ODLUM BROWN REPORT

01 2024

ODLUM BROWN
Investing for Generations®

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Odlum Brown Limited

Odlum Brown Community

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OdlumBrown

A Message from Our President and CEO

Happy New Year!

I hope you all had a joyful holiday season.

As we change our calendars to 2024, we at Odlum Brown are turning the page on a wonderful year of celebrating our 100th anniversary with our clients, team members and communities.

After all, when you turn 100, you don't just celebrate once – you celebrate all year! For us, 2023 was a year about celebrations and stories.

We launched the festivities with clients at a special 100th Anniversary Edition of our Annual Address and continued on with celebratory client events across BC throughout the year. We invited you all to share your stories about the impact working with our firm has had on your lives, and we were blown away by what we received. These stories reminded us why we do what we do. Thank you for sharing them.

We also invited our clients and friends to nominate a new community partner for our firm, and we received many thoughtful submissions of organizations making a difference in our communities. We look forward to announcing the four recipients, each of whom will receive a special donation of $5,000, at next month's Annual Address.

With our team members, we celebrated throughout the year with special treats, commemorative items and celebratory events, including one that brought all of our families together. We also made 10 special donations of $1,000 each to organizations nominated by our very own team members.

With one of our core values being Community, we also ensured giving back was a centerpiece of our 100th anniversary initiatives. In addition to the special donations I mentioned, we sought to make an even bigger difference in many other ways – including our Courtenay team planting 100 trees for 100 years in the Comox Valley!

It was a marvelous year. And while reaching this milestone was an accomplishment worth celebrating, we are not going to rest on our laurels. In fact, I've said all along that while we have much to be proud of in our rich history, it's our future that really excites me! We've laid an incredible foundation on which to build, grow and enhance the service we provide to help our clients achieve their financial goals.

Thank you to all of our wonderful clients for your continued trust and support. We were able to reach this milestone because of you. Your success is both our most enduring legacy and the key to our future.

Speaking of legacy, we have one big announcement still to come – the cherry on top of our 100th anniversary year that we hope will make an impact for generations. Stay tuned for more details on this exciting development, and here's to a healthy and prosperous 2024!

DEBRA DOUCETTE
President and Chief Executive Officer

Royal Columbian Hospital Foundation

Royal Columbian Hospital Foundation
New Westminster, BC

Odlum Brown is a proud and dedicated supporter of Royal Columbian Hospital Foundation, with our commitment benefiting the long-term mental health recovery journey for patients. Our support goes towards two essential fund programs: The Fraser Health Rehabilitation Fund and The Odlum Brown Essential Need Fund.

The Fraser Health Rehabilitation Fund provides those receiving mental health support with the opportunity to enroll in programs that will enrich their long-term recovery. The Odlum Brown Essential Need Fund removes everyday barriers for patients in the Mental Health and Substance Use Wellness Centre at Royal Columbian Hospital.

For more information on Royal Columbian Hospital Foundation, visit rchfoundation.com.

Looking Back and Forward

Despite elevated inflation and interest rates, unaffordable housing, social unrest, political polarization and ongoing wars, the mood of the market was decidedly positive as 2023 came to a close. U.S. investors, in particular, were celebrating a "Goldilocks" outlook of stronger growth, reduced inflation, lower bond yields and an expectation that the U.S. Federal Reserve would meaningfully lower administered interest rates in 2024.

Higher interest rates have taken an expected toll on the Canadian economy, with GDP contracting at an inflation-adjusted 1.1% annual rate in the third quarter. On the other hand, U.S. real GDP surprisingly accelerated at an annualized pace of 5.2% in the same quarter. The divergent growth is a function of a much bigger government deficit in the U.S. and a weaker consumer base in Canada. With greater debt relative to incomes and considerably more exposure to variable-rate mortgages, Canadians have suffered more from the increase in interest rates. Still, we think the lagged influence of higher interest rates will weaken the American economy in 2024.

While still elevated, inflation is coming down. In the U.S., the core annual inflation rate has receded from more than 5% to about 4%. In Canada, core inflation is 3.4%, down from a peak of 5.5%. The price of oil, which is not included in the core inflation calculation, recently dropped below US$70 per barrel from more than US$90 in September.

