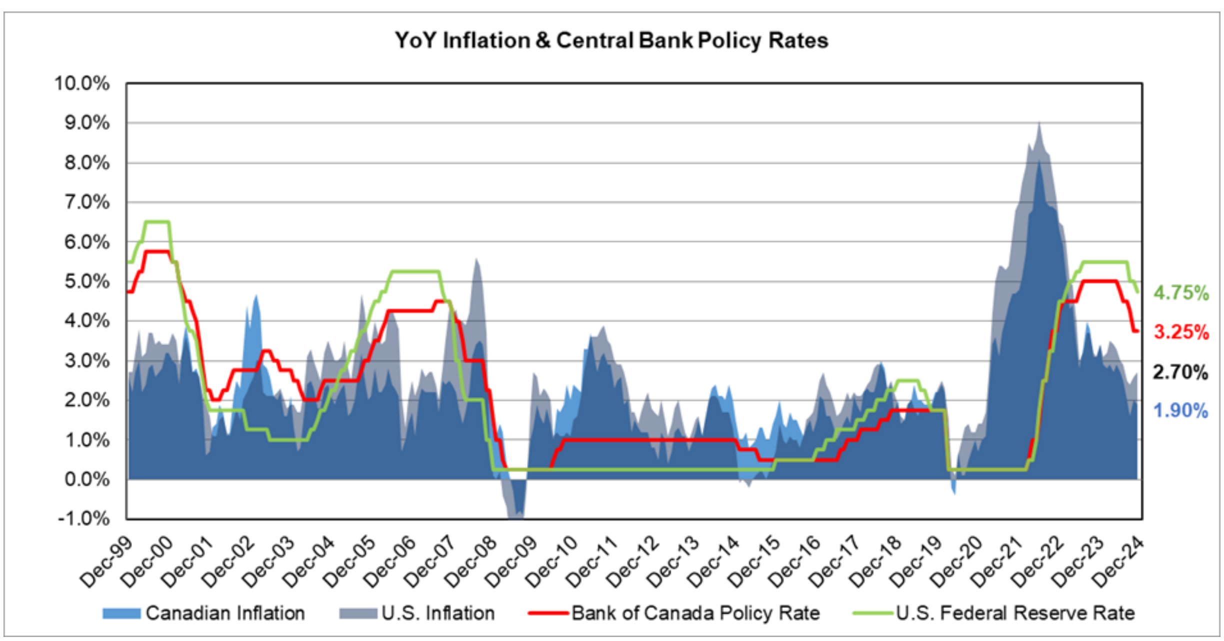
As we turn the page on 2024, we would like to take a moment to look back at what happened in the financial markets during the year, and look ahead to what 2025 may bring. Overall, 2024 was a strong year in the markets, with all major asset classes posting positive performance. Global equity markets in particular saw the second year in a row of double-digit returns, driven in part by lower interest rates, economic resilience, and investor optimism.

Key themes and risks from 2024, including inflation and interest rates, will remain a focus in the year ahead. Additionally, a changing of the political guard in a number of developed countries may result in a higher degree of uncertainty for markets – particularly as it relates to trade.

2024 Fixed Income

Entering 2024, both the Bank of Canada (BoC) and the U.S. Federal Reserve (Fed) had concluded one of the most aggressive monetary tightening campaigns in decades. Policy rates in both Canada and the U.S. began the year at or above 5%, levels not seen since the early 2000s. These measures were implemented to combat surging inflation, which had peaked at approximately 8% in Canada. The rapid succession of rate hikes beginning in 2022 reflected the central banks' commitment to restoring price stability.

The tightening proved effective, as rates of inflation steadily declined throughout the year. In Canada, annualized inflation finally returned to its 2% target by late 2024. In the U.S., inflation has also been trending lower and is near its target range. With inflation seemingly under control, central banks began easing monetary policy in the second half of the year. The Bank of Canada reduced its policy rate by a total of 1.75% during 2024, while the Federal Reserve followed suit with a more gradual approach, lowering interest rates by 1.0%.



This shift towards easing monetary policy provided a boost to the fixed income market. Bond prices, which move inversely to interest rates (yields), rose notably in the second half of the year as yields fell. The performance of the Canadian bond universe, which was slightly negative in the first half of 2024, ended the year firmly in positive territory. In the corporate bond sector, credit spreads—a key metric that reflects the additional yield investors demand for taking on corporate credit risk—declined during 2024. This contraction signaled improving sentiment in the corporate bond market, further supporting returns for corporate bonds.

