

We're On the Other Side of the Valley



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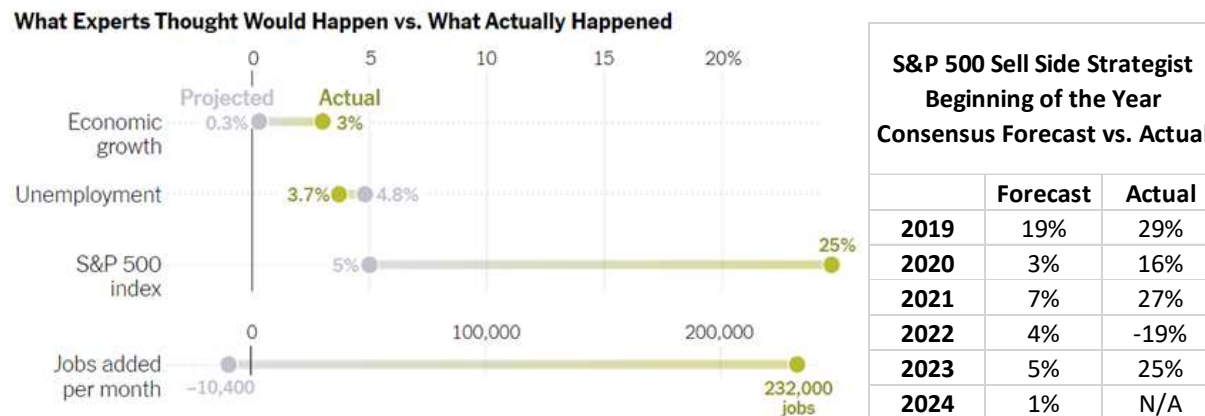
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At the beginning of 2023, we published a note titled **"History Suggests a Positive Year in 2023"**. In it, we argued that two consecutive calendar years of negative returns has been very rare in history, and limited to calamitous situations such as World War II, the oil embargo of 1973-74, and the technology bubble of 2000. Moreover, equity markets are forward-looking, and had already priced in a significant amount of weakness in the bear market of 2022. As such we concluded that 2023 was likely to be a positive and rewarding year for stock market investors after a tough 2022.

2023 - A Year of Round Trips

This was not a common opinion at the time, as amidst the most aggressive tightening cycle on record by the U.S. Federal Reserve (Fed) and with yields inverted across the curve, nearly every economist was calling for a recession in 2023. Equity strategists were also in sync with their economist counterparts, calling for a meagre 5% return on the S&P 500 for the year. This forecast was somewhat inflated because of an end-of-year selloff in 2022 – but is consistent with the low-to-mid single digit consensus forecast that seems to materialize every year.

Figure 1 – Predictions are Tough – 2023 Forecasts (LHS), Historical S&P 500 Consensus Forecasts (RHS)



Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Wall Street Journal, Bloomberg, as of December 31, 2023. **Past performance is not indicative of future results.** One cannot invest directly in an index.

And yet, the U.S. economy and equity markets defied expectations. Not only did a recession never materialize, above-trend economic growth took hold, with the U.S. economy growing a robust 5.2% in the third quarter. The labour market remained resilient – while cooling, it still created 232k jobs per month in 2023, well above the pre-

pandemic average of 190k jobs. Economic surprise indices were consistently positive, an indication that actual economic data was outperforming consensus expectations. And the stock market, led by those “Magnificent 7” stocks, roared to a 25% gain, making it the third year in a row that the sell-side strategist consensus forecast was off by at least 20%.

What did well in 2023 were first and foremost, the Magnificent 7 mega-cap stocks (Apple, Microsoft, Amazon, Google, Meta, Nvidia, and Tesla), which ended the year accounting for 60% of the S&P 500’s return. Narrow market leadership peaked at the end of May and again in October, when these 7 stocks accounted for well over 100% of the U.S. equity market return. However the end-of-year rally that began on October 27 saw a significant broadening of market participation, with the other 493 stocks rallying strongly to end the year.

