RAYMOND JAMES | DOUGLAS DUNCAN wealth management

# SEPTEMBER 2022 NEWSLETTER

***MARKET REVIEW***

The third quarter of 2022 was tough for any investor with a diversified portfolio, as the overwhelming majority of stocks, bonds, and alternative investments retreated in price. Many markets rallied from mid-June to mid-August, but have since corrected sharply to new lows. We believe that the main culprit is rising short term rates, which have improved the return on cash equivalents so that they actually provide an alternative to growth oriented investments.

A review of 2022 would be incomplete without noting that we have experienced an absolute bloodbath in the speculative parts of the market. Cryptocurrencies, early stage venture stocks, and companies with high rates of revenue growth but low current profitability have been extraordinarily punished, with 75% losses not uncommon.

Fortunately we have been focusing on market leaders with established and profitable market niches, so our core portfolio holdings have been much more resilient than the market indexes.

| Index | 30-Sept, 2021 Close | 30-June, 2022 Close | 30-Sept 2022 Close | 90-Day Change | 1-Year Change |
|---|---|---|---|---|---|
| S&P 500* | 4,308 | 3,785 | 3,586 | -5.26% | -16.76% |
| S&P/TSX Composite | 20,070 | 18,861 | 18,444 | -2.21% | -8.10% |

*USD currency

Source: FactSet

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***FIXED INCOME***

**CANADIAN T-BILLS AND BONDS YIELDS**

| T-Bills / Bonds | 30 Sept, 2021 | 30 June, 2022 | 30 Sept, 2022 |
|---|---|---|---|
| 3-Month | 0.13% | 2.11% | 3.61% |
| 6-Month | 0.17% | 2.63% | 3.84% |
| 1-Year | 0.30% | 3.11% | 4.01% |
| 2-Year | 0.53% | 3.09% | 3.79% |
| 5-Year | 1.11% | 3.11% | 3.32% |
| 10-Year | 1.51% | 3.22% | 3.17% |
| 30-Year | 1.99% | 3.13% | 3.09% |

Source: FactSet

The chart above indicates how sharply interest rates have risen over the last 12 months. With three month Canada T-bills yielding 0.13% a year ago and 3.61% now, this has changed the playing field for all investors. Note that while 10 and 30 year bonds have increased sharply in yield over the last 12 months, their yields have actually fallen over the last 90 days. This surprises us in light of the currently high inflation numbers but it is a signal that bond investors feel that a recession is imminent and that reduced demand will curb inflation over the medium term.

Over the next few months and quarters, market watchers will be watching inflation numbers very intently to get a sense of when the central banks will pause or reverse their monetary tightening. Tightening too much will lead to a recession, while tightening to little will allow inflation to stay at elevated levels, leading to an even worse outcome.

Over the last 12 months the spreads between Canada bonds and high quality corporate bonds has increased. Currently 2 to 5 year investment grade corporate bonds yield over 5%, and 10 year corporates yield close to 6%. Depending on your current level of liquidity, these may be worth considering.

***CHANGES IN GLOBAL MARKETS***

**GLOBAL ETF & INDEX PERFORMANCES**

| Major Global Indices & ETF's | 52-Week High | Close (Sept 30 / 2022) | Change (%) |
|---|---|---|---|
| **iShares MSCI Germany ETF** | $34.68 | $19.74 | **-43.1%** |
| **NASDAQ Composite** | 16,057.44 | 10,575.62 | **-34.1%** |
| **iShares MSCI Emerging Markets ETF** | $52.50 | $34.88 | **-33.6%** |
| **Vanguard FTSE All-World ex-US Index ETF** | $63.62 | $44.36 | **-30.3%** |
| **S&P 500** | 4,796.56 | 3,585.62 | **-25.2%** |
| **Vanguard Canadian Long-Term Bond Index ETF** | $27.72 | $21.32 | **-23.1%** |
| **S&P TSX (Toronto Stock Exchange)** | 22,087.22 | 18,444.22 | **-16.5%** |
| **Vanguard Canadian Aggregate Bond Index ETF** | $26.05 | $22.35 | **-14.2%** |

Source: FactSet

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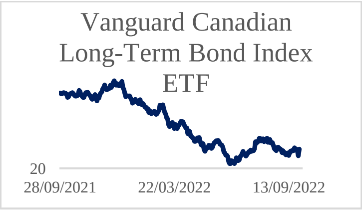
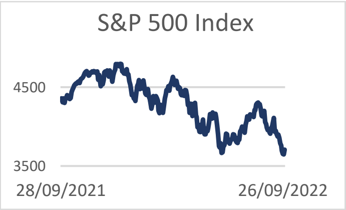
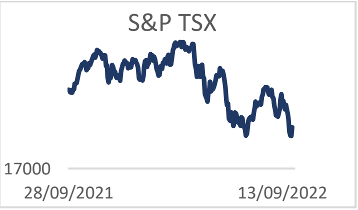
Other than daily interest accounts, there have been few places to hide in the investment world over the last year. Note that the Canadian Aggregate Bond Index ETF, which has about a 10 year average term, lost 14.2% over the last year, and the longer term bond index lost over 23%.