	2024	
Fixed Income Total Returns (in CAD dollars)	**Q4**	**1 Year**
FTSE Canada Universe Bond Index	-0.04%	4.23%
FTSE Canada All Corporate Bond Index	1.02%	6.96%
Canada Real Return Bond Index	0.99%	4.82%
US Investment Grade Index	3.23%	10.38%
US High Yield Bond Index	6.31%	17.35%
US Treasury Inflation Protected Index	3.11%	10.61%

**Stated returns are from ETFs designed to track the associated index and may have minor differences compared to the pure index returns.

However, diverging interest rate levels between Canada and the U.S. had notable effects on currency markets. The Bank of Canada's larger rate cuts contributed to a significant weakening of the Canadian dollar (CAD) against the U.S. dollar (USD). The CAD depreciated by 8.1% in 2024 and fell to levels not seen since 2020, reaching a low of 1.44 CAD per USD by year-end. While this decline provided a tailwind for Canadian exporters, it posed challenges for consumers and businesses relying on imports, particularly as the U.S. dollar remained strong globally. In addition to monetary policy, the CAD faced further pressure as incoming U.S. President Trump threatened tariffs on all Canadian goods imported into the U.S. This uncertainty has increased volatility in the currency markets and could put further pressure on the CAD if enacted.

2024 Equities

	2024	
Equity Market Total Returns (in CAD dollars)	**Q4**	**1 Year**
Canadian Equities (S&P/TSX Composite Index)	3.77%	21.65%
U.S. Large Cap Equities (S&P 500 Index)	9.09%	36.19%
International Large Cap Equities (MSCI EAFE Index)	-2.11%	13.12%
Global Small Cap Equities (MSCI ACWI Small Cap ND Index)	3.07%	17.31%
Emerging Market Equities (MSCI Emerging Markets Index)	-1.83%	17.64%

Canadian Equities

The Canadian equity market had a strong year, finishing 2024 up 21.7% on a total return basis. Canadian equities gained significant momentum in the latter half of the year, coinciding with the Bank of Canada's decision to begin reducing interest rates. While the TSX posted a modest 6.1% return in the first half of the year, it returned an additional 14.7% in the second half as interest rate-sensitive sectors like financials, real estate, and utilities rallied.

The financial sector stood out as one of the best-performing sectors, and due to its significant 33% weight in the Canadian index, it was the largest contributor to overall performance. The energy sector also played a significant role, benefiting from rising oil prices and decreasing interest rates that supported valuations and investor sentiment. These factors combined to deliver one of the strongest years for Canadian equities over the last decade.

U.S. Equities

U.S. equities extended their momentum from 2023, delivering a 36.2% return in Canadian dollar terms, making the U.S. large-cap market the top-performing developed market of 2024. Appreciation of the U.S. dollar had notable effects for Canadian investors, which resulted in a 11.2% higher 1-year return for the CAD based index relative to the USD based index return. The index performance was broad-based and positive across all sectors, with the technology sector leading the charge once again. The growing excitement surrounding artificial intelligence (A.I.) has contributed to the performance of many companies in the technology sector, leading to the sector's relative outperformance within the index.

However, the rally wasn't without its moments of uncertainty. An 8% correction during the summer months reminded investors of the market's inherent volatility, even amid strong annual returns.

Unlike the sector specific concentrated gains of 2023, 2024 saw a relatively more balanced return contribution from each sector within the index. The "Magnificent 7," which accounted for nearly 65% of the index's performance in 2023, accounted for a reduced but still substantial 47% of the index performance in 2024. Despite their decreased share of the overall index 1-year return, these stocks have increased their weight in the index, now accounting for 33% of its composition – up from 28% in 2023. As these companies trade at valuations higher than the index average, this growing concentration adds a layer of risk to those who simply own the index by inflating its overall valuation.

International Equities

International equities had a positive year, gaining 13.1% in Canadian dollar terms, but lagged behind the returns of both Canadian and U.S. markets due to relative underperformance of the international technology sector and a smaller allocation to financials. Most of the growth occurred in the first quarter, with the index up 8.5% during that period, compared to a more modest 4.3% gain over the remaining three quarters of the year.