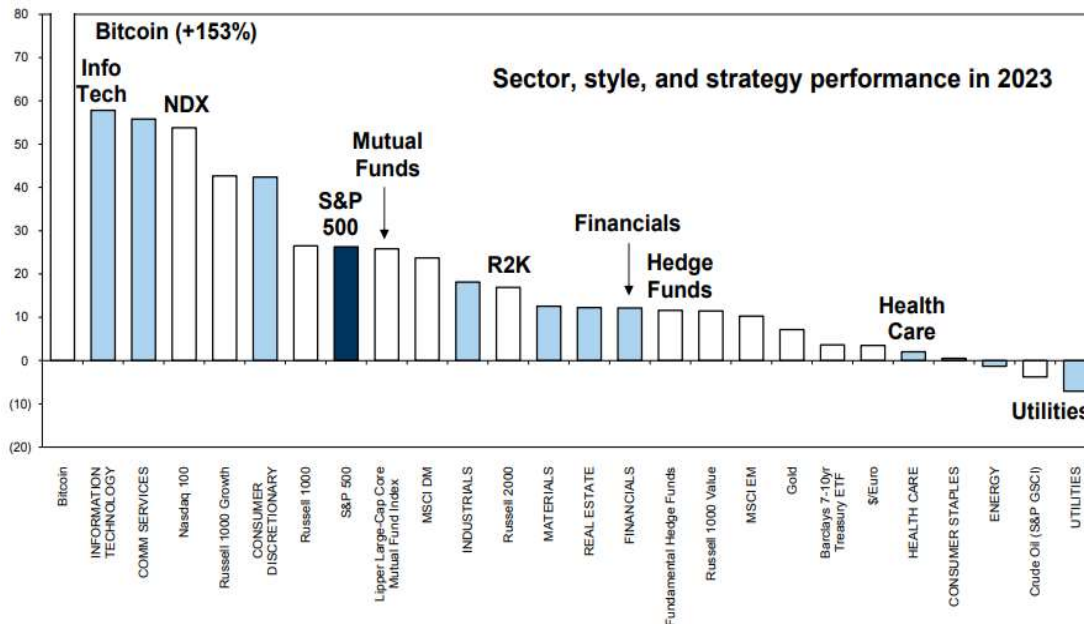
Figure 2 – Broad Rally to End the Year – Performance in bps (USD)

	Jan 1 to Oct 27	Oct 27 to Dec 31	Full Year 2023
Mag 7	1014	468	1581
Other 493	-145	1155	1052
S&P 500	869	1623	2633
Mag 7 as % of SPX Return	117%	29%	60%

Source: Bloomberg, as of December 31, 2023. **Past performance is not indicative of future results.** One cannot invest directly in an index.

Beyond the Magnificent 7 stocks, the areas that did well tended to be risk-on, long-duration areas of the market that suffered through 2022. From a sector perspective, Information Technology was the best performer, though that was hardly a surprise given that approximately 70% of the sector’s return for the year was attributable to Apple, Microsoft, and Nvidia. Large caps outperformed small caps, and growth outperformed value for the year.

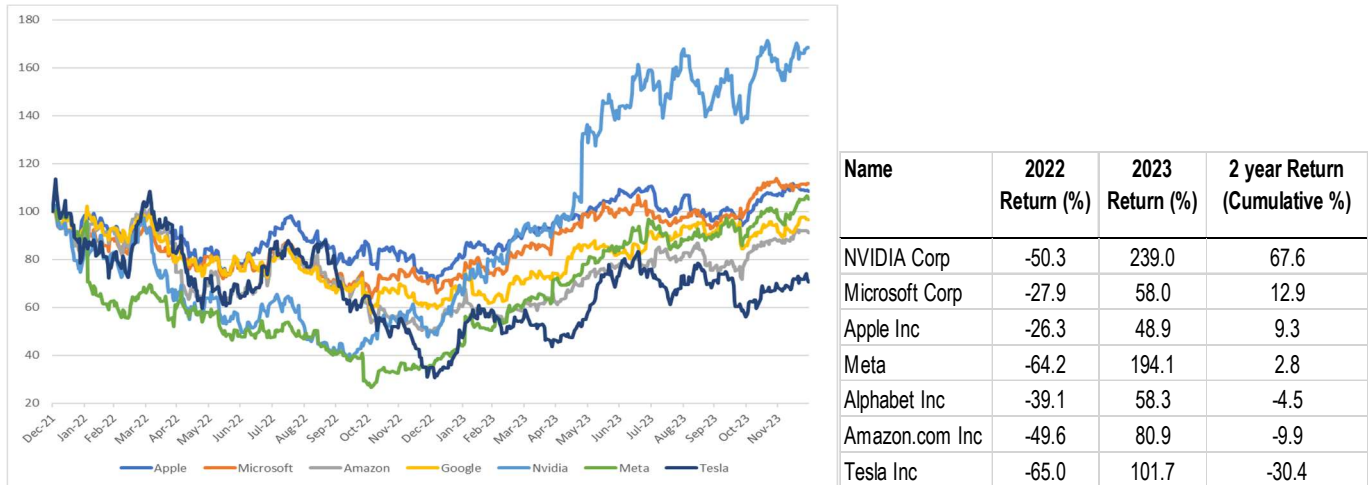
Figure 3 – Asset Class Performance in 2023