The Canadian market has uncharacteristically been one of the best, as high energy prices have buffered the effects of a slowing world economy. The US market is down over 25%, but has outperformed the rest of the world by over 5%. Europe has been a very nasty place to invest as they are net importers of oil and gas.




Source: FactSet

While it is very hard to see any sunshine in today's news, our "glass half full" view is that a lot of bad things have already happened and have been factored in by markets. A positive surprise could move the markets sharply higher.

***DIVIDEND PORTFOLIOS***

**TOP 30 HOLDINGS BY DIVIDEND YIELD**

| Position | Holding | 30 Sept, 2022 Close | Annual Dividend | Dividend Yield |
|---|---|---|---|---|
| 24 | Freehold Royalties Ltd. | $14.38 | $1.08 | 7.51% |
| 13 | TC Energy Corporation | $55.64 | $3.60 | 6.47% |
| 25 | BCE Inc. (Bell) | $57.92 | $3.68 | 6.35% |
| 11 | Bank of Nova Scotia | $65.70 | $4.12 | 6.27% |
| 12 | Manulife Financial Corporation | $21.68 | $1.32 | 6.09% |
| 23 | H&R Real Estate Investment Trust | $10.40 | $0.55 | 5.28% |
| 7 | TELUS Corporation | $27.43 | $1.35 | 4.94% |
| 22 | Suncor Energy Inc. | $38.90 | $1.88 | 4.83% |
| 20 | Bank of Montreal | $121.07 | $5.56 | 4.59% |
| 8 | Fortis Inc. | $52.48 | $2.26 | 4.31% |
| 3 | Toronto-Dominion Bank | $84.72 | $3.56 | 4.20% |
| 1 | Royal Bank of Canada | $124.37 | $5.12 | 4.12% |
| 14 | Brookfield Renewable Partners LP** | $43.15 | $1.68 | 3.89% |
| 10 | JPMorgan Chase & Co.* | $104.50 | $4.00 | 3.83% |
| 15 | Brookfield Renewable Corp. Class A** | $45.14 | $1.68 | 3.71% |
| 16 | Brookfield Infrastructure Partners L.P.** | $49.55 | $1.82 | 3.68% |
| 26 | Bank of America Corp* | $30.20 | $0.88 | 2.91% |
| 6 | Johnson & Johnson* | $163.36 | $4.52 | 2.77% |
| 5 | Canadian National Railway Company | $149.18 | $2.93 | 1.96% |
| 27 | SPDR S&P 500 ETF Trust* | $357.18 | $6.18 | 1.73% |
| 18 | Vanguard Health Care ETF* | $223.70 | $3.14 | 1.40% |
| 9 | Raymond James Financial, Inc.* | $98.82 | $1.36 | 1.38% |
| 28 | Vanguard S&P 500 Index ETF | $87.92 | $1.18 | 1.34% |
| 4 | Brookfield Asset Management Inc. Class A | $56.51 | $0.74 | 1.31% |
| 19 | Microsoft Corporation* | $232.90 | $2.72 | 1.17% |
| 2 | WSP Global Inc. | $152.12 | $1.50 | 0.99% |
| 21 | Costco Wholesale Corporation* | $472.27 | $3.60 | 0.76% |
| 30 | Apple Inc.* | $138.20 | $0.92 | 0.67% |
| 17 | Alphabet Inc. Class A* | $95.65 | $0.00 | 0.00% |
| 29 | Amazon.com, Inc.* | $113.00 | $0.00 | 0.00% |

