



MARCH 2023 NEWSLETTER

MARKET REVIEW

Equity markets enjoyed respectable returns for the first quarter of 2023, with the TSX up 3.69%, and the S&P 500 up 7.01%. Markets are well below their 2021 and 2022 highs, but we have had two consecutive quarters of positive returns in spite of some banking failures in the US and Europe. Market leadership has strongly favored large-cap growth companies (Apple, Google, Microsoft, Amazon, etc.) while banks and other economy sensitive companies have underperformed. In Canada; RBC, National Bank, and CIBC have held their own, while TD and the Bank of Montreal have underperformed due to recent poorly timed acquisitions of US regional banks.

	<u>March 31</u> <u>2022 Close</u>	<u>Dec 31</u> <u>2022 Close</u>	<u>March 31</u> <u>2023 Close</u>	<u>90-Day</u> <u>Change</u>	<u>1-Year</u> <u>Change</u>
S&P 500*	4,530	3,840	4,109	7.01%	-9.29%
S&P/TSX Composite	21,890	19,385	20,100	3.69%	-8.18%

*USD currency

Source: FactSet

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FIXED INCOME

2023 started with bond yields increasing due to the persistent inflation. However when some US regional banks started to experience runs on their deposits in early March, Government bond prices rallied strongly, reducing their yields. For example 5 year Canada bonds yielded 3.41% on December 30th, 2.80% on January 18th, 3.66% on March 2nd, and on March 31st yielded 3.02%. While few investors are as obsessed with bond yields as we are, this volatility indicates the fear that the failure of a few vulnerable banks could spread to the broader banking system. Currently the markets have confidence that the problem is specific to a handful of small banks and the crisis has been contained. While shareholders and bondholders of a few smaller banks have lost most or all of their money, depositors have been protected, and the share prices of the larger and stronger banks have recovered somewhat.

The problem that initiated the banking losses were not sub-prime loans or other risky investments, but the purchase of longer-term government bonds at the extraordinarily low rates of a few years ago. While anyone holding these bonds at these low rates is facing an uncomfortable wait until maturity, the values have increased somewhat as the yields have fallen.

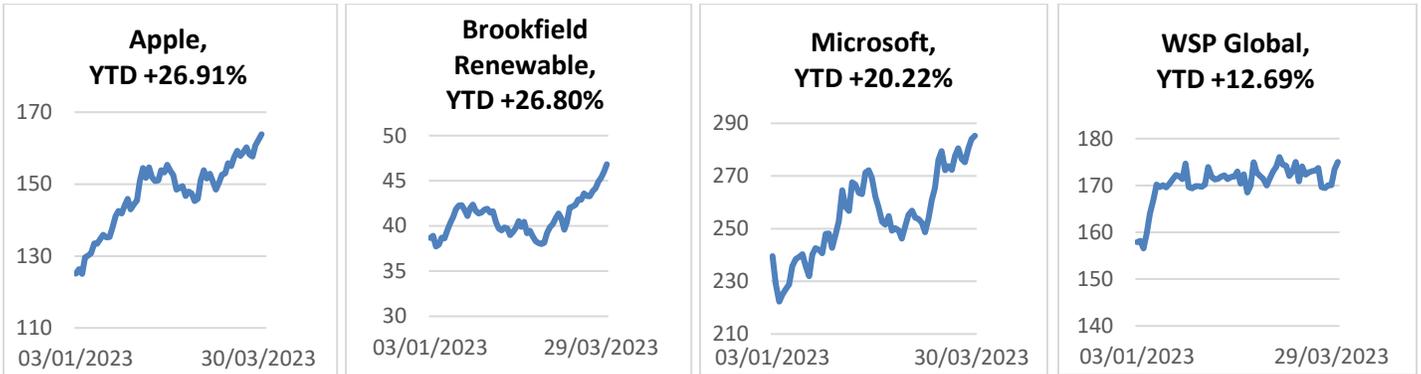
Canadian T-Bills and Bonds Yields

<u>T-Bills & Bonds</u>	<u>March 31, 2022</u>	<u>Dec 31, 2022</u>	<u>March 31, 2023</u>
3 Month	0.73%	4.26%	4.40%
6 Month	1.34%	4.48%	4.46%
1-Year	1.98%	4.61%	4.41%
2-Year	2.28%	4.05%	3.74%
5-Year	2.39%	3.41%	3.02%
10-Year	2.38%	3.30%	2.88%
30-Year	2.35%	3.27%	3.00%

