Market Update

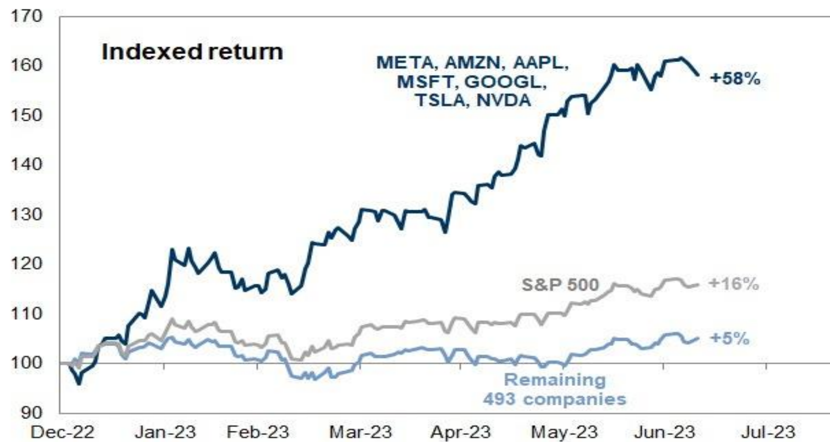
Q2 2023

Market Returns June 30th, 2023 (YTD)

Indices	Q2-2023 Returns	YTD-Total Returns
S&P/TSX Total Return	**1.10%**	**5.70%**
S&P 500 Total Return (USD)	**8.70%**	**16.90%**
NASDAQ Comp (US Tech)	**6.60%**	**31.70%**
FTSE All-World Index	**5.50%**	**12.50%**
FTSE TMX Universe Bond	**-0.69%**	**2.51%**
Canadian Spot FX Rate	**-2.03%**	**-2.30%**

The light at the end of the tunnel

It is great to see buyers back in the markets. Over the past quarter we have seen a large resurgence in many of the stocks that had dropped substantially in 2022. To this extent the US markets are up 16% and much of this increase has been due to 7 stocks, namely: Nvidia, Apple, Microsoft, Tesla, Amazon, Alphabet (Google), and Meta (Facebook). If you remove these stocks the S&P 500 is only up about 5%. Luckily, our stock model held 3 of those 7 names and we have been trimming.



As discussed in past newsletters, the markets will rebound before the economy. This is exactly what we have seen year to date. We still have central bankers raising rates even though inflation numbers continue to come down. In Canada the majority believe the peak is in for rates as Tiff Macklem raised rates in the face of the US pausing. Like a large cruise ship, the economy is not something that can quickly change course, and my prediction is that we have gone too far. With inflation continuing to come down, their goal of staying at 2% inflation will be challenging unless they stop increasing rates. The risk could be that inflation continues to fall much past 2% and potentially into deflation. This is why we will likely see rate cuts over the next 6 months to a year. I will admit that rates are much higher than where I had expected we would be at this point. Consumers are stubborn and are continuing to spend. Banks are doing everything in their power to avoid clients defaulting on their loans, especially mortgages. The last thing any of the Canadian banks want to do is take over thousands of houses so they are working to extend amortization terms and allow people to continue to

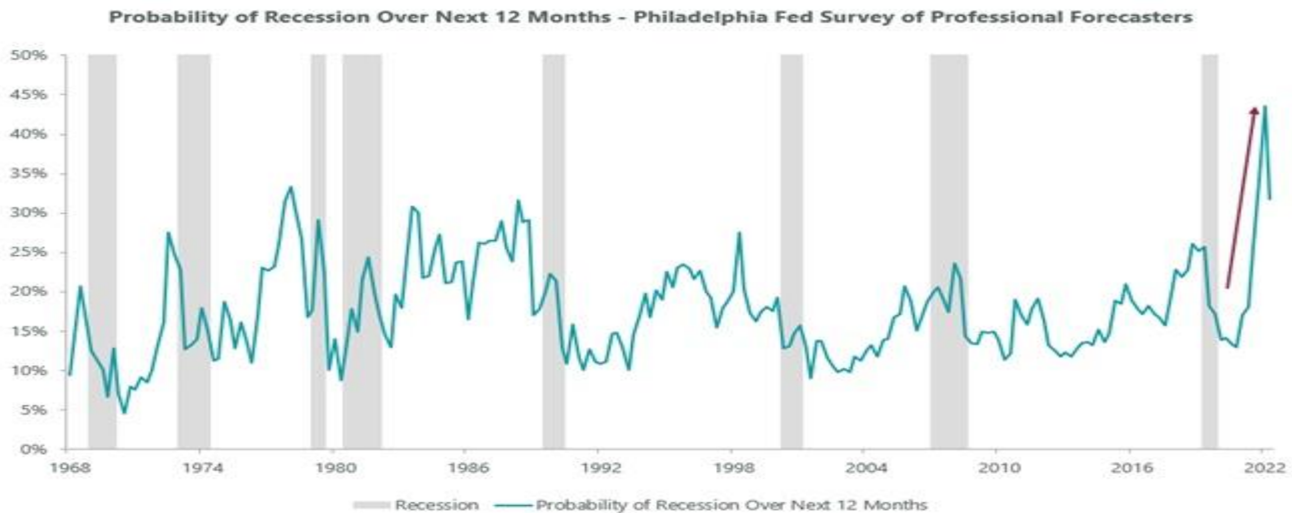
pay what they have been used to, minimizing the impact on their current living expenses. This keeps mortgage holders indebted to the bank longer. Although inflation has been slow to come down, we have seen inflation drop from a high of 9% to 3% in the US, which reassures us that rates will need to stop increasing and are likely to come down.

