

The Wealth Report

Q2 2023



Everything has gone K-shaped

Economic parlance often tries to use a single letter to capture what is happening.

For example, a V-shaped recovery in the economy or market represents a sudden drop followed by a sudden rise; L-shaped is a sudden drop followed by a muted recovery. 'K' is used to denote a divergent two-pronged recovery – the portion of the letter going up to the right representing the positive and the downward to the right portion of the letter representing things that are not going well. At the moment, it appears both the economy and markets are K shaped.

Take the economy; some aspects are going really well. Spending on services remains robust, thanks to pent-up demand and still resilient labor markets. Meanwhile, manufacturing and other cyclical components continue to show weakness. The technology-heavy NASDAQ is up 30% YTD, as is Japan. Meanwhile, the Dow Jones Industrial Average is up a paltry 2%, as is the TSX. Divergent, just like the letter 'K'.

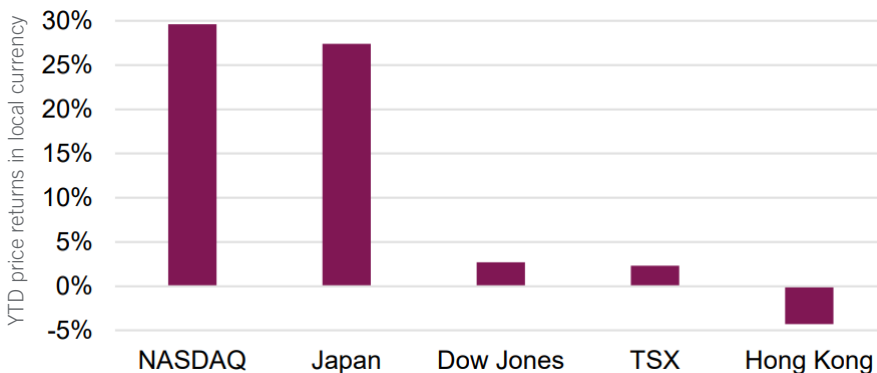


Chart 1: Market returns are often divergent, but this is extreme
Source: Bloomberg, Purpose Investments 29 June 2023

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Markets at a glance

Quarter ending June 30th, 2023

Bonds Index	2.5%
S&P/TSX Index	4.0%
S&P 500 (USD)	15.9%
S&P 500 (CAD)	13.3%
Emerging Market Index	2.3%
Nasdaq	31.0%

Q2 in review

- Phantom of the Opera closes at Majestic Theater, NYC, after 13,981 performances and 7 Tony Award wins.
- Geoffrey Hinton 'the Godfather of AI' resigns from Google to speak out about the dangers of AI - eliminating jobs and creating a world where many may "not be able to know what is true anymore"
- US Congress passes bipartisan legislation raising \$31.4 trillion debt ceiling avoiding a default.

Breaking it down a bit more, based on the past 20 years, the U.S., Japan, and NASDAQ are the markets priced to near perfection, while Canada, Europe and China are in the dumps, possibly pricing in a potential recession or at least partially priced in.

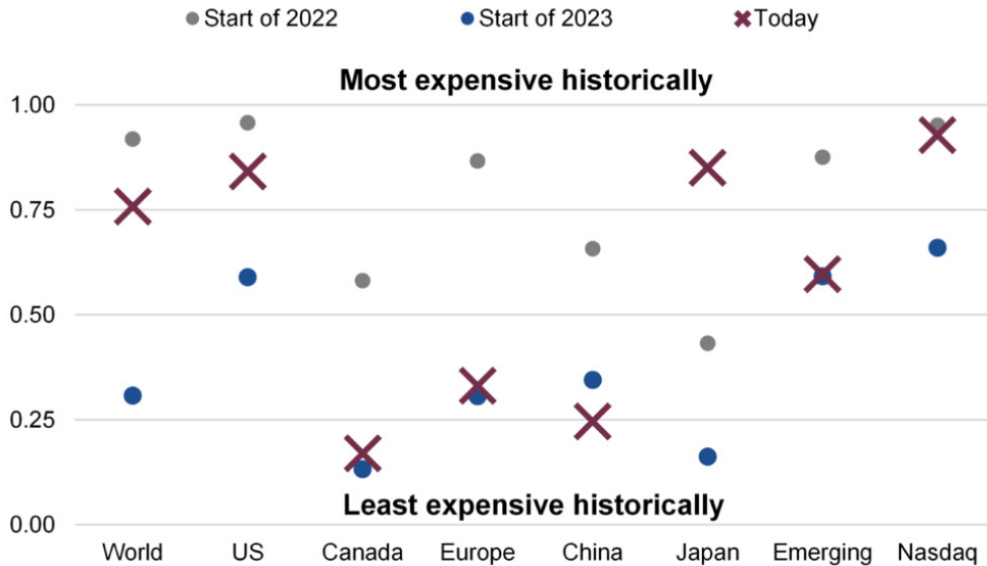


Chart 2: Safe to say, some markets are pricing in a recession or negative event on the horizon, some are not
Source: Bloomberg, Purpose Investments

Market cycle

Directionally 2023 is playing out as expected - it is the magnitudes that are really surprising. Inflation, which remains, is gradually fading as a dominant fear in the marketplace. With peak central bank rates nearby and economic activity remaining surprisingly resilient, the market has continued to rally off the October lows.