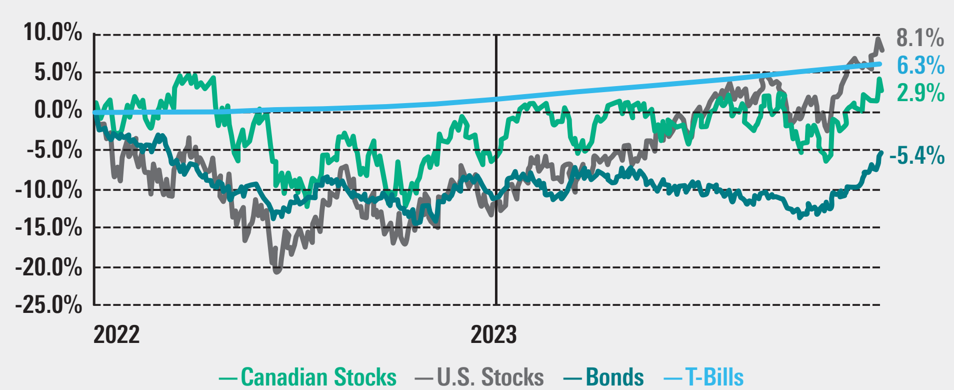
With inflation abating, the worst bond bear market since the 1970s came to an abrupt halt last October. In November, the Bloomberg U.S. Aggregate Bond Index registered a 4.5% gain, its best month since May 1985. The comparable Canadian bond benchmark advanced 4.3% in the same month, and bonds in both countries rallied further in December. By mid-December, the yield on the U.S. 10-year Treasury bond had fallen from a recent peak of almost 5.0% to about 3.9%, while the yield on the comparable Canadian bond had declined from 4.2% to roughly 3.1%.

Interest rates on shorter-duration T-bills are higher than long-term bond yields because the U.S. Federal Reserve and the Bank of Canada currently charge domestic banks a higher rate of interest to borrow from their respective central banks. The yield on T-bills and other short-term fixed income investments are tethered to those rates. Encouragingly, the futures market is discounting an expectation that the U.S. federal funds rate will decline from 5.5% to 4.25% by the end of 2024. With weaker growth in Canada, some forecasters believe the Bank of Canada will drop its rate even more, from 5.0% to 3.5%, over the same timeframe.

Lower bond yields and forecasts calling for lower administered short-term interest rates are tonic for stocks. Lower interest rates justify higher equity valuation multiples, especially if the economy holds up.

In Canadian dollar terms, the U.S. S&P 500 Index was up an impressive 23.4% for the year through mid-December, more than double the 9.3% gain in the S&P/TSX Composite Index, the Canadian equity benchmark. Over the same period, Canadian bonds returned 6.6%, while ultra-safe T-bills, which are a proxy for GICs and money market funds, generated 4.6%.

HIGHER INTEREST RATES WEIGH ON RETURNS
TOTAL RETURNS SINCE JANUARY 2022 (CAD)



Based on S&P/TSX Index, S&P 500 Index, Bloomberg Canada Aggregate Bond Index and Bloomberg Canada Treasury Bills Index (1-3 month)
As of December 15, 2023

TOTAL RETURNS SINCE START OF PANDEMIC (CAD)
STOCKS DID BEST IN 2020 AND 2021

	2020 & 2021	2022 & 2023*	Total*
U.S. Stocks	48.5%	8.1%	60.5%
Canadian Stocks	32.2%	2.9%	35.9%
OB Model Portfolio[1]	34.9%	5.6%	42.5%
Bonds	5.6%	-5.4%	-0.2%
T-Bills	0.8%	6.3%	7.2%

Based on S&P/TSX Index, S&P 500 Index, Bloomberg Canada Aggregate Bond Index and Bloomberg Canada Treasury Bills Index (1-3 month)
* As of December 15, 2023

To get a more complete appreciation for the impact of higher interest rates, which started lifting off from ultra-low levels at the beginning of 2022, one needs to consider performance for both 2022 and 2023. Over that nearly two-year period, and as highlighted in the chart on page 2, bonds were the worst-performing asset class, down 5.4%, and T-bills returned 6.3%. Canadian stocks were ahead by just 2.9%, after spending much of the last two years in the red. U.S. stocks were down more than Canadian stocks for much of the period but recently rallied to an 8.1% gain, a little better than the return from T-bills.

If it seems counterintuitive for bonds to perform poorly when interest rates are higher, consider this example. Imagine an investor bought a 10-year government bond last year that pays annual interest of 3%. Now imagine interest rates go up and new bond issues provide 5% interest. No investor would want to buy the bond with the lower 3% yield unless there was a discount in price. That is why bond prices go down when interest rates go up. If economic growth weakens and interest rates decline as expected, bonds should do better next year.

T-bills and other short-term fixed income investments don't have the same interest-rate risk as bonds because their maturities are much shorter. A maturing one- or three-month T-bill can roll into a new T-bill with a higher coupon as interest rates rise.

Given the poor performance of bonds and the volatility and relatively uninspiring performance of stocks over the last two years, some investors wonder if they should allocate more money to T-bills or other safe short-term fixed income instruments. After all, such products currently yield 5% or better. Depending on their unique situation, we encourage clients to have ample short-term fixed income investments to meet their cash flow needs. However, there are risks to being over-concentrated in this space. First, if inflation abates and the economy slows, the interest rate on those securities will likely decline. Second, there is a good chance that inflation and taxes will erode the purchasing power of short-term fixed income investments over time. That is certainly what has happened historically and is what's probable in the future, too.

