see is market impatience. Many investors came late to the party in December as they feared missing out on the market rally and they may not have the fortitude to wait out a weak quarter of earnings or an interest rate cut delay. Another potential bump in the road but not enough for a detour from our investment plan.

At the moment, many investment indicators are giving us the green light for a successful year ahead. There are still some fears of a recession later this year, but we see this as being a technical recession, defined by two consecutive

quarters of slowing Gross Domestic Product (GDP) economic growth. While we do expect growth to slow, we don't foresee the US economy actually shrinking at any point this year, given the resilience it has shown during the past two years. US corporate earnings have remained above expectations all through the Fed's rate increases and we expect business conditions and earnings to improve as rates begin to fall.

While we see some softening in the demand for labour, we expect the US unemployment rate to remain near or below 4%, which is considered full employment by economists. As we have said before, it is extremely difficult to have a recession when everyone has a job who wants one.

The most important development for the market in the past year has been generative artificial intelligence (AI). As technology has advanced from personal computers to the internet, to mobile, to cloud computing, each development has increased productivity and lead to great profitability. As each advancement arose, no one was able to predict the eventual impact on society. Generative AI involves organizing data and then making decisions based on those results. Unlike previous advances, it is already producing profitable results and is set to transform data management as we know it today. As we now process more data in one day than we did in the entire year of 2003, it gives us an idea about the potential growth rate and future of this technology. Microsoft has been the clear winner so far, as has Palo Alto Networks on the data security side. We are finalizing selections to add to the portfolio and will provide a further update next month.

We also expect Canadian investments to have a better year as declining interest rates will benefit banks, utilities and other interest sensitive investments. We expect oil to remain range bound between \$70 and \$80 but at that level, Canadian oil producers will continue to generate record cash flows and use these funds to reduce debt, buy back stock and pay dividends. On the fixed income side, declining rates will help increase bond and preferred share prices as well.

We have examined the trends, fads, and popular opinions and while there are some potential potholes ahead, the investment road ahead for the year looks favourable. Over the next quarter, we will be rebalancing the portfolio to take advantage of the strongest market sectors while continuing to generate cash flow through dividends and our covered call program. Until next month, we wish you health and happiness for the coming year.

As always, questions, comments, concerns, and feedback are always welcome.

Yours truly,

Trevor, Walter, and the Cooper Wealth Management team



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