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Investor Strategy

The latest market insights from
Richardson Wealth

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Cheers to 2024!

Executive summary

1. Year in review
2. Some bumps along the way
3. Beneath the surface, things were much more volatile
4. Beyond equities and bonds

Sometimes not living up to expectations is a good thing. Investors walked into 2024 a little apprehensive, faced with elevated interest rates, lingering inflation, rising global tensions and recession fears. Despite those concerns, markets pushed ahead.

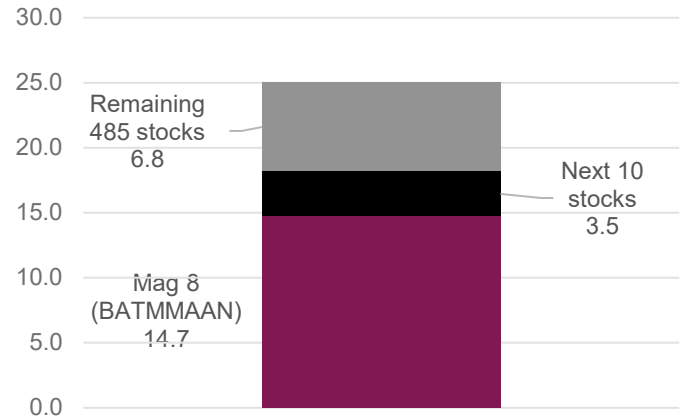


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The source of this divergence between each sector and its constituents is of course the megacaps. Telecom services includes Meta and Alphabet, while Consumer Discretionary includes Tesla. Mega-cap dominance was a defining theme throughout the year. Nvidia had a staggering return of 171% and was the biggest contributor to the S&P 500 gain. Besides Nvidia, we saw the usual cadre of mega-cap performers with one new addition. Broadcom rose 110% and became a new member of the trillion-dollar club in December. Its ascension made the Mag 7, now 8 and even spurred a new acronym. The BATMAAN stocks (Broadcom, Apple, Tesla, Microsoft, Meta, Amazon, Alphabet, Nvidia) has now replaced FANGMAN. This new group accounted for 63% of returns for the S&P 500. The next 10 contributed to 12% of total return with the remaining names in the index contributing just a quarter of the year's returns. It's interesting when you look at best-performing stocks – it's not all tech, but there are a number of nuclear plays and three industrial companies that more than doubled. We saw a similar picture in Canada, with the top ten stocks driving over 50% of returns. The top ten had your usual names, the big banks (minus TD), Shopify, Brookfield and the two big pipelines Enbridge and TC Energy.

Source of S&P 500 returns in '24



Source: Bloomberg, Purpose Investments

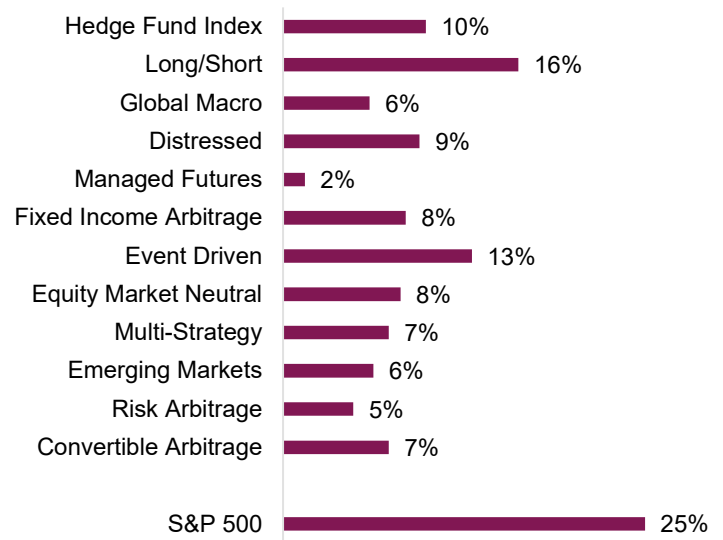
With hindsight, it's easy enough to explain why the winners were on top, but it's never as easy when you try to look forward. From our vantage point, concentration risk remains alive and well with just so few stocks driving much of the performance. We prefer equal weight, primarily to diversify away beyond the mega cap leaders into 2025.