*Holding Reported In USD

**Dividends Issued in USD

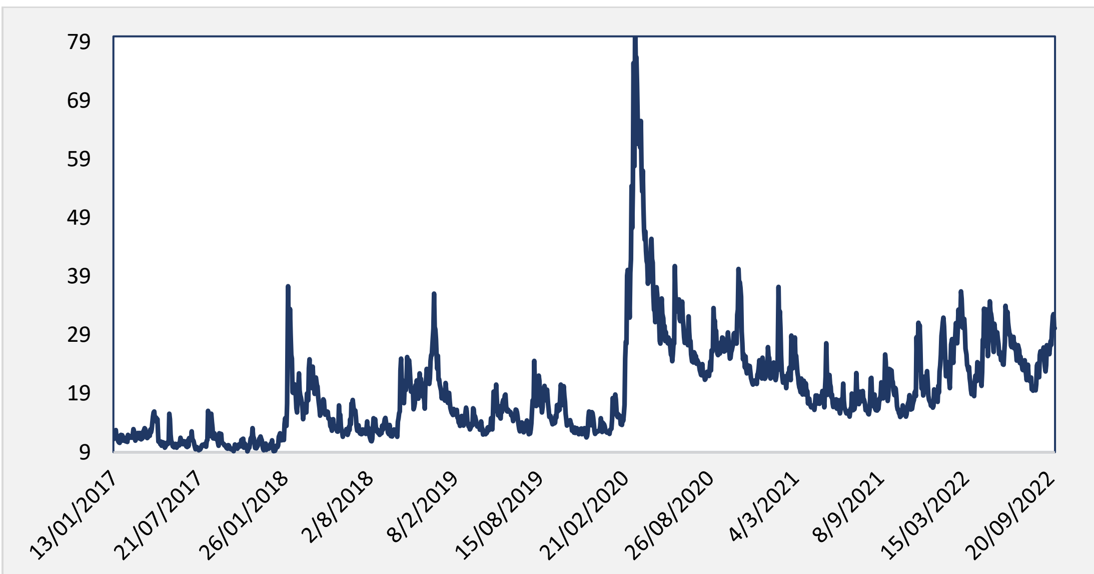
Source: FactSet

Due to the sharp market correction, but also thanks to some dividend increases in 2022, many of Canada's highest quality companies have very attractive dividend yields at today's levels. Among our largest 30 positions, we have 12 with dividend yields in excess of 4%, and of those five have yields above 6%. Note that Freehold Royalties, our highest dividend payer does not have a "safe" dividend, but increases and lowers it with the price of oil and gas. BCE and TELUS look particularly attractive at today's prices. BCE has the higher dividend but we prefer TELUS, as it is further into its capital expenditures for the 5G roll-out. While the telecom industry is a mature industry, it has a limited number of competitors in Canada and few Canadians will give up their smartphones in the event of a recession. Today's buyers can receive a five or six percent dividend while they wait and we expect capital gains when markets are more buoyant in the future.

Our lowest income companies, Costco, Apple, Alphabet (Google), Microsoft and Amazon, have minimal or no yield, but have amazing businesses and have seen their shares correct with the market. ***We feel that this is a low risk entry point to purchase most of the companies that we follow.***

## ***INVESTOR SENTIMENT***

**CBOE MARKET VOLATILITY INDEX**




Source: FactSet

The market volatility index is more elevated than usual but investors are not as panicked as the 2008 to 2009 market crash or the 2020 Covid crisis correction. As a result we feel that current buyers of quality equities will get positive returns over the next two years, but not the giant returns that rewarded investors who purchased shares during the 2008/2009 or 2020 panic selling.

## ***ARE WE AT THE BOTTOM OF THE MARKET YET?***

We would like to know the answer but it would be arrogant to suggest that we can pick the bottom or top of any market. What we are more confident about is: ***We feel that investors who buy equities today will likely improve their long-term returns and that investors who sell equities today will likely reduce their long-term returns***. Naturally there are no guarantees with this expectation so all equity purchases should be made after you are confident with your liquidity position. Being forced to sell a good stock at a terrible price because you have insufficient cash on hand for a RRIF payment or a monthly income payment is an unpleasant experience. We do not want anyone gambling over the direction of the market over the next three months.

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***WELCOME MICHELLE!***

Michelle Dieterich joined the Douglas Duncan Wealth Management team in the summer of 2022, after previously working in the banking industry. Michelle completed a Technical Theatre Diploma from Vancouver Island University and managed a local art gallery for seven years, before starting her career in the financial sector. She takes pride in her work and strives to deliver excellent, personable service. She is currently studying for her (CSC) Canadian Securities Course exam. Michelle has a passion for theatre and during her downtime can be found sewing costumes or working in her garden.

***SUMMARY AND STRATEGY***

Due to the significant pull-back of almost every market over the last year we are more supportive of adding to equites than we have been for some time. Both dividend payers and growth companies look attractive, and Meaghan and Mark can make sure that you stay diversified and true to your long term objectives. We would like to thank all of our clients for your maturity and understanding while the markets have gone through a tough patch.

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|---|---|---|---|---|---|
| **Mark Duncan** | **Meaghan Douglas** | **Ian Douglas** | **Lisa Cajolet** | **Heath Dean** | **Michelle Dieterich** |
| Senior Financial Advisor | Senior Financial Advisor | Consultant | Administrative Assistant | Administrative Assistant | Administrative Assistant |

*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!*