So, what does this mean for you and how are we changing the portfolios? At this stage we are continuing to add to safety. We have been underweighting fixed income for about 8 to 10 years, which we feel was justified after last year. The 10-year Canadian Bond index return has been only 1.8% each year for the last 10 years. Most of that was due to the pullback in 2022 when the index was down almost 12%. With rates up as high as they are it now makes more sense to add to this allocation in your portfolios. We have gone from about 10 to 15%, to 25% in most client portfolios, except for younger or more aggressive clients. We have reduced our alternative investments as it makes more sense to add to regular fixed income (bonds) or equity investments following last year's pullback.

This year we have seen a great rebound in technology stocks. Portfolio managers like Mark Schmehl and Noah Blackstein have seen a great recovery, being up over 30% and 18% respectively. Both managers have continued to surge in the month of July. Dividend paying stocks have lagged now that there is another asset class that can once again provide income. The higher interest rates will make investing in dividend paying equities less attractive as you can get a 5% income stream without taking on the risk in today's equity market.

The chart below highlights forecasters who are predicting a recession over the next 12 months, with the highest level of conviction seen in the past 50 years. However, the soft-landing theme remains consistent in the equity markets. I think it is important to point out that although this may be true, if you had listened and stayed in cash, you would have missed out on all the returns this year. Jerome Powell has now said that the risk of recession is low and most US investment banks are increasing their targets.

Most Anticipated Recession Ever



We have even further evidence that there weren't many economists who came into 2023 with high expectations. Below shows the forecast from each of the major banks of where the S&P500 could be. It is interesting that all of these are below where the US market is trading today. All the banks except one have increased their target or left it as is.

S&P 500 Year-End Price Targets

Majority of Wall Street firms have revised upwards their estimates for 2023

Firms	As of January	As of July
Bank of America	4,000	4,300
BMO	4,300	4,550
Barclays	3,725	4,150
BNP Paribas	3,400	3,400
Cantor Fitzgerald	4,100	3,500
Citigroup	4,000	4,000
Credit Suisse	4,050	4,700
Deutsche Bank	4,500	4,500
Evercore ISI	4,150	4,450
Fundstrat	4,750	4,825
Goldman Sachs	4,000	4,500
HSBC	4,000	4,600
JPMorgan	4,200	4,200
Morgan Stanley	3,900	3,900
Ned Davis Research	4,300	4,500
Oppenheimer	4,400	4,400
Piper Sandler*	3,225	3,700
RBC Capital Markets	4,100	4,250
Scotiabank	3,900	4,200
Societe Generale	3,800	4,300
22V Research	4,100	4,600
UBS	3,900	3,900
Wells Fargo	4,200	4,200

Source: Data from firms compiled by Bloomberg
Note: *Estimate reflects midpoint of 3,600 to 3,800 forecast range

Bloomberg Opinion

Moving forward we expect to see people continue to put their money back to work in the markets allowing breadth to continue to widen and introduce opportunities for us to take advantage of. Individuals who have been parking their cash in money market investments will undoubtedly continue to move into the market in anticipation of cutting interest rates and even a small portion of that will fuel the fire. In June alone we saw $17.6 billion dollars move out of money market investments. The portfolios are poised to take advantage of these cash flows in the equity markets while also diversifying and allocating to fixed income investments with attractive return and income profiles. We will continue to stay fully invested while actively looking for opportunities to lower risk and offer better return opportunities. As we all know, investor behavior is driven from fear and greed and we have just endured 6 months where investors who were not in the markets have some major fear of missing out.

Investment Highlights in the Second Quarter

For those of you who enjoy more detail on investments, please see the below comments from myself and Brenan. This commentary provides a more detailed evaluation of our best and worst performing stocks within the models.