Beyond equities and bonds

When everything goes up, few investors seem to care that correlations remain positive across many asset classes, including equities and bonds. Given elevated cross asset correlations, the need for diversifiers to help construct more resilient portfolios remains important. So how did they stack up in such a strong year for equity markets?

2024 was a solid year for alts, with all the strategies across the Credit Suisse Hedge Fund Indices ending in the green. Long/short strategies came out on top, pulling in a strong 16% return. That said, they struggled a bit to keep up with just plain old index exposure. Since the market didn't have many pullbacks, there wasn't much need for those short positions. Event-driven strategies took second place with a nice 13% return, and distressed assets followed with 9%. But let's be real, none of them could hold a candle to the S&P 500 in 2024.

Alternative Strategies 2024 Performance



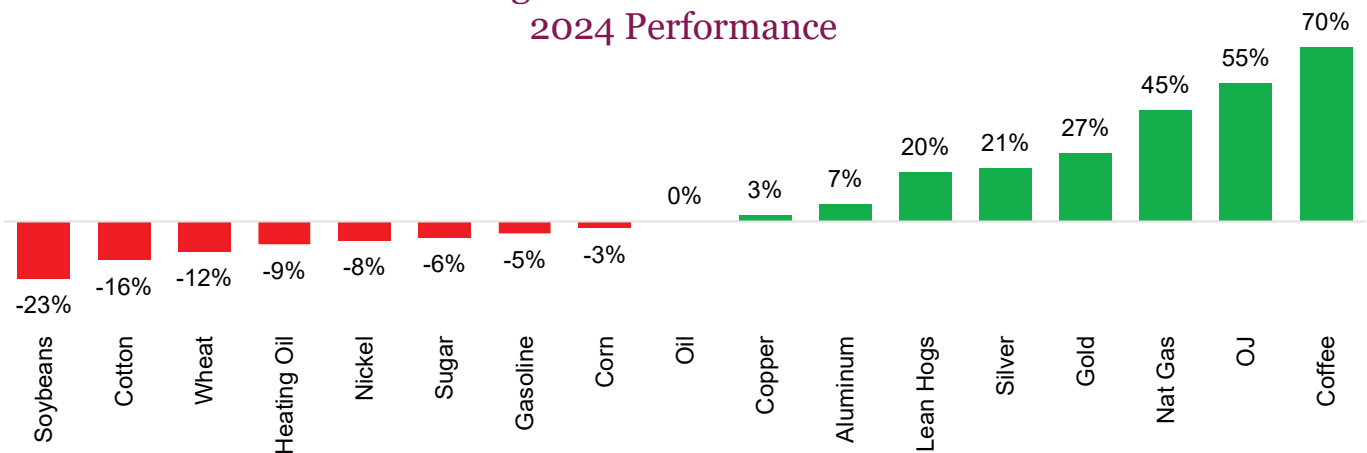
Source: Bloomberg, Purpose Investments
 Alternatives s as of Nov 30, 2024, S&P 500 as of December 31, 2024

It is important to remember the role of diversifiers in the portfolio. It is certainly not to match the returns of the S&P 500, you would not want it to be on the downside, which makes it impossible on the upside. Market neutral posting a return of 8% is not very exciting, but a little bit of growth is appropriate considering the role in the portfolio is to add crisis alpha.

Aside from traditional alt categories, there was a notable divergence in performance within commodities. On the downside, Soybeans, Cotton, and Wheat led the way, while consumables like Cocoa (not shown because it's off the chart) Coffee, and OJ were incredibly strong.

