The Nexus Report

Second Quarter, 2024

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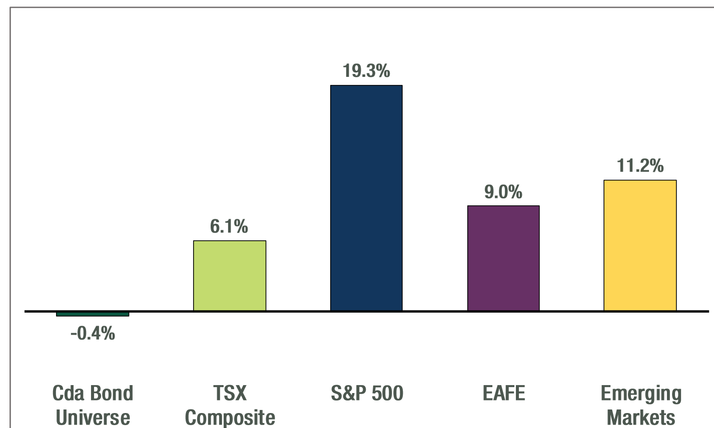
Investment Outlook

2023 Redux

As the second quarter of 2024 drew to a close, many U.S. stock market indexes hit new all-time highs. A casual observer of the stock market might expect that investors of all stripes were dancing in the streets. Yet, the headlines obscured the fact that, just as in 2023, market returns were concentrated in very few stocks. In the *Nexus Report* three months ago, we observed that market returns were broadening out to more sectors and more stocks. That trend was short-lived. Returns in the three months ended June 30 were more concentrated than ever. Investors renewed their enthusiasm for growth stocks involved in artificial intelligence, and most other stocks languished.



Total Returns – 6 Months ended June 30, 2024 (C$)

The preceding chart shows that the strongest returns in the first six months of 2024 were generated in the U.S. In fact, the U.S. stock market's value has risen to 64% of the total value of all stocks in the world – the greatest dominance by one country ever recorded.[1] While the concentration of stock market returns in a few sectors and a few stocks was a global phenomenon, it was most extreme in the U.S., home to the "Magnificent Seven", which we have written about previously.[2]

There are many examples one can provide to illustrate how concentrated the U.S. stock market has become. To start, the returns on three stocks alone – Nvidia, Apple and Microsoft – have accounted for more of the gain in the S&P 500 this year than the other 497 stocks combined. Moreover, the weight of the top 10 stocks in the S&P 500 reached 37% at June 30, by far the highest ever recorded. The S&P 500 is significantly more concentrated today than it was at the peak of the technology bubble in early 2000 (at which time, the top 10 were 27%).[1] Lastly, many clients will know that the S&P 500 is a market capitalization-weighted index. As such, the largest stocks have the biggest influence on the index's returns. Many investors believe that the return on *all* stocks in the S&P 500, when weighted equally, provides a more representative picture of the "typical stock" and the experience of the "typical investor". In the first six months of 2024, there has been a stark difference between the spectacular 15.3% gain in the market cap-weighted S&P 500 and the 5.1% gain in the equally-weighted S&P 500.[3] Moreover, the equally-weighted S&P actually declined by 2.6% during the second quarter, while the market cap-weighted version continued to soar. The "typical investor" has had a decent result in 2024, but far short of what the top-heavy indexes have offered.

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] "Guide to the Markets", JP Morgan Asset Management, July 2024.

[2] The Magnificent 7 include Nvidia, Apple, Microsoft, Alphabet, Amazon, Meta Platforms, and Tesla.

[3] Total returns expressed in U.S. dollars.

Growing, But Slowing

The persistence of economic growth in Canada and the U.S. has surprised economists and investors over the last 18 months. At the current time, however, there is little doubt that growth is slowing. Most economists see the Canadian economy growing at a rate between 1.5% and 2.0% in the first half of 2024 – positive, but lackluster. The good news, however, is that the Canadian economy has slowed, and inflation has moderated, sufficiently enough that the Bank of Canada saw fit to make its first cut to the target overnight rate at its June meeting.

