The Nexus Report

Fourth Quarter, 2023

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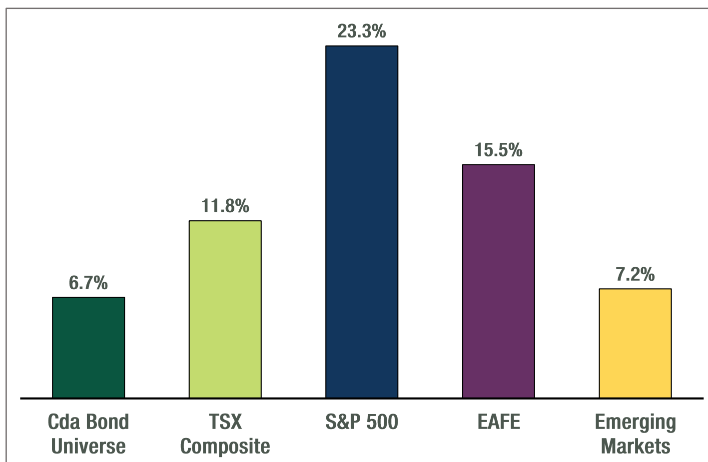
Investment Outlook

A Remarkable Year

2023 was a remarkable year. As the year began, the consensus outlook among investors was grim. Canada and the U.S. both were expected to slide into recession as central banks pushed interest rates higher to rein in inflation. As the year progressed, the investment environment got even more challenging. The U.S. Federal Reserve and the Bank of Canada both continued to raise interest rates more aggressively than originally expected. The rapid rise in interest rates ultimately triggered a regional banking crisis in the U.S. in the spring. In the fall, war broke out in the Middle East. The conflict in Ukraine raged on. Yet, as the books closed on 2024, investors looked back on a rewarding year.



Total Returns – 12 Months ended December 31, 2023 (C$)

U.S. stock markets were especially strong, with the S&P 500 up 23% and the NASDAQ Composite up 43% (in U.S. dollar terms, excluding dividends). Other stock markets around the world were also strong, albeit not quite as robust as the U.S. Even the Canadian bond market index, following its terrible performance in 2022, and despite aggressive monetary tightening, had a solid return of 6.7%.

For the first 9 months, stock market gains were principally the result of two factors. First, was the surprising resilience of economic growth in the face of rapidly rising interest rates and other challenges. Second, was investor enthusiasm regarding the opportunities in artificial intelligence ("AI"). In the last few months of the year, gains accelerated as investors became convinced that a recession would likely be avoided, that inflation and interest rates had peaked, and that interest rate declines were likely for 2024.

Another remarkable aspect of 2023 was the narrowness of the stock market. Last quarter, we pointed out how the so-called "Magnificent Seven" stocks dominated investment returns in the U.S. market.[1] At year's end, the top 10 stocks in the S&P 500 (which include the Mag 7) accounted for 32% of the total market value of the index – the highest concentration for 10 stocks ever recorded. Looking at this another way, 72% of the stocks in the S&P 500 underperformed the index return during the year – the highest such percent since 1980. And for those investors who like the safety and security of dividend-paying stocks, times were even tougher. The 97 stocks in the S&P 500 that pay no dividends gained 26%, while the 100 highest dividend-paying stocks were *down* 1% (both total returns in U.S. dollars). In sum, the headline figures for market returns

NOTE: Unless indicated otherwise, all Nexus returns are compound annual average, time-weighted, total rates measured in Canadian dollars and calculated after deducting such direct and indirect costs as applicable withholding taxes, trading commissions, custody fees and other fund/account expenses, but without deducting Nexus's management fees (which are charged to client accounts and vary by client). Returns for market indices and benchmarks are presented on the same basis, but without any such deductions. Stock-specific returns are price-only returns, and for U.S. listed stocks are in U.S. dollars. Past performance is not indicative of future results. For more information about benchmarks, please refer to https://tinyurl.com/NexusOnBenchmarks.

[1] They include Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla, and Meta Platforms.

belied the more modest returns experienced by the vast majority of investors.

