



**SEPTEMBER 2023 NEWSLETTER**

**MARKET REVIEW**

The third quarter of 2023 started with upward momentum, but equity markets have weakened considerably in September. The weakest sectors continue their leadership to the downside, with real estate trusts and US regional banks continuing to perform poorly. Central bankers and bond investors now have expectations that inflation is more entrenched than the temporary Covid supply chain phenomena predicted 18 months ago. We agree with the consensus and believe that the most likely outcome is that rates will either level out close to today's levels or increase somewhat.

Looking back over the last year, returns are positive, with the S&P 500 up 19.6 per cent and the S&P / TSX composite up 6.0 per cent. Investors who have stayed the course with a diversified portfolio should have reasonable one, three, and five-year returns.

	<u>Sept. 30, 2022,</u> <u>Close</u>	<u>June 30, 2023,</u> <u>Close</u>	<u>Sept. 29, 2023,</u> <u>Close</u>	<u>1-Year %</u> <u>Change</u>	<u>90-Day %</u> <u>Change</u>
<b>S&amp;P 500*</b>	<b>3,586</b>	<b>4,450</b>	<b>4,288</b>	<b>19.58%</b>	<b>-3.64%</b>
<b>S&amp;P/TSX Composite</b>	<b>18,444</b>	<b>20,155</b>	<b>19,541</b>	<b>5.95%</b>	<b>-3.05%</b>

\*USD currency

Source: FactSet

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**FIXED INCOME**

The third quarter of 2023 has seen an abrupt increase in the yield of bonds of five years and more. If today's bond market is priced correctly, the cumulative effect of the recent Bank of Canada rate increases will dampen the economy and bring inflation back to the two to three per cent level. If this is too optimistic, we will see more pain in the bond market and asset prices.

While predicting interest rates can be a very humbling vocation, we are more comfortable with short term bonds of a year or less. We do not feel that the 10-year Canada bond represents good value at the current 4.03 per cent yield.

**Consumer Price Index**

	<u>May</u> <u>2023</u>	<u>August</u> <u>2023</u>
<u>Canada</u>	3.4%	4.0%
<u>United States of America</u>	4.0%	3.7%
<u>United Kingdom</u>	7.9%	6.7%
<u>Germany</u>	6.4%	6.1%

Source: Office for National Statistics, Statistisches Bundesamt, Stats Canada, Bureau of Labour Statistics

**Inflation by Country**



Source: Factset, 09/29/2023

**Canadian T-Bill and Bonds Yields**

<u>T-Bills &amp; Bonds</u>	<u>30 Sept, 2022</u>	<u>30 June, 2023</u>	<u>29 Sept, 2023</u>
<b>1-Year</b>	4.01%	5.16%	5.30%
<b>2-Year</b>	3.79%	4.58%	4.88%
<b>5-Year</b>	3.32%	3.68%	4.25%
<b>10-Year</b>	3.17%	3.26%	4.03%
<b>30-Year</b>	3.10%	3.08%	3.81%

Source: Factset, 09/29/2023

**Canadian Fixed GIC Rates**

<u>Duration</u>	<u>Rate</u>	<u>Issuer</u>
<b>1-Year</b>	5.55%	Coast Capital Credit Union
<b>2-Year</b>	5.50%	HSBC
<b>3-Year</b>	5.35%	Home Trust
<b>4-Year</b>	5.25%	Meridian Credit Union
<b>5-Year</b>	5.00%	Bank of Montreal

Source: Factset, 09/29/2023

**PREFERRED SHARES**

In our June 30th newsletter we highlighted three preferred shares with upcoming reset dates that looked attractive based on their quality and potential high yield. We got lucky on the TD preferred share K as TD has announced that they will be buying all the shares back at \$25, a nice gain from the \$22.19 at the end of June. The National bank and Fortis preferred shares are up 3.07 and 2.80 per cent respectively, but their yields are still better than we hoped as the yield on five-year Canada bonds has increased since June. We have added two other preferred shares, BCE preferred Q and Manulife preferred K, that have already reset their dividends. As the chart indicates it is now possible to earn an approximately eight per cent yield over the next five years with a diversified portfolio of quality Canadian issuers.