While Canadian economic growth remains positive, it is nowhere near robust enough to support the ongoing surge in population. The population rose 99,000 in June over May and has increased by 1.1 million in the last 12 months. As a consequence, GDP per capita is declining and the unemployment rate is increasing. Unemployment hit a 29-month high of 6.4% in June, up from 5.0% in January 2023. Quite simply, our economy cannot create enough jobs to keep pace with population growth, our housing supply is inadequate, and our social services are stretched. Together with Canada's declining productivity, the high rate of population growth is leading to a lower standard of living. Additional Bank of Canada interest rate cuts may make life more affordable for many Canadians and benefit many companies, but they will not address these fundamental issues.

In the U.S., the June labour market report provided hope that inflationary pressures from the labour market may be abating. While new jobs created were higher than expected, previous months' job gains were revised lower. The unemployment rate rose modestly – to 4.1% – and the growth of average hourly earnings decelerated to 3.9% (year-over-year) in June from 4.1% in May. Moreover, the U.S. Federal Reserve's preferred measure of inflation, the personal consumption expenditures deflator, fell to a 2.6% year-over-year growth rate in June from 2.7% in May. Inflation has not yet been defeated, but it is moderating.

Together with these inflation indicators, two important measures of economic activity also softened in June. The Institute of Supply Management ("ISM") Manufacturing Index contracted for the third straight month and has remained under the important level of "50" for all but one of the last 20 months. In the ISM surveys, levels above 50 are correlated with future periods of economic expansion and below 50 with future periods of contraction. During this period, the U.S. economy has remained strong largely because of growth in the larger services sector. Therefore, it came as somewhat of a shock when the ISM Services Index for June plunged to 48.8 from the May level of 53.8. But for a pandemic-period distortion in 2020, this is the weakest ISM Services level since the deep recession of 2009. We don't believe that the U.S. economy is likely to fall into a recession in the near term, but it is clearly slowing. The hope for a "soft landing" of the economy remains alive, and the pathway seems clear for the Fed to start to lower interest rates in the U.S., perhaps as early as in September. This would be good news for consumers and many businesses.

Market Outlook

Many investors, like Nexus, have earned good returns for clients over the last year but have lagged behind the returns of market indexes quite significantly. As we have written above, the returns on these indexes have been dominated by a few enormous companies involved, in one way or another, in the gold rush around artificial intelligence. Unlike the speculative technology darlings of 1999 and 2000, many of these companies have real products and real profits. Earnings of the Magnificent 7 were up 31% in 2023, 50% in Q1 2024, and are expected to be up 28% in Q2 2024.[4] Historically, the market has been good at identifying which *technologies* will be winners, but less good at identifying which *companies* will be winners.[5] There was lots of corporate road kill during the equally exciting development of railroads, the automotive industry, the chemicals industry, and, more recently, in the dot com frenzy 25 years ago. There is lots of momentum in AI, but little for a long-term investor to hang her hat on.

With regard to our own client portfolios, we maintain considerable optimism. Despite the expected slowdown of economic growth, we think that earnings growth will remain solid. In fact, consensus earnings estimates for the U.S. forecast that Magnificent 7 earnings growth will decelerate significantly over the balance of 2024, while the earnings of the other 493 companies will grow at an accelerated rate. This will be good for many of our holdings. Moreover, should the general level of interest rates gradually decline as we expect, the appeal of the dividends that the vast majority of our holdings pay will increase.

As always, there are many risks that can upset our sanguine outlook. There has been little progress resolving the wars in Ukraine and the Middle East, and the tension around Taiwan. A U.S. election rarely has a long-term impact on markets, but it can create uncertainty and teeth-gnashing in the short term. However, as we have explained before, we don't try and predict what *will* happen. We construct portfolios for what *might* happen – preferring stocks that will prosper when times are good and will be resilient during unsettled periods. While it is natural to get distracted by the excitement around new technologies and their promise, now is the time to maintain the discipline of a long-term investor.[6]

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[4] "Guide to the Markets", JP Morgan Asset Management, July 2024. Growth rates are year-over-year.