The "R" Word

A year ago, the "R" word for the U.S. economy was recession. The consensus view of investors was that the U.S. economy would slide into recession during 2023. In hindsight, the appropriate "R" word for the U.S. economy is resilient. As outlined above, in the face of diverse challenges – from rising interest rates, to a banking crisis, and war – the U.S. economy soldiered on. It grew a little faster than 2% during the first half of the year, then stunned economists by expanding 4.9% in the third quarter. The Atlanta Fed's model forecasts fourth quarter GDP growth of 2.3%.[2] The Conference Board's consumer confidence survey rose in December and indicated that expectations for a recession fell to the lowest level of the year. Investors no longer expect a recession, they expect that the U.S. economy can achieve the elusive "soft landing".

The most recent U.S. labour market report also was strong. There were 216,000 new jobs created in December compared to expectations for 175,000. While there were revisions lower to prior months' job totals, there is no doubt that the U.S. job creation machine remains robust. The unemployment rate fell to 3.7% in December from 3.8% a month earlier. Unemployment remains close to the 3.4% rate seen earlier in the year, the lowest level since 1969.

That's not to say that investors should throw caution to the wind. The Institute of Supply Management Manufacturing survey remains below 50, a level that suggests contraction in the manufacturing sector in the period ahead. While the ISM Services survey remains above 50, it had a surprisingly steep decline in December. A soft landing for the U.S. economy is widely expected, but by no means assured. And while inflation is trending in the right direction, victory cannot be declared. Nonetheless, the U.S. economic outlook today is better than almost any investor would have expected a year ago.

In contrast with the happy state of economic affairs in the U.S., the economic outlook in Canada remains uncertain. The December labour market report was the most recent economic data point suggesting that our economy has stalled. There were essentially no net new jobs created in December, as the number of part-time jobs gained offset the number of full-time jobs lost (in itself a weak mix). While the unemployment rate stayed steady at 5.8% compared to November, it is up from 5.0% a year ago. We've commented previously how the surge in immigration in Canada is distorting many economic measures. In the course of 2023, the Canadian economy created 430,000 new jobs, a strong performance by historic standards. However, the working age population rose by 945,000 as a result of immigration.[3] Over the long term, immigration is positive for economic growth. In the short term, our economy simply can't absorb all the new workers. One might expect that this slack in the labour market would lead to softening hourly wage growth. Instead, average hourly earnings rose 5.4% year-over-year in December compared to 4.8% in November. Rising unemployment with inflationary wage growth is a difficult combination for the Bank of Canada to manage.

Economic growth also stalled in Canada over the course of 2023. Growth was barely positive through summer and fall, and is expected to be no different for all of 2023. Of course, the surge in population means that GDP growth per capita is negative, but policy makers like to ignore this inconvenient fact. Some measures, such as auto sales, indicate that consumer spending is holding up. However, the chance of a soft landing in Canada seems less likely than in the U.S. Investors will be keeping a close eye on Canadian economic data in the months ahead.

Market Outlook

We are cautiously optimistic for equity markets in 2024. Modest, but positive, economic growth should support earnings gains, and the anticipation of lower interest rates ought to make high-quality dividend stocks appealing once again relative to fixed income instruments like GICs. While we make no predictions, we wonder whether 2024 might be the year that value stocks come back into favour. There has been an extraordinary 14-year stretch, since the end of the Global Financial Crisis, when growth stocks (mainly technology stocks) have greatly outperformed value stocks. This won't go on forever; one day it will normalize.

There remains much that can go wrong in the world to de-rail the financial markets. The U.S. Presidential Election in 2024 is certain to create a lot of noise that will fray the nerves of anxious investors. In reality, U.S. data since the Second World War suggest that the economy and markets can do well no matter which party is in control.[4] As with many issues, it is important that investors not let how they feel about politics affect how they manage their investments.

We remain focused on the long term, which we believe is the only time horizon one can reasonably analyze. We expect the unexpected and we like quality companies that can prosper when the unexpected is good, can survive when the unexpected is bad, and that trade at a reasonable valuation. Most won't be as exciting as the latest AI darling, but we believe these stocks will deliver sound investment returns over time. As investment legend, Ben Graham, so wisely observed many years ago, "In the short term the market is a voting machine; in the long term it is a weighing machine."