Source: Goldman Sachs Research as of January 3, 2024. **Past performance is not indicative of future results.** One cannot invest directly in an index.

But for many of last year's outperformers, it was a round trip - in many cases the best performing assets of 2023 simply reversed 2022's losses. Even among the Magnificent 7 stocks – Nvidia's 2 year return was the positive outlier, and Tesla is still 30% below its level at the beginning of 2022. The other 5 stocks, however, have mostly simply reclaimed their losses from 2022.

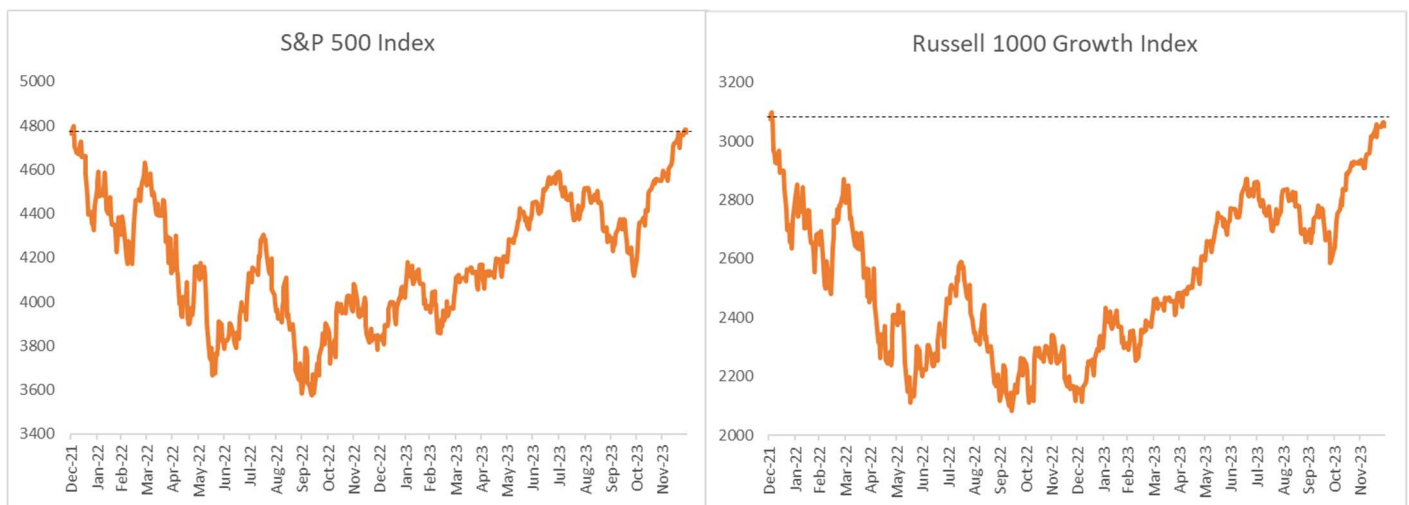
Figure 4 – The Magnificent 7 – Two Year Returns (%)



Source: Bloomberg, as of December 31, 2023 **Past performance is not indicative of future results.**