[5] Rob Arnott, quoted in *Barron's,* July 6, 2024.

[6] We invite you to read our recent blog on how difficult it is to be a long-term investor. https://nexusinvestments.com/insight/same-as-ever/

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Asset Class Review

Fixed Income

During a quarter in which the Bank of Canada shifted its policy stance toward easing, investors might have expected to see significant moves in fixed income markets. In the end, however, Q2 2024 delivered steady returns for Canadian bond investors. The FTSE TMX Universe Bond Index was up 0.9% while Nexus's bond holdings fared slightly better, gaining 1.3%. In the last 12 months, our bond holdings rose 7.1%, outpacing the Index which rose 3.7%.

At first glance, Q2 appears to have been a shockingly quiet quarter. Bonds with maturity dates beyond three years saw a net move in their yield of less than 5 basis points (bps). This muted move is even more surprising when we consider that June included the first rate cut in over four years.

Under the surface of these calm fixed income markets, there were significant swings as investors attempted to digest economic surprises both to the upside and the downside. In June alone, there were intra-month swings of more than 30 bps on 10-year Government of Canada bonds. First, rates moved lower following a softer-than-expected Q1 GDP report and into a widely anticipated rate cut on June 5th. While the interest rate announcement of a 25-bps cut to the target overnight rate was expected, the accompanying message suggesting that more cuts would likely follow added to the decline in rates. The bond market rally was short-lived, however. An upside surprise to inflation in late June, coupled with an uninspiring U.S. presidential debate sent interest rates higher once again.

With the Bank of Canada having initiated the first rate cut in this policy easing cycle, investors have turned their attention to the questions of when and to what extent we will see additional cuts in Canada, when the U.S. Federal Reserve will begin cutting, and at what point "low-enough" will be achieved.

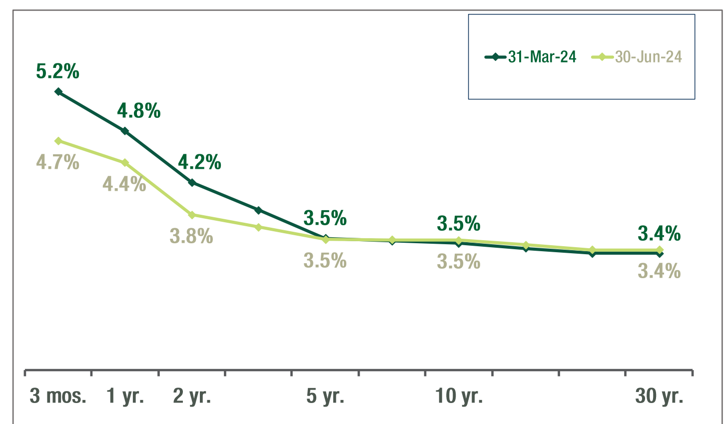
While it is our job to consider these questions, the answers to them lie in economic statistics that won't be published until later this year. If Q2 was any indication, we can expect that the coming quarters will likely include continued volatility as edgy investors react to various reports and developments and re-calibrate their own expected answers to the questions above.

Within our borders, wage pressure remains elevated, the Canadian housing market has yet to feel the full impact of higher rates, and, while inflation has been trending lower, it remains more volatile than central bankers would like.

However, broad economic trends support the notion that policy rates will likely continue to trend lower. As the Bank of Canada contemplates what to do at its next meeting in July, it will continue to weigh the risk of cutting too aggressively and sparking a resurgence in inflation versus giving Canadian consumers and businesses the lower rates they want in order to keep economic growth moving forward. At the time of writing, the bond market expects somewhere between two and three additional 25-bps cuts this year.