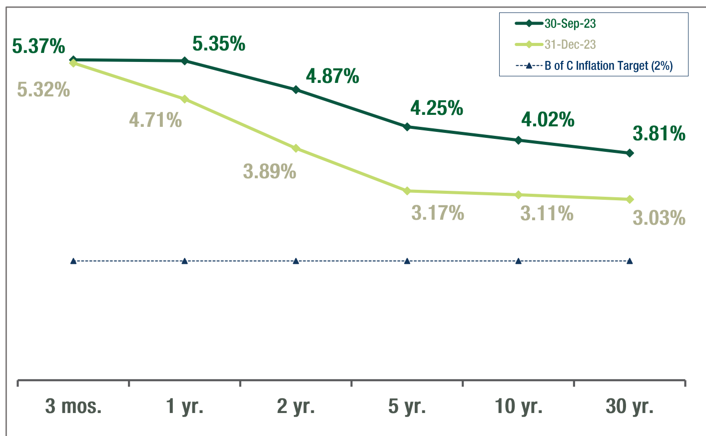
[2] *Barron's,* January 6, 2024.
[3] *The Globe & Mail,* January 6, 2024.
[4] *Guide to the Mark*ets, JPMorgan Asset Management, January 2024.

Asset Class Review

Fixed Income

Bond investors received a pleasant surprise to end the year as a swift move lower in yields provided strong returns in the final quarter. In the quarter, the FTSE TMX Universe Bond Index was up 8.3%. Nexus's bonds didn't fare as well, but returned a respectable 5.8%. In the last 12 months, our bond holdings rose 6.8% just ahead of the Index's 6.7% return. Embedded in these numbers is the remarkable 1-month return experienced in November. The Index was up 4.3% in November, marking the second-best month in at least 2 decades.[5]

During the fourth quarter, 10-year Government of Canada bond yields declined 0.92%, more than enough to offset the march higher in yields that occurred during the preceding three quarters. Yields on 2- to 30-year government bonds, in both Canada and the U.S., ended 2023 very close to where they began it. Remarkably, the U.S. 10-year yield did a perfect round trip, starting and ending at 3.87%. Not only is the likelihood of this happening low, but it is worth flagging because, while it was en route from 3.87% to 3.87%, we saw the 10-year yield peak at 4.99% on October 19th.



Government of Canada Yield Curve

The fourth quarter decline in yields came as Goldilocks-like data in the U.S. (moderating inflation, strong but softening labour market, and broad signs that economic growth is slowing) increased expectations for a successful soft landing. This data was followed by a dovish statement from the Federal Reserve on December 13th, which suggested that rate hikes were done and that cuts were around the corner. Specifically, Federal Reserve Board Chair, Jerome Powell, said rate cuts are something that "begins to come into view" and suggested that rates remaining too high for too long is "… a risk, and we're very focused on not making that mistake".

Despite a more uncertain landscape in Canada, as described earlier in this report, Canada's bond market largely mirrored the U.S. We have not heard the same enthusiasm from the Bank of Canada as we did from the Fed, but the messaging has been similar, and it is reasonable to think that rate cuts in both countries will begin this year.

The expectation for short-term rate cuts provides a line of sight into overnight lending rates and variable rates, but the implication for yields on bonds with maturities further out is not as clear. Rates on 5- and 10-year Government of Canada bonds ended the year at 3.17% and 3.11%, respectively. With the overnight lending rate at 5% and headline inflation growth at 3.1% (November), it's not certain that the path for these longer-dated yields is lower from here.

The quarter was also constructive for credit markets, which embraced the prospect of an end to the rising rate environment. Credit spreads (the incremental yield above government debt yields that investors demand in order to hold corporate debt) ended the year at levels well below historical averages. This is despite borrowing costs being higher than they have been for the past decade. This spread tightening contributed to positive returns in the quarter.

Recent bond market swings serve as an important reminder that bonds are not risk-free assets. Nevertheless, we think it is unlikely that we will repeat the dramatic bond price declines of 2022. In fact, today's higher yields mean that bonds are more likely to deliver coveted stability than they have in recent years. However, fixed income is not the sleepy asset class to which many investors had become accustomed. Large return swings can occur even on seemingly minor developments.

Embedded in current bond yields is significant conviction from investors that central bank interest rates will come down quickly and that inflation will continue to subside in an orderly manner. This would be a great outcome for the economy, especially for consumers and businesses hoping for lower borrowing costs. However, it is quite likely that the path forward will not be all smooth sailing. Because of this, we remain invested in bonds with a shorter maturity profile than the Index (our portfolio duration is 3.5 years, while the Index is at 7 years). We continue to prefer the higher yielding, lower volatility dynamics offered by our positioning.