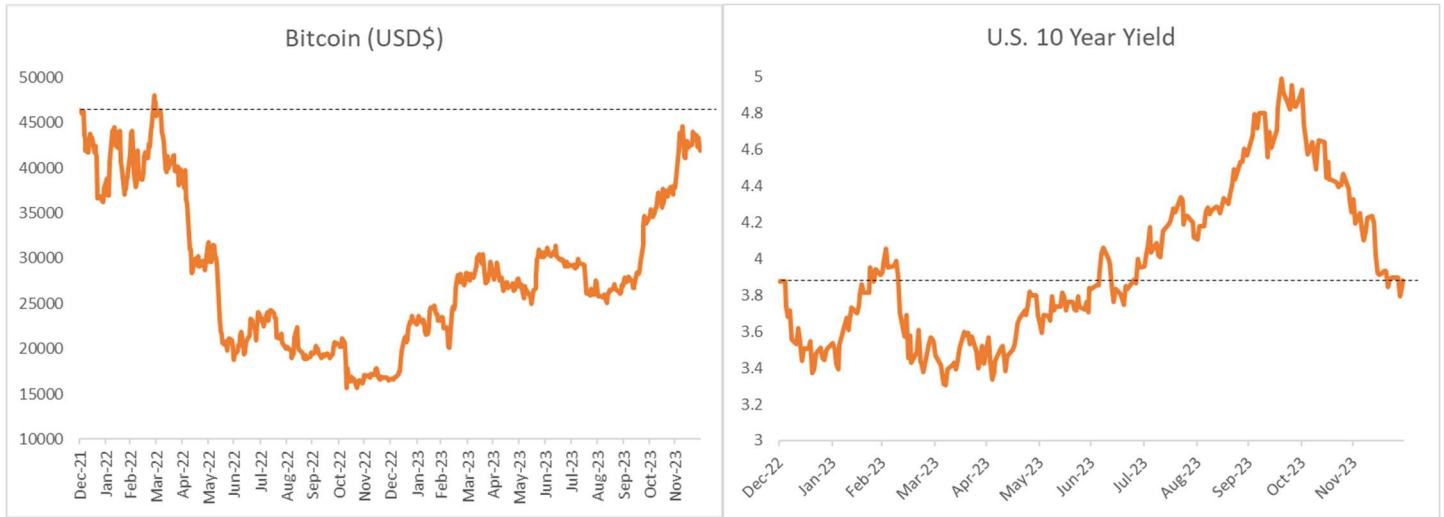
“Round trips” – stocks and asset classes ending up where they were at the beginning of 1 or 2 year periods - were not limited to the top 7 stocks. The S&P 500 Index itself ended 2023 nearly exactly where it began 2022. The Russell 1000 Growth Index, up over 40% in 2023, closed within 1% of where it began 2022. Bitcoin, which was among the best performing asset classes in 2023, simply reclaimed its 2022 losses. Even the U.S. 10-year yield ended the year nearly where it started, after seeing a dramatic increase before falling more than a full percentage point in the last two months of the year.

Figure 5 – 2022-2023 Round Trips – S&P 500 Index and Russell 1000 Growth Index



Source: Bloomberg, as of December 31, 2023. **Past performance is not indicative of future results.** One cannot invest directly in an index.

Figure 6 – Round Trips – Bitcoin and U.S. 10 Year Yield



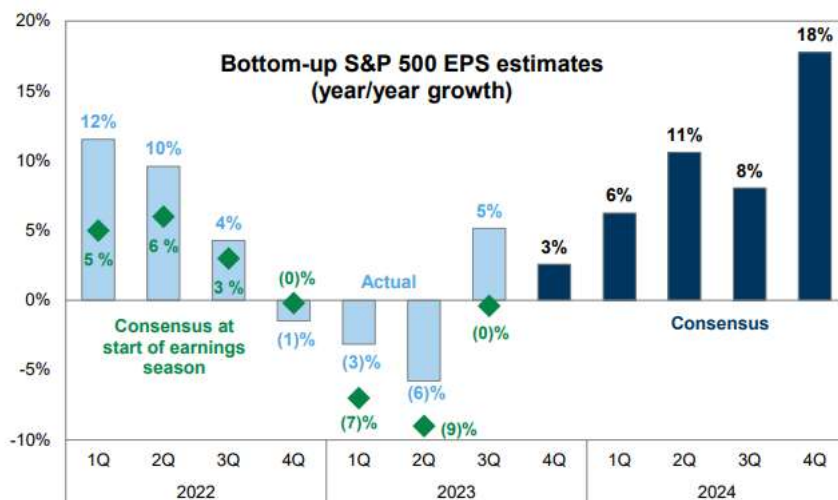
Source: Bloomberg, as of December 31, 2023