The other key contributor to fixed income performance, credit spreads, continues to reflect significant optimism. Credit spreads remain close to their historic lows. This is particularly remarkable as it was a near-record quarter for issuance of corporate debt in Canada. $35.1B of new corporate deals came to market during the quarter, making it the second highest quarter for issuance in over 12 years.[7] We have selectively participated in new issuance where we felt there were good opportunities.

Within our bond portfolio, we remain cautious on both interest rate and credit risk. Investor enthusiasm for fixed income has kept prices high and has limited the opportunity to increase credit risk or meaningfully increase the term of the bonds in the portfolio. We remain conservatively invested in shorter-dated bonds and continue to hold high-quality credits. This will remain the case until such time as we see attractive risk-adjusted opportunities in either interest rate risk or credit risk.



Government of Canada Yield Curve

[7] Globe and Mail "Canadian corporate debt soars in second quarter" July 3, 2024.

Equities

After a strong, broad first quarter for stocks, the second quarter produced a mixed bag for equities – slightly positive overall, but stock performance was heavily bifurcated. It was akin to enduring a re-run of an old movie... As occurred in 2023, Q2 produced strong concentrated returns amongst a small number of large growth and technology-oriented stocks, with most other stocks lagging the leaders by a wide margin. Correspondingly, the S&P 500 Index was strong and the Canadian TSX Index was weak. In this mixed environment, the Equity Fund declined 0.7% in the quarter but produced a good absolute return of 12.6% for the last 12 months, albeit lagging the indices in what has been a growth-driven market.[8]

North American Equities

Policy interest rates have started to decline in Canada. While anticipated, this is yet to occur in the U.S. Any normalization of better relative returns for the more established and value-oriented companies relative to growth stocks has also not yet occurred. To further torture our movie analogy, the longer the current movie runs, the more assuredly a new movie will come to the fore. We reiterate the point that, even including this period of strong performance of growth stocks relative to value stocks, value stocks have done better over longer time frames.

Outside of the continued win streak for big growth stocks, there was little consistency between the U.S. and Canadian equity markets on a sector-by-sector basis. As an example, the commodity-driven sectors, Materials and Energy, were strong in Canada but weak in the U.S. Similar geographic contrasts occurred for Info Tech and Communication Services. In part, this can be explained by differences in the sector constituents in each geography, but still, each sector tends to be driven by similar forces and economic drivers and there is usually an apparent pattern that tells a story. Could then, the theme perhaps be that of investor uncertainty as they contemplate a change in leadership in the markets?

In Q2, Nexus's Canadian stocks declined 2.8% and our U.S. stocks generated a small return of 0.5%. For the 12 months, Nexus's Canadian stocks returned 5.1% and our U.S. portfolio returned 21.7%, both lagging the growth-stock driven indices.

In the quarter, on a North American sector basis, three sectors were additive to our overall equity return. Our positioning in Communication Services (mainly driven by a 21% return from Alphabet), Financials (we have limited exposure to this sector in what turned out to be a weak quarter), and Energy (specifically, Suncor and ARC Resources) all helped.

In Q2, detracting North American sectors included Information Technology, Consumer Discretionary, and Health Care. In Information Technology, given our valuation discipline, we have a limited number of reasonably-valued investments in this sector that continues its AI-driven hot streak. Magna and CarMax were weak in Consumer Discretionary. As sometimes happens, the same shift in a sector (a moderation in expectations for electric vehicle adoption) affected two of our holdings differently. It was a relative benefit for General Motors, but a drag for Magna, which wrote down its electric vehicle-related assets in the quarter.

Over the 12 months, notable performers have been in Communication Services (Meta, Alphabet), our U.S. banks (JP Morgan, Citigroup) and our Energy holdings. By contrast Magna, Dollar General, UPS and Pfizer were laggards.