2024 was an excellent year to be a supporter of Gold, surprising most with some solid growth. The yellow metal did more than hold its ground, even amidst what is normally a challenging environment. Declining inflation, a strong USD, and low market volume were not enough to keep it down. A partial catalyst was steady demand from central banks, particularly in emerging markets, who've been shifting their reserves away from the USD. In the end, gold proved to be a reliable asset, offering some stability and helping portfolios during uncertain times.

Divergence across Commodities 2024 Performance

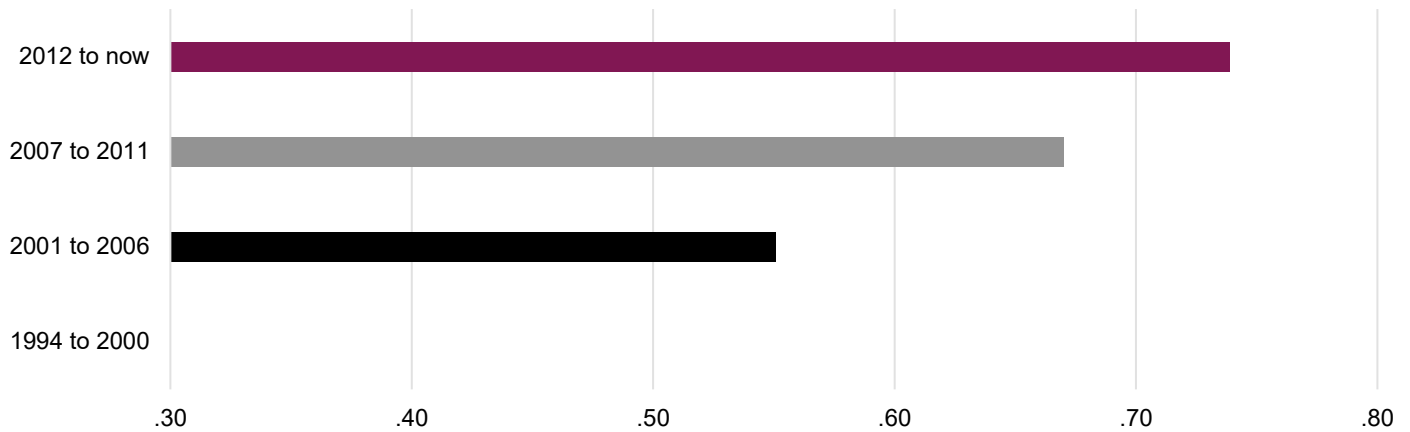


Source: Bloomberg, Purpose Investments

It was a relatively quiet year for Crude as oil prices ended the year in a very similar position to the end of 2023. Just after Q1, WTI climbed above US\$84/bbl but has since been on a retreat. Demand remained strong throughout the year, especially from China, and supply was managed by OPEC+ cuts. There has been an abundance of geopolitical tensions that caused occasional price shifts but not enough to lead to anything meaningful.

Alternatives, including commodities, have increasingly been finding allocations in portfolios given higher correlations between more traditional equities and bonds. However, correlations of many alternatives to the equity market have also increased over time.

Alternatives correlation to S&P 500



Source: Bloomberg, Purpose Investments, Credit Suisse Hedge Fund Index vs S&P, as of Nov 30, 2024

The simple truth is we are investing in a more correlated world than in years past, and that makes diversification harder to find. This hasn't been an issue in the past couple years with markets going up, but after two years of outsized returns, the need for diversifiers may be opportune heading into 2025. This could make gold or other vol management solutions valuable considerations for portfolios. If the goal is to reduce correlation, commodities could be a strong option, with the 3-year correlation of commodities to the S&P 500 sitting at roughly 0.30. However, the biggest challenge for diversifiers in 2025 could be self-inflicted. Concentration or over-reliance on single strategies like private equity or income-driven solutions can increase the risk. It is important to not overlook the broad landscape of diversifiers available for portfolio construction. Remember, keep your diversifiers diversified.

Source: Charts are sourced to Bloomberg L.P., Purpose Investments Inc., and Richardson Wealth unless otherwise noted.

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