Of course, cash and near-cash instruments may prove to be the best investments if inflation and interest rates surprise on the upside or if we have a deep economic recession. While we don't think either scenario is likely, both are possible.

Over the long term, we still believe stocks will do better than bonds, and bonds will do better than T-bills. In fact, despite the pandemic and lackluster performance over the last two years, stocks have done much better than fixed income alternatives since the beginning of 2020. Over the nearly four-year period, U.S. and Canadian stocks have returned 60.5% and 35.9%, respectively, while T-bills have provided a total return of 7.2% and bonds have lost 0.2%.

"Investing in businesses with pricing power and growth opportunities will likely do the best job of preserving and growing wealth over time."

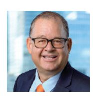
Investing in businesses with pricing power and growth opportunities will likely do the best job of preserving and growing wealth over time. Real estate can be effective in that regard, too, because rents tend to rise with inflation. But given that Canadian home prices are high relative to rents and incomes, stocks will likely do better.

In the near term, stock market performance will be nuanced. Lower interest rates should have a positive influence on valuation multiples. But if interest rates go down because the economy is weak, corporate profits will deteriorate. That could be tough on some stocks, though not all.

What's complicated is that stock prices are forward looking. Stocks always bottom before the trough in the economic cycle and rally before the economy rebounds. Some stocks are already discounting a difficult future, while others are not. General Motors' stock, for example, is so beaten up it appears to be anticipating a brutal recession. The popular technology stocks, on the other hand, are discounting a much rosier outlook. As such, shares of cyclical businesses like General Motors might have less risk and more long-term potential than popular stocks that are near their highs.

The right mix of stocks, bonds and short-term fixed income investments is personal. It depends on each investor's time horizon, specific needs and risk tolerance. The equity portion of a portfolio should be diversified and include both popular and unpopular stocks. The former may keep doing well in the near term, while the latter have the potential to outperform in the long run.

We wish you a healthy and happy 2024.



MURRAY LEITH, CFA
Executive Vice President and Director, Investment Research
@murrayleith

All performance figures are as of December 15, 2023, unless otherwise noted.

[1] The Odlum Brown Model Portfolio was established on December 15, 1994, with a hypothetical investment of $250,000. The Model provides a basis with which to measure the quality of our advice. It also facilitates an understanding of how we believe individual security recommendations could be used within the context of a client portfolio. Trades are made using the closing price on the day a change is announced. Performance figures do not include any allowance for fees. Past performance is not indicative of future performance.

YOU'RE INVITED TO

ODLUM BROWN'S ANNUAL ADDRESS

We are pleased to invite you and your guests to attend Odlum Brown's Annual Address, an opportunity to hear timely commentary on the markets and economy, enjoy refreshments with the Odlum Brown team and learn more about how our firm helps clients achieve their financial goals. Speakers will include **Debra Doucette**, Odlum Brown President and CEO, and Executive Vice President, Director, Investment Research, **Murray Leith**. We hope you will join us at one of eight events across BC!

VICTORIA
Monday, February 5, 2 PM
Delta Hotels by Marriott Victoria Ocean Pointe Resort, 100 Harbour Road
RSVP to Monica at 250-952-7775 or odlumbrown.com/rsvp by January 29.

LANGLEY
Tuesday, February 6, 2 PM
Langley Events Centre, Banquet Hall, 7888 200 Street
RSVP to Carlee at 604-607-7508 or odlumbrown.com/rsvp by January 30.

New time! COURTENAY
Wednesday, February 7, 1 PM
Crown Isle Resort, Ballroom, 399 Clubhouse Drive
RSVP to Chani at 250-703-0637 or odlumbrown.com/rsvp by January 31.

WEST VANCOUVER
Thursday, February 8, 7 PM
Kay Meek Arts Centre, Main Stage Theatre, 1700 Mathers Avenue
RSVP to Leanna at 604-844-5336 or odlumbrown.com/rsvp by February 1.

KELOWNA
Monday, February 12, 2 PM
Coast Capri Hotel, Ballroom, 1171 Harvey Avenue
RSVP to Valerie at 250-861-5700 or odlumbrown.com/rsvp by February 5.

SOUTH SURREY
Tuesday, February 13, 7 PM
Morgan Creek Golf Course, 3500 Morgan Creek Way
RSVP to Leanna at 604-844-5336 or odlumbrown.com/rsvp by February 6.

VANCOUVER
Wednesday, February 14, 2 PM
The Fairmont Waterfront, Waterfront Ballroom 900 Canada Place Way
RSVP to Leanna at 604-844-5336 or odlumbrown.com/rsvp by February 7.

New location and time! CHILLIWACK
Thursday, February 15, 4 PM
Chilliwack Cultural Centre, Rotary Hall Studio Theatre, 9201 Corbould Street
RSVP to Carlee at 604-607-7508 or odlumbrown.com/rsvp by February 8.

Register early and electronically at odlumbrown.com/rsvp, as space is limited.

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