In the quarter, there was limited trading, which aligns with our long-term oriented investment philosophy. There was one outright sale, Boston Scientific, a medical device supplier in the U.S. We purchased this stock in 2020, when elective medical procedures were substantially curtailed during COVID. With the post-COVID normalization and improved investor sentiment, which substantially increased Boston Scientific's valuation multiple, we decided it was time to redeploy the funds elsewhere. For risk management, we again trimmed some of our energy holdings that have done well. In portfolios where we had available cash, we selectively added to some of our out-of-favour (attractively valued) holdings.

International Equity Investments

We continue to hold two externally-managed pooled funds.[9] In Q2, EQIT (international developed market equities) returned 0.5% and EMEC (emerging market equities) returned 3.0%.

For the 12 months, EQIT returned 14.0% and EMEC 6.2%. The blended 12-month return of 11.2% is good, but EMEC has lagged its benchmark for what we think are temporary factors. Over the long term, emerging markets have experienced better economic growth than developed economies, so we still favour the emerging markets exposure. International equities are, on average, less growthy than U.S. companies, so have lagged the U.S. in the current AI and growth-driven environment. Nonetheless, these holdings have attractive cash flow and valuation characteristics that will help over longer periods. For more information on EQIT and EMEC, please see the Nexus International Equity Fund section.

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[8] 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.

[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 declined by a modest 0.7% in the second quarter, following an impressive gain in the first quarter. Our U.S. and international holdings advanced by 0.5% and 1.5% respectively, while our Canadian holdings declined 2.8%.

Over the last 12 months, the Fund delivered a strong gain of 12.6%, primarily driven by our U.S. and international holdings, up 21.7% and 10.9%, respectively. Our Canadian holdings advanced a more modest 5.1%. Although the absolute return over this period has been robust, it has trailed the gains of the market indexes for reasons outlined earlier in this report.

More details on the Fund's performance are presented in the table below.

In Q2, the S&P 500 rose 4.3% (in US$). The gains were primarily driven by large growth-oriented technology stocks, especially those expected to benefit from artificial intelligence. Once again, the U.S. market rally was narrow, with Nvidia, Apple, and Microsoft accounting for most of the gains. Nvidia, the poster child for AI stocks, briefly surpassed Apple and Microsoft in market capitalization to become the most valuable company in the world. In contrast, the TSX, which lacked AI beneficiaries, fell by 0.5% over the same period.

The sector performances in the U.S. and Canada diverged more than usual in the quarter. The commodity-driven sectors, Materials and Energy, were strong in Canada but weak in the U.S. The Information Technology and Communication Services sectors delivered robust gains in the U.S. but declined in Canada. However, a common trend in both markets was the outperformance of the defensive sectors, such as Consumer Staples and Utilities, over cyclical sectors, like Industrials, Real Estate, and Financials, as economic growth decelerated in both countries.

Within our portfolio, Alphabet and Texas Instruments were the leading performers in the quarter. Conversely, our weaker holdings included Magna, CVS Health and CarMax. Magna was adversely affected by a slowdown in electric vehicle adoption, and CarMax by a lack of recovery in used car demand. CVS Health had a tough quarter due to higher medical costs in its health insurance business.

In Q2, we sold Boston Scientific, a medical devices supplier, after a tremendous run in the stock fueled by solid business performance. However, as the stock became expensive, the potential for further upside was limited, so we exited the position. We also trimmed some of our Energy holdings that had performed well in order to right-size the positions.

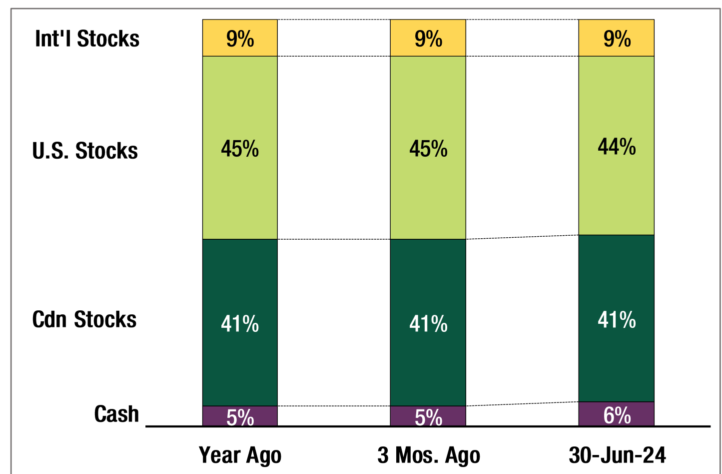
Our international holdings advanced by 10.9% over the last 12 months. For more details, please see this report's Nexus International Equity Fund section.