Source: FactSet

MARKET LEADERS AND NOT-SO-MUCH MARKET LEADERS – 1st QUARTER 2023

The Leaders



The Not-so-much Leaders



*YTD performance does not include dividends

Source: FactSet

The charts above illustrate eight positions of ours for the first quarter of 2023. While these are all excellent companies, the charts indicate how divergent short-term performance can be. The leading four companies benefited this quarter from their reputation of economic resiliency. With bond yields falling they are considered more valuable. The lagging four companies are high quality US and Canadian financial institutions, but have had their share prices depressed due to anticipated economic weakness, and a discount due to the stress in the sector. Bouncing back and forth between interest sensitive and economically sensitive companies to chase momentum is a good recipe to lose money, so we recommend diversifying your portfolios with some of each.

DIVIDEND INCREASES - 1ST QUARTER 2023

<u>Security</u>	<u>Symbol</u>	<u>Q1 Dividend Change</u>
Manulife Financial Corp.	MFC	10.6%
Intact Financial Corp.	IFC	10.0%
H&R Real Estate Investment Trust	HR.UN	9.2%
Canadian National Railway Co.	CNR	7.9%
Royal Bank Of Canada	RY	3.1%
Bank Of Montreal	BMO	2.9%

**Dividends reported in USD*

Source: FactSet,

A number of our top thirty holdings increased their dividends in the first quarter of 2023. As per the chart above some of these are very respectable dividend increases. Ultimately the financial success of your retirement is based on the free cash flow produced from the businesses that you own shares in, and we are pleased that we are seeing positive results.

FIRST HOME SAVINGS ACCOUNT (FHSA)

As of April 1, 2023 there is a new registered savings plan available for Canadians saving for their first home. While we have very few clients in this position, the plan can be a good method for assisting a child or grandchild. The basic rules are that \$8,000 per year to a maximum of \$40,000 can be contributed to the plan, Canadians between the ages of 18 and 71 who have never owned a home can have the contributions used as a tax deduction, and the growth is tax sheltered. The plans can exist for 15 years, and if a home is not purchased during that time the funds can be rolled into an RRSP (with no further tax deduction). The Home Buyers Plan (HBP) will continue to exist, and an individual can make both a FHSA and a HBP withdrawal in respect of the same qualifying home purchase. Like RESP's, these work very well if used for the purpose they were intended.

If you feel that this will be useful for you to assist a loved one with a first home purchase, contact Meaghan or Mark to confirm that your particular situation matches the conditions of the plan.

RAYMOND JAMES TRUST (CANADA)

Many individuals reach a point in their lives when they need assistance with their financial affairs and require a power of attorney. Others have family situations where they would prefer that their legacy to their children go through a trust so the children are more likely to enjoy the benefits for years, rather than risk having the capital squandered in a short time. Unless all of your assets are in joint name you will need an executor to ensure that all taxes and bills are paid and that your estate is distributed as per your wishes.

Your executor, power of attorney, or trustee should:

- 1) Be trustworthy to manage your estate according to your wishes.
- 2) Live reasonably close to you, to deal with your family and your assets.
- 3) Have an understanding of their legal duties, tax, and investments.
- 4) Be organized and good at following through with tasks.
- 5) Young enough to likely survive you.

If you are fortunate to have a child, relative or close family friend who is willing and capable of fulfilling these responsibilities that is probably your cheapest and best solution. We strongly recommend that choosing your trustee/POA/executor is done very carefully to ensure that all outcomes are considered. For example if you outlive your chosen person you will need a contingent person to fill the role.

If you don't have a suitable family member or friend, we suggest that you discuss this with Meaghan or Mark. We can introduce you to a Raymond James Trust representative if you don't have an optimal choice within your family.

SUMMARY AND STRATEGY FOR THE SECOND QUARTER OF 2023

Equity markets in most of the developed world have had two quarters of positive results in spite of rising interest rates, geopolitical conflict, and more recently some stress in the European and US banking systems. Barring an unanticipated shock to the system we expect positive index returns over the next 6 to 12 months. As usual the best protection to our wealth is ensuring that you own the highest quality and most appropriate investments rather than predicting the future. If you have any questions on your financial health please give Meaghan or Mark a call and they can review your situation.



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If you have friends or family who have expressed an interest in finding a new advisor, we would be delighted to hear from you. Just call our office at 250-729-2830 and we'll take it from there. Thanks!

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