<u>Name</u>	<u>Price</u>	<u>Current Yield</u>	<u>Reset Date</u>	<u>Reset Premium</u>	<u>Reset Yield Conservative*</u>	<u>Reset Yield Current*</u>	<u>Reset Yield Optimistic*</u>
<b>TD Bank Pref. K</b>	\$25.18	4.72%	10/31/2023	GOC+ 2.59%	Called - 10/31/2023		
<b>BCE Pref. Q</b>	\$19.75	8.24%	2028	GOC+ 2.64%	Already Reset		
<b>ManuLife Pref. K</b>	\$19.93	7.94%	2028	GOC+ 2.22%	Already Reset		
<b>Fortis Pref.G</b>	\$18.84	8.02%	2028	GOC+ 2.13%	Already Reset		
<b>NA Bank Pref. G</b>	\$22.57	5.51%	11/15/2023	GOC+ 2.77%	7.22%	7.82%	8.33%
*GoC 5-yr bond, optimistic est. =			4.75%				
*GoC 5-yr bond, current =			4.25%				
*GoC 5-yr bond, conservative est. =			3.75%				

Source: FactSet, 09/29/2023

Preferred shares tend to be more illiquid than common shares, so investors must be patient when buying or selling to get a good price. As reset preferred shares don't have a maturity date like a bond, we are only recommending strong issuers rather than trying to get the higher yields available from weaker issuers. The preferred share market is currently out of favour and depressed, so we expect today's buyers will earn capital gains in addition to the eight per cent yield over the next few years.

**EQUITIES**

While dividend paying equities have had poor relative performance since January of 2022, the current yields are attractive from a historical perspective. Microsoft, WSP Global, Costco, Apple, Alphabet, and Amazon pay little or no dividends, but they are among the best performing equities for 2023.

**Our Top-30 Holdings By Dividend**

Position	Security	Symbol	Yield
27	Fortis Inc. Preferred Series G	FTS.PR.G	8.06%
13	TC Energy Corp.	TRP	7.96%
30	BCE Inc.	BCE	7.46%
26	Freehold Royalties Ltd.	FRU	7.35%
12	Bk Of Nova Scotia	BNS	6.96%
5	TELUS Corp.	T	6.56%
16	Brookfield Renew Partners LP.	BEP.UN	6.19%
11	Manulife Financial Corp.	MFC	5.88%
17	Brookfield Renewable Corp.	BEPC	5.62%
22	Bk Of Montreal	BMO	5.13%
21	Brookfield Infrastructure LP.	BIP.UN	5.15%
3	Toronto Dominion Bank	TD	4.69%
7	Fortis Inc.	FTS	4.57%
2	Royal Bank of Canada	RY	4.55%
18	Suncor Energy Inc.	SU	4.45%
23	Brookfield Asset Mgmt. Ltd. Cl A	BAM	3.83%
8	Johnson & Johnson*	JNJ	3.06%
10	JP Morgan Chase & Co*	JPM	2.90%
4	Canadian National Railway Co.	CNR	2.15%
9	Raymond James Financial Inc.*	RJF	1.67%
25	S&P 500 Trust ETF*	SPY	1.52%
20	Vanguard Health Care ETF*	VHT	1.48%
24	Vanguard S&P 500 Index ETF UN.	VFV	1.30%
15	Microsoft Corp*	MSFT	0.95%
6	Brookfield Corp. Cl. A	BN	0.89%
1	WSP Global Inc.	WSP	0.78%
19	Costco Wholesale Corp New*	COST	0.72%
28	Apple Inc.*	AAPL	0.56%
29	Amazon.Com Inc.*	AMZN	0.00%
14	Alphabet Inc Cl. A*	GOOGL	0.00%

\*Reported in USD Currency

Source: FactSet, 09/29/2023

In our June 30th newsletter, we highlighted the TD Bank as having a good risk/reward potential. TD is down 0.34 per cent over the 90 days but paid a dividend so while investors won't be breaking out the champagne, it outperformed the S&P 500 and the TSX. We are expecting a dividend increase to be declared this fall so patient investors should be rewarded from these levels.

**Toronto Dominion Bank, 10-Year**



Source: FactSet 2023

**SUMMARY AND STRATEGY**

When we read today's news we see global conflict, chronic government deficits, increasing government regulation, and protectionist trade policies. While these are political decisions and reasonable people can have different points of view on public policies, they are inflationary events so should not bring enthusiasm to investors. Due to the current levels of inflation, guaranteed investments have higher yields than any time since 2007, and we are seeing very rich yields on common and preferred shares. As usual we do not recommend any big "all in" or "all out" bets but see opportunities for investors with excess liquidity. If you have any questions regarding your finances call Meaghan or Mark.



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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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