At the end of the quarter, the Fund's cash position was 6%, Canadian stocks were 41%, and U.S. stocks represented 44% of the asset mix. We maintain an allocation of 9% to markets outside North America and remain confident that it will provide important diversification to our North American investments.

	Equity Fund	Cdn Stocks	U.S. Stocks	Int'l Stocks
Quarter				
Fund	-0.7%	-2.8%	0.5%	1.5%
Benchmark	*2.2%*	*-0.5%*	*5.3%*	
One Year				
Fund	12.6%	5.1%	21.7%	10.9%
Benchmark	*19.1%*	*12.1%*	*28.8%*	

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 June 30, 2024



Equity Fund Asset Mix

Nexus North American Balanced Fund

The Nexus North American Balanced Fund saw a modest increase of 0.2% in the quarter. Our bond holdings gained 1.3%, while our U.S. and international holdings grew by 0.6% and 1.5%, respectively. However, our Canadian stocks declined by 1.8%.

Over the last 12 months, the Fund gained a robust 11.3%, with all the Fund's asset classes contributing positively. The U.S. holdings were the top performer, gaining 20.4%. Our bond holdings rose by 6.9%, while our Canadian and international stocks increased by 7.5% and 10.8%, respectively, over the same period.

Despite the Bank of Canada's policy shift towards easing, Canadian bond investors earned modest returns. The FTSE TMX Universe Bond Index gained 0.9% in the quarter. Although the fixed-income markets appeared stable, substantial intra-quarter volatility occurred in response to conflicting economic data and central banker commentary, as discussed in this report's Fixed Income Review section.

In Q2, the S&P 500 rose 4.3% (in US$). The gains were primarily driven by large growth-oriented technology stocks, especially those expected to benefit from artificial intelligence. Once again, the U.S. market rally was narrow, with Nvidia, Apple, and Microsoft accounting for most of the gains. Nvidia, the poster child for AI stocks, briefly surpassed Apple and Microsoft in market capitalization to become the most valuable company in the world. In contrast, the TSX, which lacked AI beneficiaries, fell by 0.5% over the same period.

The sector performances in the U.S. and Canada diverged more than usual in the quarter. The commodity-driven sectors, Materials and Energy, were strong in Canada but weak in the U.S. The Information Technology and Communication Services sectors delivered robust gains in the U.S. but declined in Canada. However, a common trend in both markets was the outperformance of the defensive sectors, such as Consumer Staples and Utilities, over cyclical sectors, like Industrials, Real Estate, and Financials, as economic growth decelerated in both countries.

Within our portfolio, Alphabet and Texas Instruments were the leading performers in the quarter. Conversely, our weaker holdings included Magna, CVS Health and CarMax. Magna was adversely affected by a slowdown in electric vehicle adoption, and CarMax by a lack of recovery in used car demand. CVS Health had a tough quarter due to higher medical costs in its health insurance business.

In Q2, we sold Boston Scientific, a medical devices supplier, after a tremendous run in the stock fueled by solid business performance. However, as the stock became expensive, the potential for further upside was limited, so we exited the position. We also trimmed some of our Energy holdings that had performed well in order to right-size the positions.

