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"We are drowning in information but starved for knowledge."

John Naisbitt
- Author and Futurist -

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While the year on the calendar is new, many equity markets continue to steam ahead with the positive momentum that ended 2023. A year ago, many strategists were forecasting an imminent recession in many of the developed economies. While a number of Eurozone countries did encounter that downturn, the U.S. did not enter a recession and remains surprisingly resilient and, technically, Canada has also dodged one. Are recessions avoided or just deferred, and how do lower inflation and interest rates factor into the look into the year ahead? **Raymond James Insights** provides a forecast in this month's research. Like a number of featured pieces, there is a summary page as well as a more detailed 30-page version that is available as a PDF report, which I'd recommend if one has the time and interest to review it. In summary, the authors think that 2024 will unfold in two halves. The first half of the year, central banks will keep rates high, and they project that both Canada and the U.S. will enter mild recessions. Rising employment and pressured corporate earnings would likely be challenging and merits a more defensive stance with equity holdings. However, in the second half, they argue for declining interest rates in response to lower inflation, and this typically heralds a period where we see the bottoming of the economy and the start of a new business cycle. From a tactical perspective, they favour the opportunity in longer duration fixed income and they also think the latter half of the year may see cyclical stocks outperform as investors look towards an economic recovery.

The year 2023 was when artificial intelligence as an investment thesis rapidly increased in interest and many companies associated with its potential saw huge market returns. While economists and CEOs alike wrestle with the impact of generative AI on future productivity, it is not the only innovation that could have far reaching implications. **Capital Group** explores the new weight loss drugs like *Ozempic* on numerous facets of private and public markets. With estimated potential sales of this drug class to be as much as 100 billion dollars, their article examines how this could affect decisions on issues as seemingly varied as healthcare spending (potentially lower) or the snack food consumption (also lower). They also argue that markets can overreact in the timeline, quickly selling off companies that they think will be disrupted by these new innovations without really appreciating how early the transition is. The hydrogen fuel cell burst into the public eye over 30 years ago and its promise did not supplant gasoline and diesel engines either quickly or at all. They do suggest, however, that in the longer term, advances like these in medicine should be considered within the framework of Amara's law. *People tend to overestimate the impact of technology in the short run and underestimate the long-term consequences.*

Staying with an investment focus, **Visual Capitalist** illustrates just how much the U.S. market was influenced by a handful of companies. In the fascinating pictograph, the dominance of big tech names in the S&P 500 index underscored their influence on its overall returns. In 2023, despite the strong average returns in the index, almost 40 per cent of those 500 companies had negative returns. I am reminded of the old expression about averages, that if your head is the freezer and your feet in the oven, your average body temperature is normal. Aside from the AI-influenced tech names' returns, there were also some other companies that out-performed. The retail warehouse giant Costco was up almost 50 per cent and Eli Lilly powered ahead about 60 per cent on its new weight loss drug results. The bounce back in travel stocks also was impressive, as cruise ship line Royal Caribbean had a triple digit recovery. With 2024 underway, a factoid such as this may support the argument that we could already be in a rolling recession where certain sectors were already in downturns while others are already experiencing expansions. If this is the case, then stock or sector selection may deserve more emphasis in this year of the Dragon.

Raymond James Insights: The Year of Rate Cuts, but How Much and How Soon?

For 2024, we are expressing our outlook as two parts as we see the first and second halves of the year progressing differently. In the first half of the year, we are expecting central banks in both Canada and the U.S. to maintain their policy interest rates at current levels. As the previously aggressive hiking cycles put increasing pressure on consumer and business spending, we see both countries entering mild recessions, with contracting GDPs, slightly increasing unemployment rates, and pressure on corporate earnings.

By the middle of 2024, we expect inflation rates to have declined sufficiently to allow central banks to begin reducing interest rates through the latter half of the year, and continuing into 2025, before we see rates stabilize, but at a level higher than was typical before the pandemic. Through the latter half of 2024, although inflation will still not yet be down to the 2% targets, we expect that concerns of a resurgence of inflation will be reduced, and although corporate earnings will likely still be under pressure, we would expect investors to start looking beyond the recessions towards growth in 2025. As such, we see 2024 as a slightly positive environment for equities, but perhaps more so through the latter half of the year.

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Capital Group: Weight loss drugs could reshape industries beyond health care

From deep-fried turkey to pumpkin pie, the holidays are a time to indulge. But a new category of weight loss drugs is designed to curb appetites and thereby prevent a multitude of health problems associated with obesity.

At the same time, these drugs — sold under the brand names Ozempic, Wegovy, Zepbound and others — are raising questions for the food industry and companies that rely on cravings to sell their products.

“Executives in nearly every industry are being asked about the impacts of these weight loss drugs on their businesses,” says portfolio manager Michael Beckwith. While concerns are valid, “some of these conclusions are more fanciful than logical.”

Nevertheless, with estimated potential annual sales of US$100 billion, this is a category of drugs that must be considered when making investment decisions, says equity portfolio manager Greg Wendt. “I’m keeping an open mind — there are more questions than answers right now, but could this be an innovation as significant as the creation of the mobile phone? Possibly.”

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Visual Capitalist: The Best and Worst Performing Sectors in 2023

In 2023, the U.S. stock market saw surprisingly strong returns, even as interest rates climbed higher.
The S&P 500 rose over 24% amid exuberance around AI stocks and big tech, lifting returns across the index. Traditionally defensive stocks, on the other hand, declined. Overall the stock market recovered losses from 2022’s plunge, and is now hovering near all-time highs.

The above graphic is an augmented version of the Finviz treemap, showing the best and worst sectors in 2023.

2023 Winners
Several sectors were in the green this year amid solid consumer spending and steady economic growth. Below, we’ll look at some of the strongest performers:

Technology
In a breakthrough year, the promise of AI’s potential catapulted the tech sector to 56% returns.

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