2024 – Other Round Trips Still Coming

While many of these “round trips” saw the other side of the valley in 2023, there may be more to surface in 2024 that could provide further tailwinds to equity markets. This includes:

- **Earnings Growth** – S&P 500 earnings ended 2023 approximately flat for the year, but the trajectory has been improving, with year-over-year earnings growth having seemingly bottomed in Q2. We believe the return to positive earnings growth may provide a boost to equity markets which have benefitted from multiple expansion in 2023, particularly among the Magnificent 7 names.

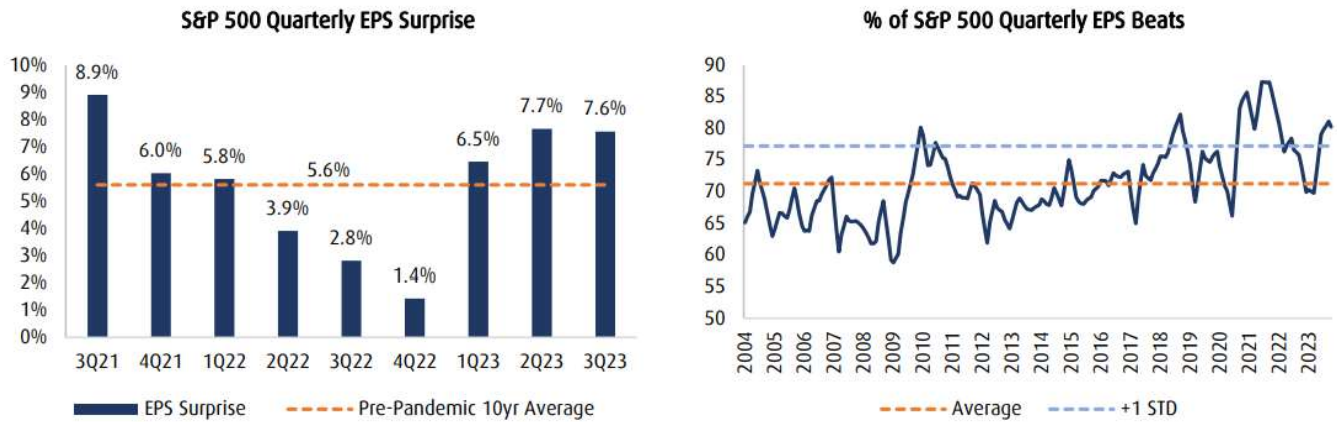
Figure 7 – S&P 500 Earnings Per Share (EPS) Growth Round Trip



Source: Goldman Sachs Research, as of January 5, 2024

- Positive Surprises** – Also on the other side of the valley are positive earnings surprises, which returned in 2023 to levels above the pre-pandemic average after spending most of 2022 below it. This helped provide a tailwind for equity markets. With companies having continued to guide conservatively in 2023, combined with an economy that has been more resilient than expected, we anticipate the prospects for continued above-average earnings surprises remains good heading into 2024.