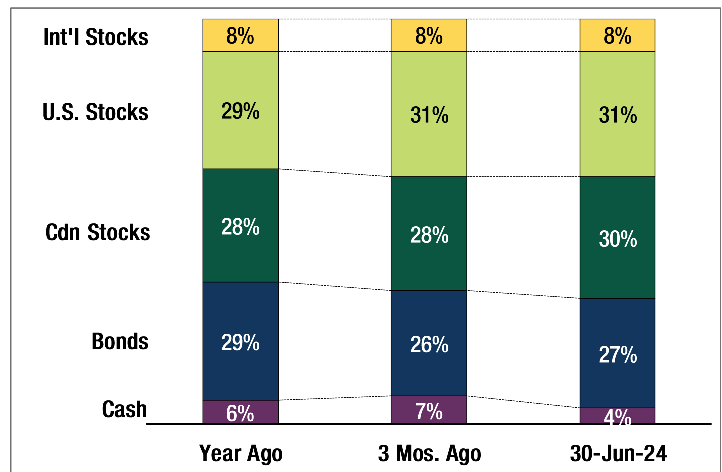
Outside of North America, our international holdings produced strong returns over the past 12 months, rising by 10.8%. For more details, please see this report's Nexus International Equity Fund section.

At the end of the quarter, cash represented 4% of the Fund's asset mix, bonds were 27% and stocks accounted for the remaining 69%.

	Balanced Fund	Bonds	Cdn Stocks	U.S. Stocks	Int'l Stocks
Quarter					
Fund	0.2%	1.3%	-1.8%	0.6%	1.5%
Benchmark	*1.4%*	*0.9%*	*-0.5%*	*5.3%*	
One Year					
Fund	11.3%	6.9%	7.5%	20.4%	10.8%
Benchmark	*13.2%*	*3.7%*	*12.1%*	*28.8%*	

Returns are presented before deduction of management fees. Benchmarks are (a) for the Fund: 5% FTSE Cda 91Day 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 June 30, 2024



Balanced Fund Asset Mix

Pooled Fund Reports

Nexus North American Income Fund

The Nexus North American Income Fund rose by 0.8% in the quarter. Our bond holdings gained 1.3%, while our income-oriented Canadian and U.S. stocks declined by 2.3% and 1.9%, respectively.

In the last 12 months, the Fund gained 6.5%. Our bond and U.S. equity holdings were the primary drivers, gaining 7.1% and 11.0% respectively, while our Canadian holdings were up a modest 0.2%.

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

Despite the Bank of Canada's policy shift towards easing, Canadian bond investors earned modest returns. The FTSE TMX Universe Bond Index gained 0.9% in the quarter. Although the fixed-income markets appeared stable, substantial intra-quarter volatility occurred in response to conflicting economic data and central banker commentary, as discussed in this report's Fixed Income Review section. Moreover, credit spreads, another key driver of fixed-income performance, remained close to historic lows driven by investor optimism. As a result, we maintain a cautious approach towards interest rate and credit risk in our bond portfolio. We remain invested in shorter-dated bonds with a focus on high-quality credit.

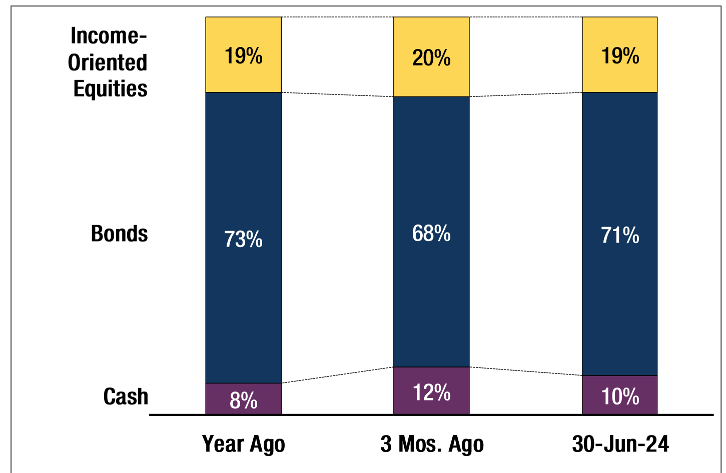
Our income-oriented equities experienced a modest decline in the quarter, driven by a volatile yield environment and continued investor preference for growth-focused stocks, particularly those benefiting from AI. Nonetheless, we remain optimistic about the prospects for the Fund's income-oriented stocks. These holdings comprise high-quality businesses with robust cash flows, led by skilled management teams, and are currently trading at attractive valuation levels.