[5] Scotiabank, December 22, 2023.

Equities [6]

The fourth quarter was strong for equity markets around the world and a welcome change after the third. The Equity Fund returned 5.0% in the quarter and 10.2% for the year. While these returns are well above the average return for these respective time periods, they lagged the Fund's benchmark return.

As discussed in earlier quarters, 2023 was remarkably lopsided for equity market returns. The strong return for the overall equity indices has been driven by a small number of large growth stocks, while the stocks making up the rest of the indices experienced much lower returns. To illustrate, in the U.S., the largest 10 stocks in the S&P 500 had a 2023 return of 62%, while the other 490 stocks collectively returned 8%.[7] The top 10 stocks benefited largely from investors' enthusiasm for the potential of artificial intelligence. At the end of 2023, the top 10 stocks in the S&P 500 carry a whopping price/earnings (P/E) multiple of 26.9x and comprise over 32% of the entire index. Put another way, S&P 500 index investors today have 32% of their portfolio in 10 stocks with a valuation multiple that is 57% higher than the stocks in the rest of the index. (The P/E multiple for the other 490 stocks in the S&P 500 is just 17.1x).[8] In Canada, a similar phenomenon occurred, with the Canadian Information Technology sector returning 69% in 2023 (dominated by a few stocks, principally Shopify), while the TSX Index as a whole returned 11.8%, which return was itself pushed higher by the IT sector. This extreme outperformance by growth stocks has occurred at points in the past (such as in the tech bubble), but it can't continue indefinitely. While the high-quality, reasonably-valued stocks that are typical of Nexus's investment style have lagged, it also means that we hold a well diversified, quality-oriented portfolio with good prospects and dramatically less valuation risk.

North American Equities

In the fourth quarter, Nexus's Canadian stocks returned 2.1% and our U.S. stocks returned 8.2%. For the 12 months, Nexus's Canadian stocks returned 5.0% and our U.S. portfolio returned 16.4% – both trailed their respective indices due to the strong performance of growth stocks noted above.

Our strongest *absolute* North American sectors in the fourth quarter were Financials, Real Estate, Consumer Discretionary and Consumer Staples, all with double digit returns. On a *relative basis* we did well with Consumer Staples, as Dollar General partly recovered from a poor period. It has been struggling with the limited spending power of its lower-income customers, labour shortages and wage inflation. Another notable relative sector assist for the quarter and year was Communication Services (particularly Meta Platforms, which staged a major recovery in 2023, up 194% for the year).

The weakest sector in our portfolio for the quarter and the year, relative to the indices was Information Technology. Our holdings, even with a 39% return for the full year, didn't keep up with the super-strong returns for the major technology growth stocks in the indices – as previously mentioned. Our Real Estate sector holdings had a negative return for the full year, but in the fourth quarter they experienced a decent recovery from their lows. We think the worst of the interest rate and office vacancy headwinds are behind us. Our Health Care returns were dragged down by Pfizer, as it repositions for the post-COVID world – it remains a strong competitor and is attractively valued.

In the quarter, we added one new holding in the U.S., American Electric Power (see the Equity Fund section for more info). After a period of very strong returns for Microsoft, Meta Platforms and Alphabet, we right-sized these holdings by trimming them in the fourth quarter. All three are part of the "Magnificent Seven" (M7), so are prone to downside from potential equity exchange-traded fund outflows. However, amongst the M7 group, these three have more attractive valuation multiples (with Meta and Alphabet trading in line or cheaper than the overall S&P 500).

International Equity Investments

We continue to hold two externally-managed pooled funds.[9] In the fourth quarter, EQIT (international developed market equities) returned 9.5% and EMEC (emerging market equities) 4.7%. For the year, they returned 15.7% and 4.6%, respectively, adding to the performance of the rest of the North American equity portfolio for both the quarter and the year.

Whilst China had a slower than hoped for post-COVID recovery, and wars in Europe and the Middle East rage, the global economy in 2023 did better than investors had feared, which helped to boost the return from international equities. As investors look ahead to interest rate reductions, this may become a tailwind for these holdings. We think these international equities – with their "established company" orientation, good dividend yields and attractive valuation multiples (especially compared to the overall U.S. equity market) – remain a good complement to our North American portfolio. For more information on EQIT and EMEC, please see the Nexus International Equity Fund section.