As of 06/30/2023	Standouts based on Q2 - 2023 returns	Stocks Under Pressure – Q2 2023
US Stocks (in USD)	Nvidia Corp (NVDA): +52.29% Broadcom Inc (AVGO): +35.21%	Abbvie (ABBV): -15.46% Ulta Beauty Inc (ULTA): -13.76%
Canadian Stocks (in CDN)	Finning Intl. (FTT): +20.96% Go Easy (GSY): +15.80%	Atco Ltd Cl I (ACO.X): -8.96% Pembina Pipeline (PPL): -4.87%
Mutual Funds	Fidelity Global Innovators Ccy Netrl Fund: +12.71% Dynamic Power Global Growth Fund: +10.84%	Lynwood Opportunities Fund: -12.99% Dynamic Precious Metals Fund: -7.43%

US Stocks

In Q2 2023, the US Asset Growth & Income Model was up +7.6% meanwhile the S&P 500 Total Return Index was up +8.7% resulting in an underperformance of -1.1% over the quarter. On a year-to-date basis, the US Model is up 14.20% relative to the S&P 500 Total Return Index which is up 16.90%. We have been actively trimming back our technology weightings this year to take advantage of the run up in certain stocks focused on Artificial Intelligence which were oversold last year – as you may recall, the model holds Nvidia (NVDA), Broadcom (AVGO) which were up over 52% and 35% over the quarter, respectively. We have risk metrics in place to ensure the weight of a single stock is not greater than 7% of the model – this process removes the behavioral side of investing and keeps us honest by constantly rebalancing. We believe this limits downside risk, allows us to realize gains and to use the proceeds to rebalance into underperforming areas of the model. One could argue that this has been a detriment to our YTD performance seeing as NVDA & AVGO both have continued to trade higher and recently hit all-time highs. One example is NVDA, which we have trimmed twice over the quarter and 3x on the year after topping up the position 3x in 2022.

Over the quarter, we sold out of our positions in Qualcomm (QCOM) and Pfizer (PFE) and have purchased PepsiCo (PEP) and Starbucks (SBUX) as we wanted to reduce our exposure to both technology and healthcare and QCOM & PFE were by far the weakest names we owned in these sectors. PEP is a defensive name that pays a healthy dividend, and we believe it should continue to perform even in the event of a recession. Recently, PEP reported earnings and beat analysts' expectations and we believe they will continue to do so going forward. We decided on purchasing SBUX since the company has posted relatively strong quarterly earnings momentum (i.e., growing earnings), actively expanded their store footprint and the stock itself looked to be forming a healthy base over the last few months.

Canadian Stocks

In Q2 2023, the Canadian Dividend Growth Model was up 1.96% relative to the S&P/TSX Total Return Index which was up 1.10% resulting in an outperformance of 0.86%. On a year to date basis, the Canadian Model is up 5.97% compared to the S&P/TSX Total Return Index which was up 5.7%. Over the quarter, our top performing positions were Finning International (FTT) and GoEasy (GSY) and our worst performing positions were Atco Ltd (ACO.X) and Pembina Pipeline (PPL). Both ACO.X and PPL are posting a dividend yield over 5% at current prices, so we're comfortable holding these positions seeing as we're being "paid" to wait. We also have recently implemented that the dividends earned on several income generating positions be reinvested so that we're continually averaging into the position at what we believe are depressed valuations.

Over the quarter, we were very active in the Canadian Model. We decided to sell out of TFI International (TFII), Nutrien (NTR), and ATS Corporation (ATS) and have replaced these positions with the following buys: Dollarama (DOL), Magna International (MG), and Exchange Income Corporation (EIF).

Mutual Funds

In Q2, several of our high conviction fund managers performed well. Over the quarter, the Fidelity Global Innovators Fund and the Dynamic Power Global Fund were up 12.71% and 10.84% respectively and are up 31.69% and 18.43% on the year. The Fidelity Innovators Fund has almost fully recovered its 2022 losses which is great to see as we were topping up the position in most accounts in 2022. The fund manager has gained a reputation of being extremely active in their top holdings and has a unique ability to quickly spot trends and adjust the portfolio to take advantage of these moves. As you may recall, the Dynamic Power Global Fund was our worst performer in 2022, and now we're seeing the fund's holdings starting to show some life and are catching bids. We're aware that the fund has a lot more work to do to recapture its 2022 losses, but we were also actively averaging down or establishing new positions for clients last year. The interesting thing about Dynamic Power Global is that the funds top holdings are not those of the S&P 500, resulting in a diversifier for client portfolios. We believe that capital will eventually start flow away from the S&P 500 top holdings as they are trading at elevated levels (arguably "expensive") and into names like Dynamic Power Global holds which are less known but offer similar growth profiles and trade at much cheaper valuations. In short, we think patient investors will do well going forward by holding this fund.

Our worst performing funds over the quarter were the Lynwood Opportunities Fund and the Dynamic Precious Metals Fund and they were down -12.99% and -7.43%, respectively. We've been disappointed with Lynwood's performance in 2022 and so far in 2023, seeing as the manager struggled in negating any downside risk and has not captured any of the upside – this year, the fund has posted a negative performance in 5/6 months. Recently, we have decided to trim this position in most client accounts and will likely be reallocating the proceeds to more liquid but similar long-only small cap investment mandates. The Dynamic Precious Metals Fund pulled back in Q2 2023 after posting strong returns in Q4 2022. The precious metals sector has been extremely weak given the diminishing likelihood of a deep recession. It's an underweight position in most portfolios, so it hasn't been a large detractor to client performance this year. We're fine with holding the position for the time being as a partial hedge against a recession.

Warm regards,

Simon and Team

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