July 24, 2024

We hope this email finds you well and enjoying your summer!

We are beginning to see **the interest rate cycle** start to turn. If history is a guide, this will mean the beginning of a rotation from growth stocks to value stocks, especially dividend payers. This rotation is showing some signs of life on both sides of the border. In Canada we are seeing strength in financials, materials, utilities, and pipelines. In the US, industrials, financials, and small caps have shown strength recently, taking some of the luster off the technology sector, especially the Magnificent 7. It appears that the theme of **rolling sector corrections** continues, as opposed to an overall market pullback. Earnings will be key to the rally continuing and indications are encouraging thus far.

The US economy is starting to show some cracks with consumer and employment numbers stagnating. Interest rate decreases are now becoming more likely, especially in the fall, pre-election season. The US Federal Reserve will likely want to be seen as a-political, so a rate decrease in November seems unlikely. If we are to maintain momentum, it is important that central banks act ahead of continued weakness and not react after the fact. Their track record thus far is positive, and the warning signs should offer time for the central bankers to set appropriate policy.

Inflation is declining as could be seen in the most recent CPI and this bodes well.

In Canada, another ¼% cut this summer is a distinct possibility. However, any further cuts may be paused depending on the timing and scale of US cuts. The Bank of Canada cannot get too far in front of the curve as the value of the Canadian Dollar could weaken if the interest rate differential between the two countries widens.

Lower interest rates **in Canada** would likely result in the TSX building momentum as dividend payers like financials, energy and utilities make up a large portion of the index. It is important to note that there are still large cash positions earning strong returns, however rate declines will take away some of the shine of money markets. Stocks with growing and stable dividends will become more competitive and offer better long-term outcomes.

The big elephant in the room is **the US election**. The lowering of interest rates could be disrupted by a Trump victory. Although many see a Trump Presidency being good for markets, the possible tax cuts, tariffs and isolationism could be inflationary. This means that any rate relief may be muted in the near term. The Trump ticket is focused on a protectionist stance with a reduced emphasis on the global trade and order. The trade relationship between the USMCA countries could become strained as this agreement is to be renegotiated in 2026. This creates **uncertainty for Canada.** It is ironic that Trump's attacks revolved around Biden's age. With Biden's resignation, Trump is now the oldest candidate to run for the highest office.

The historic stepping aside of President Biden tightens the race, yet also creates uncertainty. The US markets appeared to be preparing for **a Trump presidency** with domestic equities, especially industrials, health care, financials, crypto currencies, and small capitalization stocks gaining momentum as Trump and Vance have emphasized the MAGA agenda. The likelihood seems to be that Kamala Harris will be the Democratic nominee. There are many opinions out there, however, she may appeal to minority voters and women where President Biden's support was tepid. She also has a solid record as a prosecutor and Biden was seen as weak on crime. Funds are beginning to flow to the Democrats, and this will even the playing field somewhat. **A Harris victory** would bode well for global trade and Canada. There would likely be less uncertainty and a clearer focus on foreign relations and world issues. Harris will likely be more of a centrist than Biden and should approach business with a less combative stance, especially in the technology sector.

It should be noted that earnings and rate cycles affect the performance of equities historically more than which party wins an election. Changes in portfolio structure should be primarily based on these factors and not projections on political events.

We remain constructive; however, markets are overdue for some consolidation. Election season may offer a reflective pause.

As always, if you have any questions or just want to touch base, we are just a phone call or e-mail away.

We're here to help.

The Andras Group