[6] The overall and geographic level return data in this section are for the Equity Fund. Equity returns within the Balanced Fund were similar. For specific performance, please refer to the Fund reports that follow or your client-specific report.

[7] This is the 2023 price return measured in U.S. dollars. J.P. Morgan Asset Management Guide to the Markets, December 31, 2023.

[8] The P/E multiple is the price of the stock (or the collection of stocks) divided by the next 12 months' expected earnings for the stock(s). Ibid.

[9] Both pooled funds are managed by teams from J.P. Morgan Asset Management in the U.K. and are held in our International, Equity and Balanced Funds.

Pooled Fund Reports

Nexus North American Equity Fund

The Nexus North American Equity Fund gained 5.0% in the fourth quarter, reversing a modest decline from the prior quarter. Our U.S. holdings returned 8.2% and were the most significant contributors to this quarter's gain. Our international holdings also performed well, advancing by 7.6%. North American equity markets, especially in the U.S, were remarkably strong in the quarter, buoyed by expectations that interest rate cuts may be approaching sooner as inflation moderated.

In the last 12 months, the Fund delivered a 10.2% gain. Our Canadian and U.S. stocks were up 5.0 and 16.4%, respectively, and our international holdings produced double-digit gains. More details on the Fund's performance are presented in the table below.

Contrary to most market participants' expectations at the beginning of the year, 2023 was a strong year for the North American equity markets, as both the Canadian and U.S. economies showed resilience, defying expectations of a recession in the face of increased interest rates. The S&P 500, gained 23.3% in Canadian dollar terms, performing particularly well in the year due to its growth tilt and heightened investor enthusiasm for artificial intelligence (AI) stocks. However, most of the S&P 500's returns were propelled by a concentrated group of stocks, the "Magnificent Seven", many of which are expected to benefit from the widespread adoption of AI.

Although our North American equity holdings delivered healthy gains in the quarter, they failed to match the swift progress of the markets. On the positive side, our Consumer Staples holdings exhibited strength, with a noticeable resurgence in Dollar General (28%) following a poor year-to-date performance. Dollar General reappointed Todd Vasos, a seasoned veteran, as CEO to lead the company through the difficult environment of limited spending power amongst its low-income customer base and ongoing labour challenges. Also, Meta Platforms contributed positively, both in the quarter and for the year. On the negative side, our limited allocation to the Information Technology sector held back our relative performance, as it was the best-performing sector in North America in the last quarter and the year. In Industrials, CAE declined in the quarter and reduced our relative returns in this sector. Finally, we note that Pfizer declined in the quarter and the year. However, both companies have been successful long-term holdings and are well-positioned for success.

In the fourth quarter, we invested in American Electric Power (AEP), which is a regulated utility that owns electricity transmission and distribution lines, as well as a diversified portfolio of power generation assets in the U.S. AEP is expected to enjoy sustained growth over many years due to the need to strengthen and expand the electric grid. The company has a long track record of steadily increasing dividends.

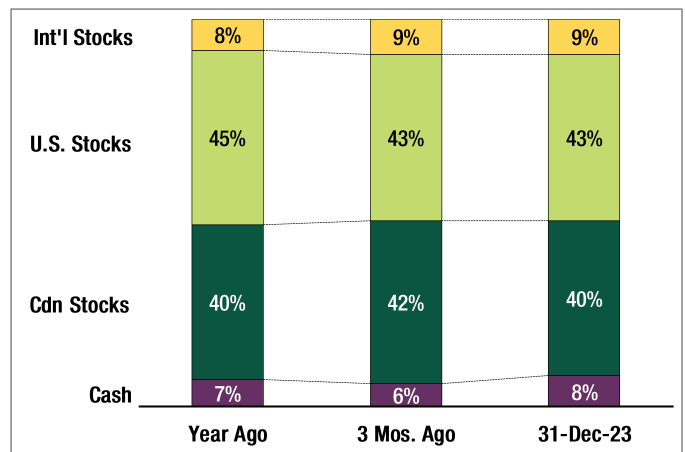
Our international holdings produced strong returns over the past 12 months, rising by 11.1%. For more details, please see this report's Nexus International Equity Fund section.

