

February 2024 Financial Planning Email Update

I recently attended a market review webinar held by Mackenzie Financial in which three of their top portfolio managers each identified one of the top **three investment themes for 2024**. First John Cook Senior Vice President and Portfolio Manager for the Mackenzie Greenchip Team identified the number one major investment theme for 2024 which he calls "**The Great Energy Transition**". Today, energy production is dominated by fossil fuels but the transition to non carbon producing energy sources is underway. 2024 will bring continued investment and advancement in solar generation and storage, electric vehicle manufacturing as well as enhanced electric infrastructure. Significant capital investment is required which is more difficult to obtain in a high interest rate environment. We are in an energy insecure world therefore we need to adjust our system. Resources required to convert to carbon neutral energy sources are significant and costly. The cost of energy will increase as the conversion to electrification continues. In an effort to meet climate targets world wide natural gas is taking a more prominent role. With advanced carbon capture technology North America is able to export clean burning liquified natural gas to high carbon producing countries such as China and India. This will take a ½ trillion dollar investment between now and the end of the decade.

The second major investment theme of "**The Return of Bonds**" was identified by Steve Locke Senior Vice President and Chief Investment Officer of Fixed Income and Multi-Asset Strategies for Mackenzie. Steve expects bonds to return to the forefront of asset allocation decisions moving forward. Although the economy is slowing he does not expect a recessionary environment. Steve recommends overweighting an investment portfolio to bonds. Specifically corporate bonds which are offering yields today we have not seen for over 10 years and are unlikely to go higher. The corporate bond companies desired will not rely on a strong economy, are well researched and defensive in nature. He recommends diversifying further in 2024 as most returns in 2023 came from a very few companies. High yields from high quality companies are currently available which is a unique opportunity and rarely seen.

The Third investment theme for 2024 is "**Growth and Innovation**" as discussed by Dave Taylor Vice President and Portfolio Manager for Mackenzie Bluewater.

This has been the breakthrough year for artificial intelligence (AI), with the rapid adoption of generative AI models, including ChatGPT. Although it may seem like AI came out of nowhere, the underlying technologies have been evolving for over a decade. The AI wave is the fifth major spillover from digitization and semiconductors.

The earliest integrated circuits were developed in the 1960s. Since then, they have been improving at a rate consistent with Moore's law, which posited that the number of transistors (the microscopic switches at the heart of all digital technology) on a computer chip would double every two years. While this may not sound all that impressive, steady compounding can achieve remarkable growth over time. After roughly 60 years of Moore's law, each cutting-edge chip now contains nearly 100 billion transistors!

The constant improvement in semiconductors has created repeated technology waves. From computers to the internet, smartphones, cloud computing, and now AI, each wave has had major impacts on how the economy functions.

There are two major types of AI moving into general use:

Machine learning

The AI is trained on a large pool of data and then makes predictions based on the patterns that it finds. This is already heavily used by companies in areas as diverse as logistics, loan repayment prediction and product recommendations.

Generative AI

The AI is trained on a large pool of data and then generates new data that is similar. Early uses include drawing pictures, writing emails, creating presentations, answering questions, and creating music and video.

In this area, the role of the portfolio manager is to identify growth narratives, then scrutinize the financial health of the company, ensure the business can navigate various financial conditions as well as assess managements ability to invest for growth.

Amanda and I are both qualified CERTIFIED FINANCIAL PLANNER® professionals at your service to assist in all areas of comprehensive financial planning including financial goal discovery, cash flow/budget analysis, retirement income planning, tax savings, estate planning, insurance needs analysis, investment planning, education saving planning, special purpose or major purchase planning. I wish to thank you for your continued confidence and for the opportunity to serve you in all aspects of Financial Planning. As always, I will continue to keep in touch with you but if you have any questions or concerns, that you would like to discuss or review, please do not hesitate to contact either Amanda or I by email or by calling the office at 519-894-2661 or toll-free at 1-800-716-5538.

Have a great day!

Respectfully Yours,

Gary



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