# JFT STRATEGIES FUND

## Manager Commentary

**AS OF NOVEMBER 30, 2024**

### DOES A FUNDAMENTAL LEVEL OF VALUATION MATTER?

The S&P 500 is up about 27% year to date (at the time of writing). Investors continue to pay more and more for their favorite stocks (multiples continue to expand). Indeed, 2024 was a year characterized by ongoing positive fund flows from passive investors resulting in more demand for large-cap stocks (without regard for valuation) and expensive stocks becoming extremely expensive in many cases. As an example, the S&P 100 and S&P 500 saw their next-twelve-month earnings multiples expand by 16% and 13%, respectively (charts below).

**S&P 100 NEXT TWELVE MONTH P/E**


Source: Bloomberg Finance L.P., as of December 12, 2024

**S&P 500 NEXT TWELVE MONTH P/E**


Source: Bloomberg Finance L.P., as of December 12, 2024

## WHERE DOES THIS ALL LEAD US FOR 2025?

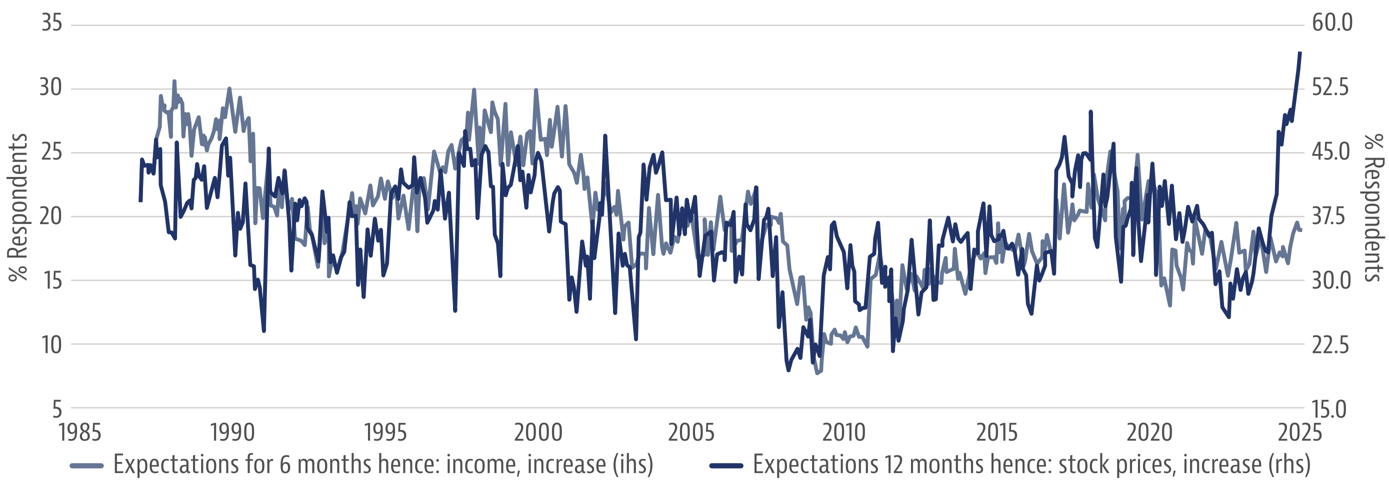
We know that 2023 and 2024 were years when the stock market benefitted from strong valuation multiple expansion, supported by continued economic growth in the U.S. We also know that environments of strong multiple expansion can always reverse when fund flows reverse, or when the economy weakens, so we think that the downside skew today is greater under a negative scenario.

The Canadian economy remaining weak through 2025 seems probable. We know that even with rates now lower, 2025 and 2026 should cause the maximum mortgage refinancing pain for consumers and likely force many to review their spending habits. We also know that lower population growth in Canada is a large headwind vs. the tailwind that it has been over the last two years. Capital investment into Canada is undoubtedly required to catch up to population growth, but this capital investment is at odds with federal policies which appear fairly "anti-growth" to us.