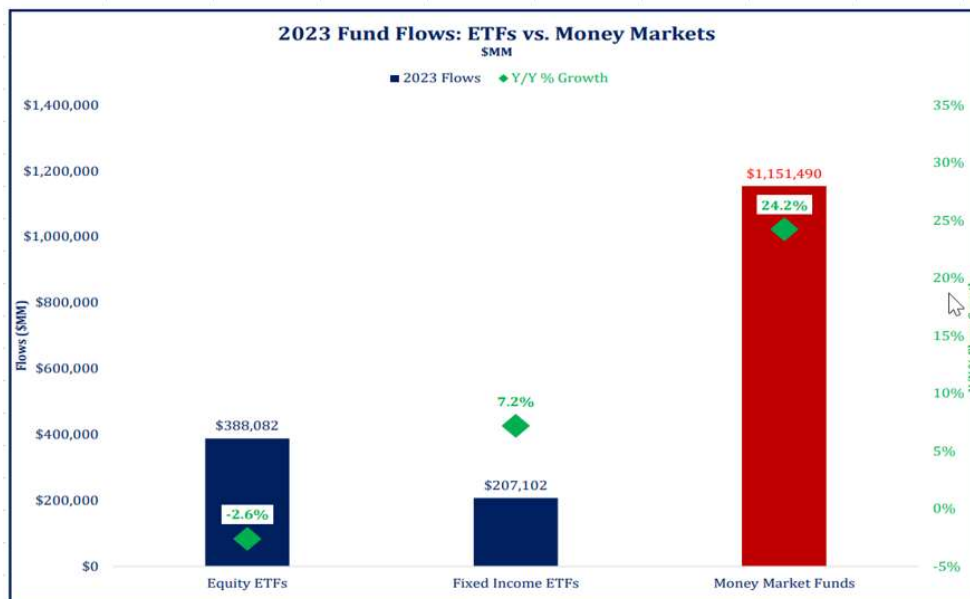
Figure 8 – The Return of Positive Earnings Surprises



Source: BMO Capital Markets, as of November 2023

- Rotation of Flows** – One trend that saw acceleration and no round trip in 2023 were flows into money market funds in a higher yield environment. However, as interest rates moderate and fall, the substantial cash that has moved to money market funds may be eventually deployed back into equities.

Figure 9 – No Round Trip in Money Market Flows Yet



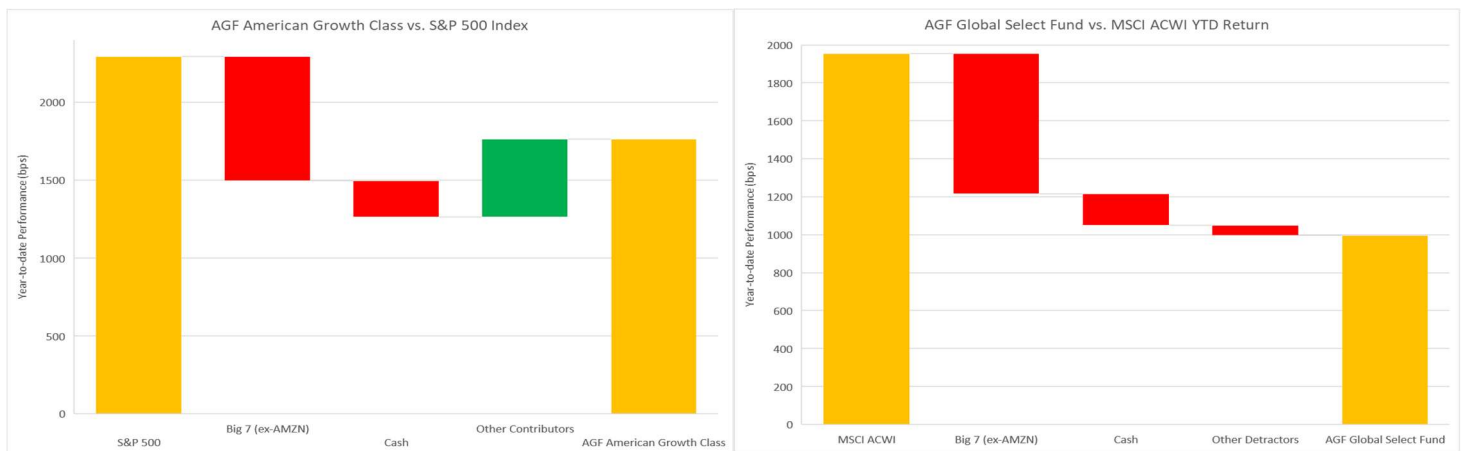
Source: Strategas Research, as of January 3, 2024. Bars represent fund flows into U.S. Exchange Traded Funds in 2023.