Within the index, Japan emerged as the largest contributor to performance, with its stocks—comprising nearly 25% of the index—rising 18.5%. Despite a volatile year for the Japanese market, its gains underpinned the broader international index's positive performance.

Global Small Cap

Global small-cap equities delivered a 17.3% return for the year in Canadian dollar terms, a strong absolute performance by historical standards. However, when compared to the returns of large-cap equities in each geographic region, small-caps underperformed. While small-cap stocks often shine in periods of economic recovery or early growth cycles, 2024 was a year dominated by the momentum of established large-cap players, particularly in sectors like technology.

Emerging Markets

Emerging market equities closed the year up 17.6% in Canadian dollar terms, with standout contributions from Taiwan, China, and India, each posting gains above 20%. China, in particular, enjoyed a strong rebound following challenging years in 2022 and 2023. This recovery was supported by a wave of stimulative policies aimed at boosting economic activity and investor confidence.

Despite this strong performance, potential risks loom on the horizon. The return of President Trump to office could reignite trade tensions reminiscent of his first term, creating potential headwinds for emerging markets and adding volatility to an otherwise promising trajectory. It will be important to monitor geopolitical developments as 2025 unfolds.

The Year Ahead

As we move into 2025, investors should remain mindful of several key factors that could influence the financial markets in the coming year. As no one can be sure what will happen in the future, the best we can do is be aware of potential risks and how they may impact portfolios. Some key themes and risks to keep in mind include:

- U.S. equities – concentration and valuation: The U.S. equity market is increasingly concentrated in a small number of mega-cap technology stocks, reducing diversification and making overall market performance dependent on these companies. Additionally, the U.S. equity market appears to be overvalued based on numerous metrics relative to history and other developed markets, representing an elevated degree of potential downside risk.

- Inflation: Inflation has been trending lower and finally appears to be under control. Will proposed policies in the U.S. reignite inflation? President-elect Trump has pledged tariffs, tax cuts, and mass deportations – all of which may add upward pressure on inflation.

- Interest rates: Interest rates will remain a key focus in 2025. Current market expectations for 2025 are two 0.25% policy interest rate reductions in Canada and just one 0.25% reduction in the U.S. The path of interest rates can change quickly, particularly if there are any changes to the inflation outlook.

- International conflicts: Rising geopolitical tensions and ongoing conflicts, particularly in Ukraine and the Middle East, may contribute to market volatility in the year ahead.

- Global trade: Proposed tariffs between major economies could escalate into a trade war and negatively impact global economic growth.

- Canadian government uncertainty: With the recent announcement of Justin Trudeau's planned resignation, and with parliament prorogued, there is heightened uncertainty around future political leadership and policy in Canada, including material changes to the capital gains inclusion rate announced last year but not yet passed into legislation.

Despite these risks, there are also positives heading into 2025. Easing inflation, declining interest rates, and fiscal stimulus measures in key markets could support further growth and positive returns in both equity and fixed income markets.

Quadrant Philosophy

Our philosophy is straightforward – we build well-diversified portfolios and partner with best-in-class institutional managers within each asset class. As experts in their respective asset class domains, our managers are attuned to the ever-changing risks in the financial markets and how these risks may impact portfolio holdings. As such, our managers are best positioned to manage risks at the individual holding level and make adjustments over time as needed.

Our goal is to build portfolios that are durable and able to withstand inevitable but unpredictable market events and volatility. We do not attempt to time the market, predict interest rates, or bet on which asset class will be the top performer next year. Instead, we are mindful of risks and maintain a long-term perspective.

About Us

Disciplined. Compassionate. Effective.

Quadrant Private Wealth is an independent, comprehensive, integrated wealth management firm committed to your financial well-being and peace of mind. We take the time to understand your complete financial picture. We tie all of your information together, including tax planning, to paint a picture of what your financial future could look like. And we aim to earn your complete confidence in the process.

Quadrant Private Wealth
Suite 720, One Lombard Pl
Winnipeg, MB
Ph: (204) 944-8124
email: inquiries@quadrantprivate.com
web: www.quadrantprivate.com

If you or someone you know could benefit from our services, please have them contact our offices at 204-944-8124 or email us at inquiries@quadrantprivate.com.