At the end of the fourth quarter, the Fund's cash position was 8%. Our allocation to Canadian stocks was 40%, while U.S. stocks represented 43%. We maintain an allocation of 9% to markets outside North America and remain confident that this will provide important diversification to our North American investments.

	Equity Fund	Cdn Stocks	U.S. Stocks	Int'l Stocks
Quarter				
Fund	5.0%	2.1%	8.2%	7.6%
Benchmark	*8.3%*	*8.1%*	*9.3%*	
One Year				
Fund	10.2%	5.0%	16.4%	11.1%
Benchmark	*16.6%*	*11.8%*	*23.3%*	

Returns are presented before deduction of management fees. Benchmarks are (a) for the Fund: 5% FTSE Canada 91 Day TBill, 50% TSX, and 45% S&P 500 (in C$) (rebalanced monthly); (b) for Cdn Stocks: TSX; and (c) for U.S. Stocks: S&P 500 (in C$).

Investment Returns – As at December 31, 2023



Equity Fund Asset Mix

Nexus North American Balanced Fund

The Nexus North American Balanced Fund gained 5.3% in the fourth quarter. Our bond holdings advanced 5.6%, more than offsetting the modest declines of the prior two quarters. Our U.S. and international stocks delivered strong gains, while the Canadian stocks played catch-up.

In the last 12 months, the Fund has produced a total return of 7.2%. We benefitted from gains in each of the Fund's asset classes, with double-digit increases in our U.S. and international equity holdings and mid-single digit gains in our bond and Canadian equity holdings.

Bond market returns were positive across the board in the last quarter, as interest rates moved substantially lower across the full range of the yield curve. The move lower in yields was so drastic that some parts of the yield curve, both in Canada and the U.S., ended up making a round trip from the beginning of the year, as discussed in the Fixed Income section.

Although our bond holdings yielded a satisfactory gain in the quarter, they failed to keep up with the FTSE TMX Bond Index due to our shorter duration compared to the Index. Regular readers of *The Nexus Report* may recall that this shorter duration contributed to superior relative returns in prior quarters when the bond market was weak. Overall, our bond holdings had satisfactory returns on both an absolute and a relative basis for the entire year.

North American equity markets, especially in the U.S., were remarkably strong in the quarter, as discussed earlier in this report.

Although our North American equity holdings delivered healthy gains in the quarter, they failed to match the swift progress of the markets. On the positive side, our Consumer Staples holdings exhibited strength, with a noticeable resurgence in Dollar General (28%) following a poor year-to-date performance. Dollar General reappointed Todd Vasos, a seasoned veteran, as CEO to lead the company through the difficult environment of limited spending power amongst its low-income customer base and ongoing labour challenges. Also, Meta Platforms contributed positively, both in the quarter and for the year. On the negative side, our limited allocation to the Information Technology sector held back our relative performance, as it was the best-performing sector in North America in the quarter and the year. In Industrials, CAE declined in the fourth quarter and reduced our relative returns in this sector. Finally, we note that Pfizer declined in the quarter and the year. However, both companies have been successful long-term holdings and are well-positioned for success.

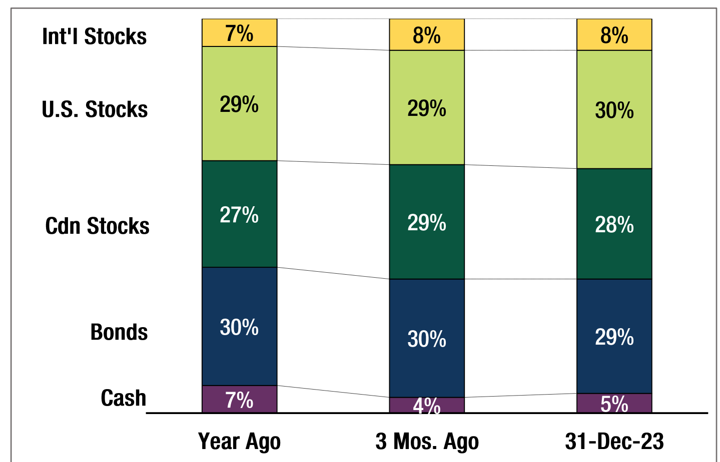
Outside of North America, our international holdings produced strong returns over the past 12 months, rising by 11.0%. For more details, please see this report's Nexus International Equity Fund section.

At the end of the quarter, cash represented 5% of the Fund's asset mix, bonds were 29% and stocks accounted for the remaining 66%.