“Zoom Out” – A Good Experience over a Full Market Cycle

For our growth mandates, 2023 was a year with decent absolute returns even if they lagged from a relative perspective. Investors in AGF American Growth Class, for instance, enjoyed a 17% return for the year. While this lagged the S&P 500 Index given the dominance of the Magnificent 7 stocks, it handily outperformed the S&P 500 Equal Weighted Index which returned 12%.

From a relative perspective, 2023 was a less than stellar year, as we trailed the major benchmarks across our portfolios. The biggest impact was the unusually high contribution from the Magnificent 7 stocks, as illustrated on Figure 10. In the case of AGF American Growth Class, it can be said that we added value on the other 493 stocks for the year – just not enough to overcome the significant headwind posed by not owning the majority of the Magnificent 7.

Figure 10 – 2023 Relative Attribution Waterfall Charts – AGF American Growth Class (LHS) and AGF Global Select Fund (RHS)



Source: Bloomberg, as of December 31, 2023.

From a relative perspective, 2023 will mark the first time AGF Global Select Fund has been a 4th quartile performer in the global equity category since 2014. However, in the performance history of AGF Global Select Fund and AGF American Growth Class, the funds have historically always followed a below-average year with an above-average year relative to the peer group.

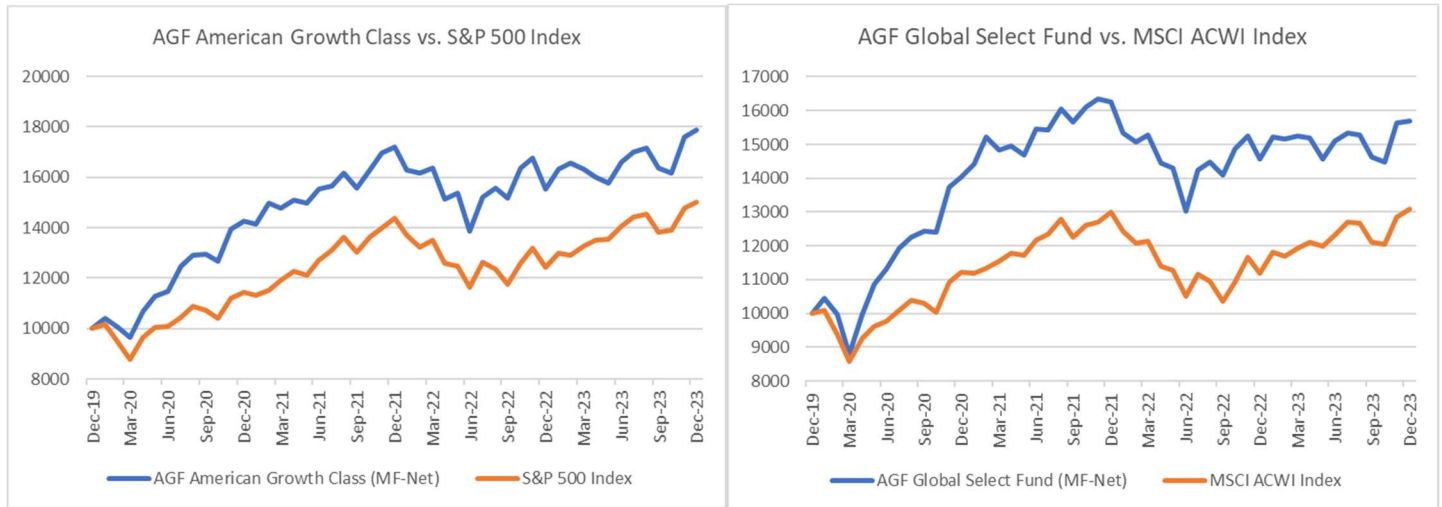
Figure 11 – No “Two Bad Years” in a Row – 3rd and 4th Quartile Years and Subsequent Year Quartile Ranks

Fund	Year	Quartile	Next Year	Quartile
AGF Global Select Fund	2021	3	2022	2
AGF American Growth Class	2021	4	2022	2
AGF American Growth Class	2019	4	2020	1
AGF Global Select Fund	2016	3	2017	1
AGF American Growth Class	2016	3	2017	2
AGF Global Select Fund	2014	4	2015	1
AGF American Growth Class	2014	4	2015	1
AGF American Growth Class	2011	4	2012	2
AGF American Growth Class	2008	4	2009	2
AGF American Growth Class	2006	3	2007	1

Source: Morningstar, as of December 31, 2023. Quartile ranks based on MF-Series net returns versus the U.S. equity category average (AGF American Growth Class) and the global equity category average (AGF Global Select Fund).