The S&P has regained 66% of its 2022 losses, the TSX 40%, but those losses were much less. International markets have regained 60% of their previous pain, with some markets reaching all-time highs.

One could conclude the next bull cycle has started, and nobody got the memo. Given the biggest bouncers were the biggest decliners in 2022, we believe this is a bear market bounce, albeit a big one.

With credit conditions continuing to tighten, more forward-looking economic indicators rather bearish, and earnings starting to contract, we remain cautious.

Cautious does not mean selling all equities, but it does mean doing some selling and buying High Interest Savings funds and bonds. Since for the first time in 23 years we are not penalized for holding cash but instead receiving 5% interest.

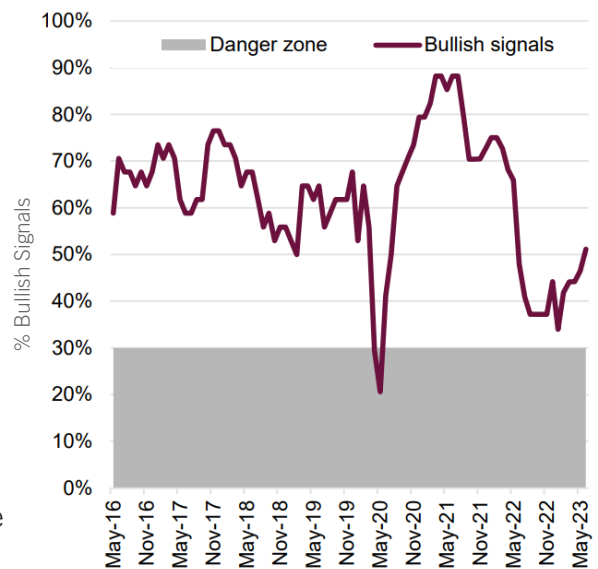


Chart 3: Market cycle indicators - still low but some improvement
Source: Bloomberg, Purpose Investments 29 June 2023

Les Jardins de-Quatre Vents



For only four days of the year the prettiest private garden in North America is open to the public, the Jardins de Quatre-Vents in the Charlevoix region of Quebec.

Kathleen heard about the gardens a number of years ago from kind clients so she leaned over her computer the minute tickets went on sale on March 1st and after an hour, English language tickets were obtained. Luckily, they were not as hard to get as Taylor Swift tickets, so the internet did not crash.

Located on rolling farmland overlooking the St Lawrence at La Malbaie, the gardens have been in the Cabot family since the 1880's. The original gardens were planted by a Cabot grandmother but dramatically enhanced and expanded by Francis (Frank) Cabot from the 1950's until his death in 2011. Francis Cabot explained his design and love of gardening in a 2016 documentary, appropriately called, *The Gardener*.

With over 1,000 different plants on display in a collection of 24 different themed areas, the gardens are truly magnificent. Kathleen's personal favorite being the Japanese's garden that was both lush and tranquil. A focal point is Le Pigeonnier (pictured top-left) with its reflecting pool. Who knew we had such a gem in our own backyard?!

On the way home we indulged in the food trail and stopped to buy plenty of cheese, jam and picnic items.

Sainte!

Registered Education Savings Plans

With the ever-increasing cost of post-secondary education, a Registered Education Savings Plan (RESP) is an attractive way to plan for this major life event. The benefits of using an RESP for education savings include:

- Tax deferral
- Income splitting
- Government grants and incentives to top up your education

An RESP is a government-sponsored savings program that allows for the tax-deferred growth of investments in the plan and takes advantage of education savings grants. When the income in the account is withdrawn to fund qualified post-secondary education, the withdrawals are taxable to the RESP beneficiary (the student), who is usually in a lower tax bracket than the subscriber (i.e. the person who opens the RESP and makes contributions).

While an RESP is a great way to save for your child's education there are a few things to keep in mind. The type of plan (Individual vs Family), contribution limits, withdrawal types and incentive programs available play an important part in maximizing an RESP.

Lastly, don't forget to consider the possibility that your child may not attend school or what happens when the subscriber dies and how that affects the estate planning process.

For more information on your specific situation, please contact Jorge and he'll be more than happy to help.

And as always, we would like to thank-you for your continued trust and ask you to reach out via phone or email if you have any questions or know of anyone that could benefit from our experienced team.

Notable dates ahead

- Jul 19 - Muharram/Islamic New Year
- Aug 07 - Civic Holiday
- Sep 04 - Labour Day
- Sep 25 - Yom Kippur
- Sep 30 - National Day for Truth and Reconciliation

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