At the end of the quarter, the Fund's cash position was 10%, bond holdings accounted for 71%, and the remaining 19% was in income-oriented equities.

	Income Fund	Bonds	Cdn Stocks	U.S. Stocks
Quarter				
Fund	0.8%	1.3%	-2.3%	-1.9%
Benchmark	*0.9%*	*0.9%*		
One Year				
Fund	6.5%	7.1%	0.2%	11.0%
Benchmark	*3.7%*	*3.7%*		

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 June 30, 2024



Income Fund Asset Mix

Nexus International Equity Fund

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

The Fund gained 1.4% in the quarter, primarily driven by EMEC, which advanced 3.0% in the period, while EQIT rose by a modest 0.5%.

Over the last 12 months, EQIT delivered a solid gain of 14.0%, while EMEC was up 6.2%.

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

European equities experienced a lackluster and volatile quarter, largely due to the uncertainty surrounding snap elections in France. The growth-oriented Information Technology sector, particularly semiconductor-related stocks, saw gains. Conversely, the consumer discretionary sector was weak, primarily driven by weaknesses in automotive and luxury goods stocks. Much like in Canada, the European Central Bank cut interest rates by 25 basis points in early June as inflation also moderated in Europe.

The Japanese equity indexes continued to hit new highs driven by corporate governance reforms and yen weakness benefiting exporters.

Emerging market equities performed better than developed markets after lagging for several quarters. The Chinese government's efforts to support the real estate sector, combined with the low valuation of the market, gave a boost to Chinese equity markets. Ongoing investor optimism for artificial intelligence beneficiaries, drove shares in Taiwan higher, especially TSMC, the world's largest contract semiconductor chip manufacturer.

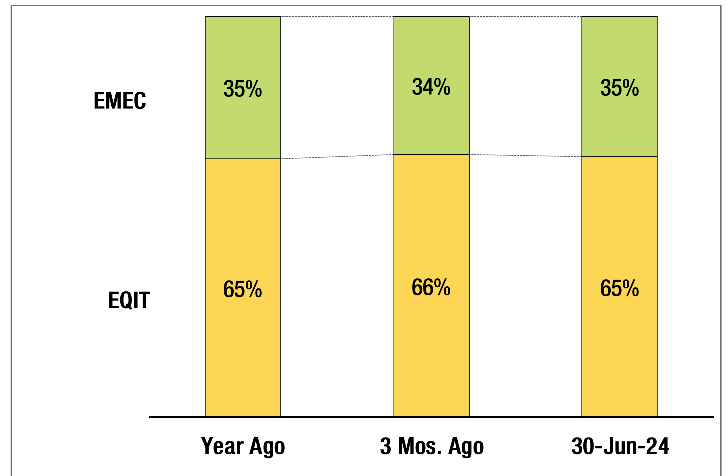
As long-term investors, we continue to see merit in holding international stocks. In addition to the general benefit of increased diversification, international holdings also provide access to a broader opportunity set beyond that available in Canada and the U.S. What's more, the growth potential, dividend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

At the close of the quarter, the International Equity Fund's investment in EQIT accounted for 65% and EMEC accounted for 35%.

	International Equity Fund	EQIT	EMEC
Quarter			
Fund	1.4%	0.5%	3.0%
Benchmark	*2.1%*	*0.7%*	*6.4%*
One Year			
Fund	11.2%	14.0%	6.2%
Benchmark	*15.7%*	*15.3%*	*16.3%*

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 June 30, 2024



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 JPMorgan Asset Management in the U.K. The Nexus Balanced and Equity Funds also hold EQIT and EMEC.