## A TICKING STINK BOMB?

As of the time of writing, "Fartcoin" has a market cap of around $915 million U.S. dollars.[1] To us, this is more evidence of a peak, rather than a trough in the market. The attitudes of retail investors in the market are fueled by greed rather than fundamentals. As seen in the chart below, over 56% of consumers are expecting stock prices to rise over the next twelve months; this is a record, after a record run in the markets (i.e., investors are confident at a record level).

**US CONSUMERS HAVE BEEN SO BULLISH ON US STOCKS, WITH THE DIVERGENCE TO THEIR INCOME EXPECTATIONS AT RECORD HIGHS**




Source: Conference Board, Haver Analytics, Deutsche Bank

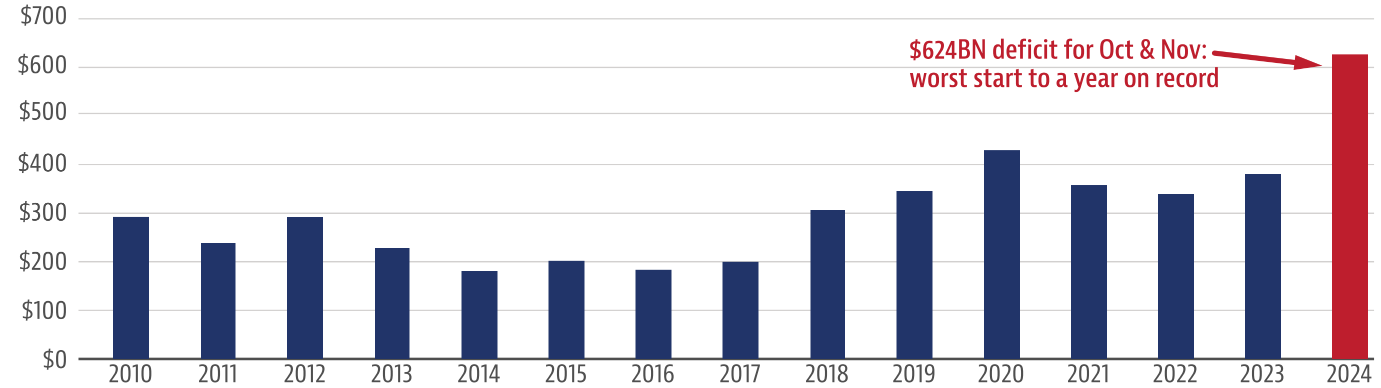
At the same time as we have seen this meteoric rise in the S&P 500, insiders have also quietly sold their positions at a record pace (see image here). It seems as if the only market participants who care about valuations are the insiders of those same stocks that have become exceptionally overvalued (at least in our opinion), with record-high valuations for many of them. They are the only ones who seem to be taking money off the table.

Today, the earnings yield (inverse of the P/E ratio) of the S&P 500 is barely above the 10-year U.S. treasury yield.[2] That means that investors can earn almost the same rate of returns in risk-free treasuries as they can in the stock market, excluding earnings growth. This spread has not been this tight since the dot-com bubble.[3] Part of the reason that stocks have been trading at such egregious multiples has been due to very high flows coming from passive strategies (ETFs).

Government spending has been at a record high, which has bolstered the earnings growth of these same businesses whether it be through government spending or in the form of stimuli. The U.S. deficit is running 50% higher already in the new fiscal year (chart below)—a crazy number. You have to see it to believe it. Obviously, this situation is 100% unsustainable.

