2024 Financial Year in Review and Looking Ahead for 2025

Keith: Welcome to *The Empowered Investor*. My name is Keith Matthews, and I'm joined by my co-host, **Marcelo Taboada**. Marcelo, how are you today?

Marcelo: Keith, Happy New Year!

Keith: Happy New Year to you too! Welcome, everyone, to the show. This is our first episode of 2025, and we'll be doing a year in review.

We'll talk about asset class returns, the major trends we saw last year, key issues, and provide some perspective on how to move forward. But before we dive into that, Marcelo, let's talk a little bit about personal updates. What was the biggest thing that happened to you in 2024?

Marcelo: There are two big things, actually. The first is that I became a father. That was, by far, the biggest thing for me. It's been amazing and has completely changed everything for my wife and me. It's such a great moment.

Keith: How were your Christmas holidays with your extended family?

Marcelo: Honestly, they were amazing. I already have two nephews, so we've been in that vibe for a while, but having our baby really changed the family dynamic. The focus shifts entirely when you go from being a couple to being a family.

It's funny how Christmas evolves. When you're a kid, it's all about presents and gifts, but as you grow older, you really start valuing presence—just having a full table and being surrounded by loved ones. We were so grateful to have those moments with family this year. And the baby was, of course, the star of the show.

On the professional side, another major milestone for me was becoming a shareholder in our company. That's a huge step for me. If you'd told me ten years ago that this would happen, I wouldn't have believed it. It would've sounded too good to be true. But this is a fantastic business with great people and incredible relationships with clients. It's been an amazing journey.

Keith: That's fantastic. We should definitely do a show to update our listeners on how the company has evolved. Last year, we welcomed 10 new shareholders into the business. Don, Tulett, and I were the principal shareholders, and now we've added 10 more. It's been a monumental step forward, and it really positions us well for the future. Our clients and contacts were very enthusiastic about the process, which made it all the more rewarding.

What about me? For me, Marcelo, 2024 was all about real estate. I finished building a family cottage last spring, and during that process, my wife and I reflected and decided it was time to sell our family home.

It took us a long time to get the house ready, but in late fall, we sold the home we'd lived in for 24 years, downsizing to a home half the size.

I've seen clients make these kinds of moves throughout my career, but my wife and I decided to do it earlier than most. I'm 61, and my wife is in her mid-fifties. We downsized into a 1,200-square-foot home—not quite a tiny home, but definitely smaller than our previous one.

Marcelo: What are you going to do with all this newfound time on your hands?

Keith: Well, it hasn't been without its challenges. We had a flood in our old house during the big storms in August, so we ended up having to gut parts of the house. Decluttering was a massive undertaking. I'm so relieved that's behind us.

We officially moved out of our home on December 17th. Right now, we're lucky to stay with a friend for three or four days a week, and then we spend the rest of the week at the cottage. The place we're moving into will be ready in about two months—we're doing some renovations—and we're so excited to settle into Pointe-Claire Village, a charming little area with a small-town feel.

Marcelo: That sounds amazing. You might want to watch out for your waistline, though—Pointe-Claire has so many great spots to eat!

Keith: I'll keep that in mind. Thanks for the advice! Now, let's move on to the main topic of today's show. We'll start by looking back at 2024—returns, issues, and trends—and then zoom out to review the decade. We'll even compare a couple of decades to provide some broader perspective.

Marcelo: Sounds good. Where should we start?

Keith: Let's talk about asset class returns. Marcelo, how did the markets perform in 2024?

Marcelo: It was a great year across almost every asset class. The story from 2023 continued. Let's start with cash and equivalents—measured by short-term money market funds. These were up 4.7%. Global bonds, specifically one-to-five-year bonds, were up 3.7%, while Canadian bonds were up 4.2%. These returns were expected after the tough bond market in 2022. When interest rates started coming down, bond prices appreciated, which is great news for investors holding bonds.

Now, looking at equities: the Canadian market returned an impressive 21.6%. U.S. stocks were the standout performers, returning 35.6%. International stocks were up 12.6%, and emerging markets gained 16.6%. Real estate investment trusts (REITs) were a mixed bag. Global REITs were up 11.4%, but Canadian REITs were down 2%.

Lastly, the Canadian dollar depreciated by nearly 8% against the U.S. dollar, which had a significant impact on trade and equity returns.

Keith: That's an excellent summary. 2024 truly was an exceptional year for equity appreciation. You have to go back 20 years to find back-to-back 20%+ performance years like we saw with the S&P 500. The depreciation of the Canadian dollar also played a big role, boosting U.S. returns for Canadian investors. And let's not overlook the strong performance of Canadian stocks—22% is a fantastic return.

Marcelo: Absolutely. The S&P 500 tends to dominate headlines because it's such a widely followed index, but other markets performed well too. A well-diversified equity portfolio could have delivered returns in the 20-25% range, depending on regional allocations.

Keith: How about 60/40 portfolios? They were under a lot of pressure in 2022, with both bonds and equities posting negative returns. How did they fare in 2024?