	Balanced Fund	Bonds	Cdn Stocks	U.S. Stocks	Int'l Stocks
Quarter					
Fund	5.3%	5.6%	2.5%	7.8%	7.6%
Benchmark	*8.1%*	*8.3%*	*8.1%*	*9.3%*	
One Year					
Fund	7.2%	6.8%	4.4%	10.6%	11.0%
Benchmark	*12.8%*	*6.7%*	*11.8%*	*23.3%*	

Returns are presented before deduction of management fees. Benchmarks are (a) for the Fund: 5% FTSE Cda 91 Day TBill, 30% FTSE Cda Universe Bond, 40% TSX, and 25% S&P 500 (in C$) (rebalanced monthly); (b) for Bonds: FTSE Cda Univ. Bond; (c) for Cdn Stocks: TSX; and (d) for U.S. Stocks: S&P 500 (in C$).

Investment Returns – As at December 31, 2023



Balanced Fund Asset Mix

Nexus North American Income Fund

The Nexus North American Income Fund advanced 5.8% in the fourth quarter. Our bond holdings advanced 5.8%, more than offsetting the modest declines of the prior two quarters. Our income-oriented Canadian and U.S. stocks advanced 9.7% and 6.9%, respectively, providing a welcome relief from the weak performance of the few past quarters for income-oriented equities.

In the last 12 months, the Fund has gained 4.9% as compared to the 6.7% increase of the Fund's benchmark during the same period. Our gains have been propelled by our bond holdings, while income-oriented equities have had a challenging year.

More detail on the Fund's performance is displayed in the table below.

Bond market returns were positive across the board in the quarter, as interest rates moved substantially lower across the full range of the yield curve. The move lower in yields was so drastic that some parts of the yield curve, both in Canada and the U.S., ended up making a round trip from the beginning of the year,as discussed in the Fixed Income section. Although our bond holdings yielded a satisfactory gain in the quarter, they failed to keep up with the FTSE TMX Bond Index due to our shorter duration compared to the index. Regular readers of *The Nexus Report* may recall that this shorter duration contributed to superior relative returns in prior quarters when the bond market was weak. Overall, our bond holdings had satisfactory returns on both an absolute and a relative basis for the entire year.

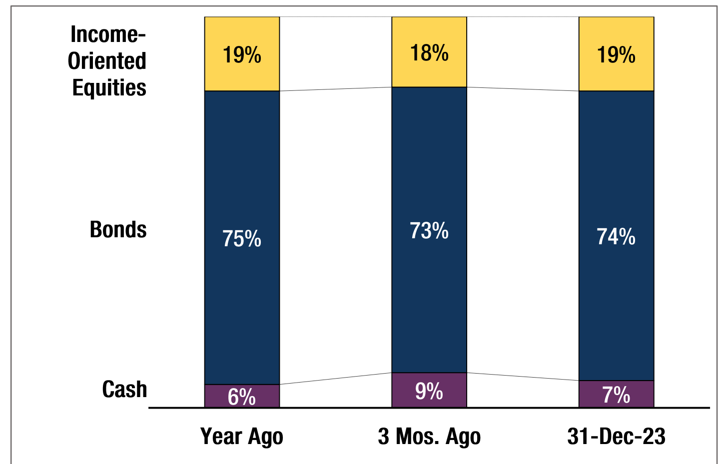
In 2023, the income-oriented equities in the portfolio performed poorly, pressured by rising interest rates and continued investor preference for growth stocks. In turn, this was fueled by the enthusiasm surrounding artificial intelligence, as discussed earlier in this report. Despite the recent underperformance, our allocation to income-oriented equities has delivered favourable returns over longer time periods.

At the end of the quarter, the Fund's cash position was 7%, income-oriented equities accounted for 19% and the balance, 74%, was in our core bond holdings.

	Income Fund	Bonds	Cdn Stocks	U.S. Stocks
Quarter				
Fund	5.8%	5.8%	9.7%	6.9%
Benchmark	*8.3%*	*8.3%*		
One Year				
Fund	4.9%	6.8%	0.2%	-4.3%
Benchmark	*6.7%*	*6.7%*		

Returns are presented before deduction of management fees. Benchmarks are (a) for Fund: FTSE Canada Universe Bond; (b) for Bonds: FTSE Canada Universe Bond. In addition to bonds, up to 20% of the Fund's portfolio may be invested in equities.