[1] Coinmarketcap.com – accessed December 17th, 2024.
[2] https://www.wsj.com/finance/stocks/why-this-frothy-market-has-me-scared-295c07c3?mod=itp_wsj,djemITP_h
[3] https://www.wsj.com/finance/stocks/why-this-frothy-market-has-me-scared-295c07c3?mod=itp_wsj,djemITP_h

### US BUDGET DEFICIT: OCTOBER & NOVEMBER (BN)




Source: Zero Hedge – acquired from @kobeissiletter

However, we believe that once Trump is inaugurated and Elon Musk is given the reins to influence the President through his D.O.G.E. (Department of Government Efficiency), government spending should drop dramatically.

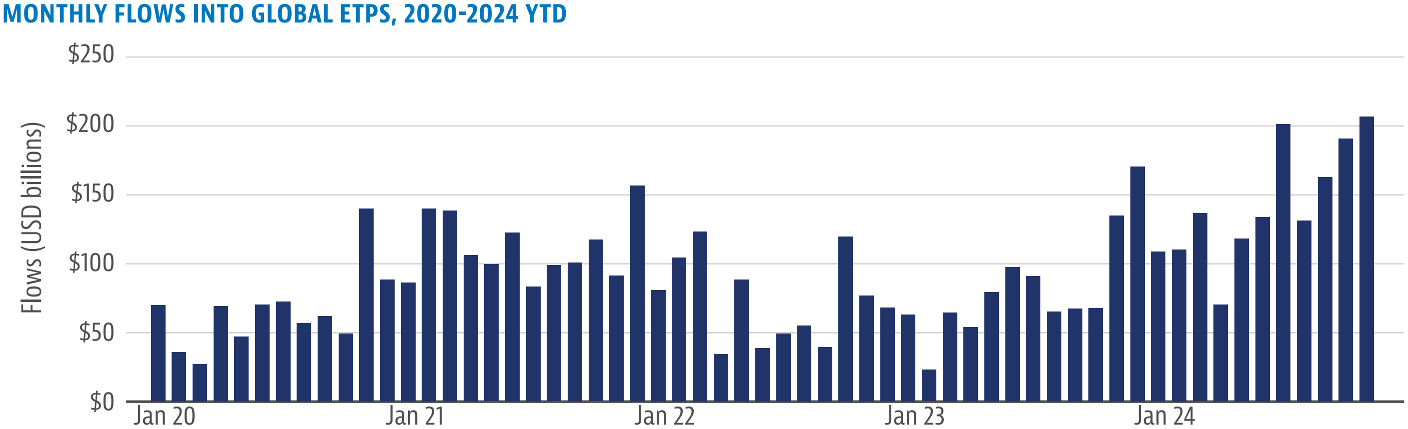
While you may get exhausted from hearing us sound the alarm monthly on the impending doom that awaits, it is hard for us to not be worried given the overwhelming signs of a bubble. For example, the S&P 500's market cap is now 46% of the world's GDP, an all-time high, nearly eight percent higher than the dot-com bubble.

### S&B 500 MARKET CAPITALIZATION AS % OF WORLD GDP


Source: @kobeissiletter

This has been exacerbated by the increasingly growing inflows into U.S. equity ETFs, as alluded to above. November, as per BlackRock, saw the largest monthly inflow in history so far; we wouldn't be surprised if this record was broken again very shortly.

### MONTHLY FLOWS INTO GLOBAL ETPS, 2020-2024 YTD




Source: Blackrock

**None of this is normal, and it certainly is not sustainable forever, and this leads us to remain abundantly cautious on the markets.**

## PORTFOLIO POSITIONING

We have continued to position ourselves more defensively, with shorts and puts having increased on the margin. We know that being early could be dangerous, but we also aim to put money to work where we think the risk/reward is attractive, and for us that shows up on the short side at this point.

We still view Canadian-exposed names as having unique risk related to the weakness that we see here at home in Canada. The crashing CAD is a sign that all is not well.

**Jean-Francois Tardif**
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**For more information, please visit [ci.com](ci.com).**

CI GLOBAL ASSET MANAGEMENT

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Published January 9, 2025

24-12-1264409_E (01/25)