Marcelo: 2024 was a strong rebound for 60/40 portfolios, which returned around 14%. That's remarkable, considering bonds contributed 3-5% of the return, while equities did the heavy lifting. Of course, we can't expect double-digit returns every year, but it's reassuring to see these portfolios recover so strongly.

Keith: Absolutely. When bonds are returning 3-5%, equities need to perform exceptionally well to push a 60/40 portfolio into double-digit territory. The past two years have been incredibly strong, but we shouldn't expect this to continue indefinitely. Markets will inevitably hit some bumps along the way.

So, Marcelo, what were some of the main themes we saw in 2024?

Marcelo: There were a few, but let's avoid the geopolitical issues for now and focus on the economy and markets. One of the biggest themes was interest rate cuts. The Bank of Canada (BoC) and the U.S. Federal Reserve (the Fed) took slightly different approaches. The BoC cut rates by 1.75%, which included two "mega cuts" of 0.5% each in October and December. Meanwhile, the Fed cut rates by 0.75% in three separate reductions.

This trend was expected. Higher rates in 2023 had slowed economic growth, prompting central banks to start easing.

Keith: Rate cuts have a direct impact on borrowers, including those with mortgages or other forms of debt. They also spur equity markets. Canada was more aggressive with its rate cuts than the U.S., but both countries moved as anticipated.

Marcelo: Definitely. Inflation played a big role here too. In Canada, inflation is now back within the target range of 1-3%, sitting at around 2%. That gave the BoC the flexibility to lower rates. On the other hand, the U.S. is dealing with stickier inflation and a more resilient economy, which explains why the Fed has been slower to cut rates.

Keith: There's historical data that shows how equity markets typically perform after the start of rate-cutting cycles. Can you walk us through that?

Marcelo: Sure. Historically, equity markets tend to perform well after rate cuts begin. Over the past 60 years, there have been 10 periods of rate cuts. On average, the S&P 500 gained 5% six months after the first cut, 8% after one year, and 51% cumulatively three years later.

Markets tend to price in rate cuts positively because they signal easier borrowing conditions and, often, an economic boost.

Keith: Those are impressive numbers. Another major theme last year was U.S. exceptionalism. Let's talk about that.

Marcelo: U.S. exceptionalism refers to how significantly the U.S. stock market has outperformed other global markets. Over the past decade, the S&P 500 has delivered annualized returns of 15.5%, while Canadian stocks returned 8.6%, and international stocks delivered 7%. This has led some investors to question whether global diversification is even necessary.

Keith: The numbers make a compelling case for U.S. stocks, but we've seen this before—markets go through cycles. Between 2000 and 2010, U.S. stocks actually had negative annualized returns of -2.6%, while Canadian stocks delivered 6.5%. Diversification helps investors weather these cycles.

Marcelo: Exactly. While the U.S. has been a standout performer recently, there are great opportunities in Canadian and international markets. Companies like Nestlé in Europe and Toyota in Japan are examples of world-class businesses that investors shouldn't overlook.

Keith: Great point. Let's pivot to bonds. The last decade was tough for bond investors, with average returns of just 1.8%. Inflation during the post-pandemic years averaged 2.7%, meaning bond returns couldn't keep up with rising prices. This is a stark contrast to the 1990s, when bonds offered real returns of 7% or more.

Marcelo: Bonds have struggled, but they still play an important role in portfolios as stabilizers. They act as shock absorbers during periods of equity market volatility. Thankfully, with higher yields now, bond investors are starting to see better returns.

Keith: One key lesson is that inflationary periods aren't kind to bonds. Recovery for bond markets often takes years, but they remain an essential part of diversified portfolios. Let's shift gears and talk briefly about the political landscape in 2024. While we're not a political podcast, it's worth mentioning the broader trends.

Marcelo: 2024 was a big year for democracy, with elections in countries like India and Indonesia. But political instability remains a challenge globally. Among the G7 nations, only Italy and the U.S. currently have stable governments. Countries like Germany and France are facing significant political challenges, which could have economic implications.

Keith: Political instability often leads to necessary reforms, which can eventually strengthen economies. As we wrap up, what key takeaways should investors keep in mind heading into 2025?

Marcelo: The timeless principles still apply: diversify your portfolio, stay disciplined, and avoid getting caught up in short-term narratives. Diversified portfolios remain attractive. Canadian, international, and emerging market equities offer good value. Paying less for future earnings tends to result in better long-term outcomes.

Keith: Well said. History shows that staying diversified and maintaining perspective is the best approach. While no one can predict which asset class will outperform, a balanced portfolio ensures you're positioned to capture growth opportunities across the board.

Marcelo: Exactly. One thing I remind people of is that the world has always faced challenges—wars, political instability, economic downturns. Yet, stock markets have been remarkably resilient. People adapt, innovate, and find ways to move forward, and over time, markets trend upward.

Keith: That's a great note to end on. Thank you, Marcelo, for an insightful discussion to kick off 2025. To our listeners, we wish you a wonderful and prosperous new year.