Investment Returns – As at December 31, 2023



Income Fund Asset Mix

Nexus International Equity Fund

The Nexus International Equity Fund holds two underlying funds: EQIT (invested in international developed market equities) and EMEC (invested in emerging market equities).[10]

The Fund delivered a solid 7.8% return in the fourth quarter. EQIT gained 9.5% in the period, while EMEC gained 4.7%. Over the last 12 months, EQIT stood out with a gain of 15.7%, while EMEC was up a modest 4.6%.

More detail on the Fund's performance is presented in the table below.

Geopolitical risk increased in the international markets as war broke out between Israel and Hamas. Although a humanitarian tragedy, the conflict in the Middle East hasn't had any material impact on the financial markets or oil prices yet. Despite the rise in geopolitical risk, the major international developed equity markets in Europe and Japan performed well this year.

The European stock market delivered double-digit gains in the year as the European Central Bank was successful in lowering inflation rates through a tighter monetary policy. However, the impact of higher interest rates on economic growth was more prominent since European companies typically borrow from banks, often at floating rates. Milder winters have helped Europe avoid a gas crisis and Europe continued to make progress in reducing its reliance on Russian gas by building LNG terminals and investing in renewables.

The fourth quarter was a tepid period for the Japanese stock market, yet it ended the year as the best performing major stock market, with the TOPIX Index up 28% in local currency. This remarkable gain was fueled by an increase of foreign investment, a welcome uptick in inflation, and renewed corporate governance reform.

Emerging markets equities lagged developed market equities in the quarter and the year, as China remained weak. The economy didn't rebound as much as had been expected following the relaxation of nearly three years of lockdown measures. With 70% of household wealth tied up in real estate, the property crisis there has been a significant obstacle to China's economic recovery.

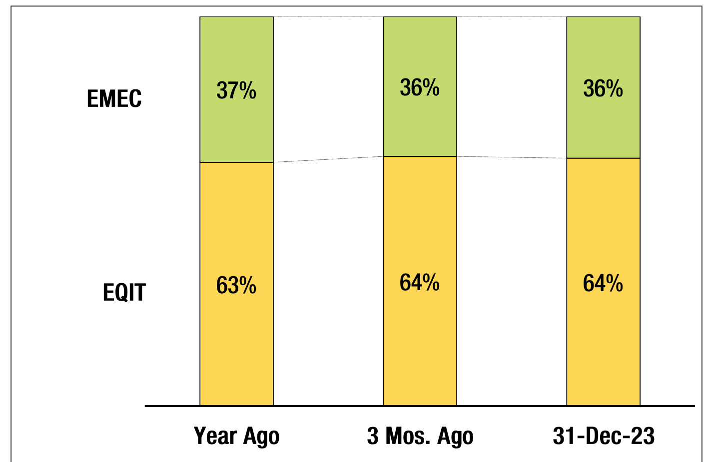
As long-term investors, we continue to see merit in holding international stocks. In addition to the general benefit of increased diversification, international holdings also provide access to a broader opportunity set beyond that available in Canada and the U.S. What's more, the growth potential, dividend yields and valuations in these markets remain compelling.

At the close of the fourth quarter, the International Equity Fund's investment in EQIT accounted for 64% and EMEC accounted for 36%.

	International Equity Fund	EQIT	EMEC
Quarter			
Fund	7.8%	9.5%	4.7%
Benchmark	*7.4%*	*8.0%*	*5.5%*
One Year			
Fund	11.6%	15.7%	4.6%
Benchmark	*13.4%*	*15.5%*	*7.2%*

Returns are presented before deduction of management fees. Benchmarks are (a) for Fund: 75% MSCI EAFE (in C$) and 25% MSCI Emerging Mkts (in C$) (rebalanced monthly); (b) for EQIT: MSCI EAFE (in C$); and (c) for EMEC: MSCI Emerging Mkts (in C$).

Investment Returns – As at December 31, 2023



International Equity Fund Asset Mix

[10] International developed markets or "EAFE" includes Europe, Australasia and the Far East. Emerging markets include 24 developing countries. EQIT and EMEC are managed by J.P. Morgan Asset Management in the U.K. The Nexus Balanced and Equity Funds have also held EQIT and EMEC for some time and continue to do so.