Moreover, just as “zooming out” and taking a two-year view for 2023’s best performing assets provides more context, so too does taking a longer-term view on our portfolios, in order to assess the full investor experience in the absence of market timing. As such, looking at the funds’ returns so far this decade, four years into the 2020’s, illustrates that investors who have participated in AGF’s growth mandates throughout this decade have had a good experience. After all, our investment objective is to outperform the benchmark over a full market cycle – inevitably there will be shorter-term periods of relative underperformance embedded over a full cycle, but over time we expect to deliver alpha above our benchmark.

Figure 12 – Decade to Date Returns – Growth of \$10k



Source: Morningstar, as of December 31, 2023. Growth of \$10k in CAD dollars. This is a hypothetical example for illustration purposes only. The rate of return shown is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the investment fund or returns on investment in the investment fund. **Past performance is not indicative of future results.** One cannot invest directly in an index.

In conclusion, building wealth through participation in equity markets requires patience by having longer time horizons. In that sense, we are fortunate to have our client’s confidence to invest with us through full market cycles and in many cases, multiple market cycles.

Figure 13 – Fund Performance vs. Benchmarks and Category Average

CAD (Annualized, net of fees) as of December 31, 2023	3 Mo.	1 Year	3 Years	5 Years	10 Years
AGF Global Select Fund – F Series	7.7%	9.3%	5.3%	15.0%	14.0%
AGF Global Select Fund - MF Series	7.3%	7.7%	3.8%	13.5%	12.3%
MSCI All Country World Index	8.4%	20.2%	7.7%	11.6%	10.9%
Morningstar Global Equity Category	8.4%	16.2%	5.2%	9.3%	8.0%
Quartile Rank - F Series	3	4	3	1	1
Quartile Rank - MF Series	3	4	3	1	1

Source: AGF Investments Inc. as of December 31, 2023. Morningstar as of December 31, 2023. One cannot invest directly in an index. The Series F includes a 1.23% Management Expense Ratio (MER), while the Series MF version of the fund includes a 2.59% MER, as of March 31, 2023. Morningstar Quartile Rankings are calculated as of December 31, 2023 and subject to change monthly. They are calculated based on the fund's total return percentile rank compared to other funds in the Morningstar global equity category. Percentile ranks are then mapped into quartiles with (1) representing 1-25, (2) representing 26-50, (3) representing 51-75 and (4) representing 76-100 percentile ranks. **Past performance is not indicative of future results.**

CAD (Annualized, net of fees) as December 31, 2023	3 Mo.	1 Year	3 Years	5 Years	10 Years
AGF American Growth Class – F Series	9.5%	16.6%	9.4%	16.5%	14.6%
AGF American Growth Class – MF Series	9.1%	15.0%	7.8%	14.8%	13.0%
S&P 500 Net Index*	8.8%	23.0%	11.0%	14.4%	14.0%
Morningstar U.S. Equity Category	8.6%	18.6%	8.0%	11.8%	11.0%
Quartile Rank – F Series	2	3	2	1	1
Quartile Rank – MF Series	2	3	3	1	1

Source: AGF Investments Inc. as of December 31, 2023. Morningstar as of December 31, 2023. One cannot invest directly in an index. *On December 1, 2015, the Fund's benchmark changed from the S&P 500 Total Return Index to the S&P Net Return Index. The benchmark change was applied from that date forward. The Series F includes a 1.20% management expense ratio (MER) while the Series MF includes a 2.65% MER, as of March 31, 2023. Morningstar Quartile Rankings are calculated as of December 31, 2023 and subject to change monthly. They are calculated based on the fund's total return percentile rank compared to other funds in the Morningstar U.S. equity category. Percentile ranks are then mapped into quartiles with (1) representing 1-25, (2) representing 26-50, (3) representing 51-75 and (4) representing 76-100 percentile ranks. **Past performance is not indicative of future results.**

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