RAYMOND JAMES® | DOUGLAS DUNCAN wealth management

JUNE 2023 NEWSLETTER

MARKET REVIEW

Equity markets have been positive for the second quarter of 2023, with the TSX up 0.27%, and the S&P 500 up 8.30%. The positive returns in the US have been very focused on seven large-cap growth companies referred to as "the magnificent seven", Apple, Google, Microsoft, Amazon, Meta, Nvidia, and Netflix. Fortunately the crisis in the US banking sector seems to be contained, but there are cracks appearing in some sectors of the economy, particularly the office real estate sector. Markets received positive news in late June when the US Federal reserve released their 2023 bank stress tests. All of the largest 23 US banks were deemed to have sufficient capital to withstand a "severely adverse scenario", including a 40% drop in commercial real estate prices, a 38% decline in house prices, and an unemployment rate of 10% (currently at 3.6%). This was very reassuring to investors, giving us a late quarter market rally.

	June 30, 2022 Close	March 31, 2023 Close	June 30, 2023 Close	90-Day Change	1-Year Change
S&P 500*	**3,785**	**4,109**	**4,450**	**8.30%**	**17.57%**
S&P/TSX Composite	**18,861**	**20,100**	**20,155**	**0.27%**	**6.86%**

**USD currency* *Source: FactSet*

Published for the friends and clients of

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FIXED INCOME

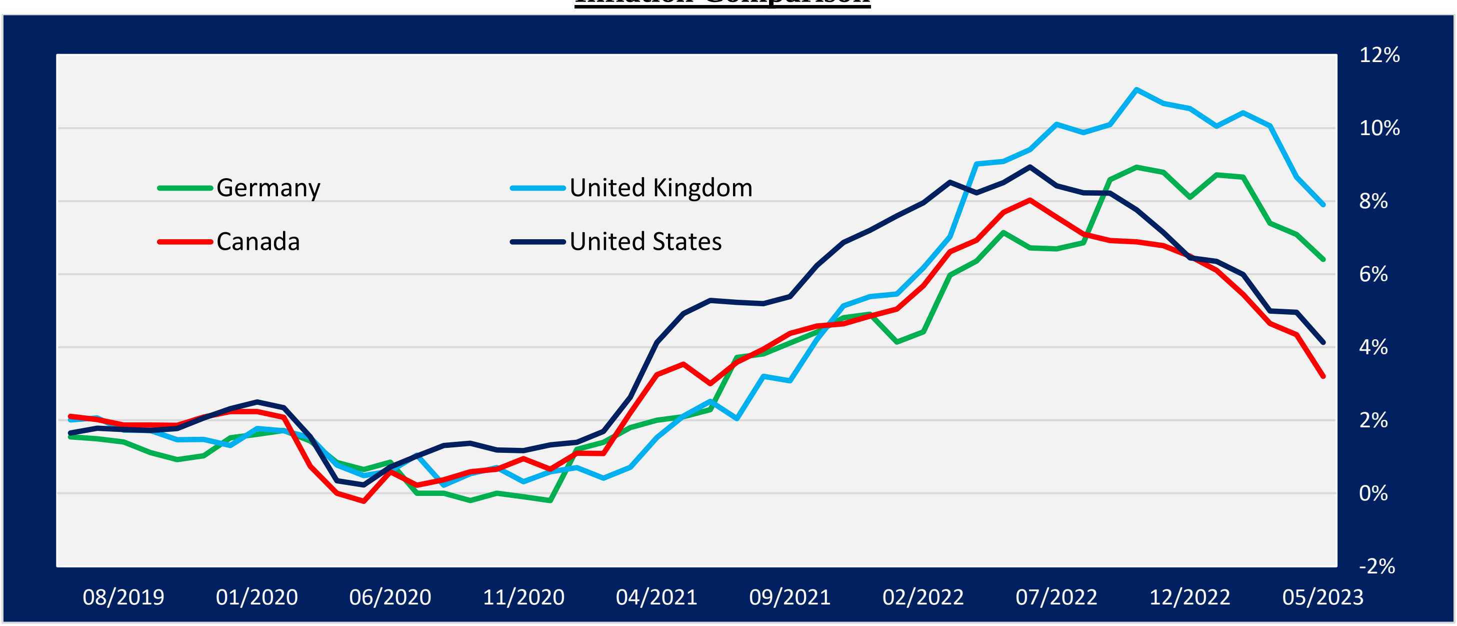
The second quarter of 2023 has seen a significant increase in short and medium term interest rates. While inflation has been coming down, it is still much higher than central bank targets, which has kept the central bank rates on a rising trajectory.

Canadian T-Bills & Bonds Yields

T-Bills & Bonds	June 30, 2022	March 31, 2023	June 30, 2023
3 Month	2.11%	4.40%	4.92%
6 Month	2.63%	4.46%	5.06%
1-Year	3.11%	4.41%	5.15%
2-Year	3.09%	3.75%	4.58%
5-Year	3.11%	3.03%	3.68%
10-Year	3.22%	2.88%	3.26%
30-Year	3.13%	3.00%	3.08%

Source: FactSet

Inflation Comparison



Source: FactSet

Consumer Price Index

Canada	**3.4%**
United States of America	**4.0%**
United Kingdom	**7.9%**
Germany	**6.4%**

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

The Bank of Canada aims to keep inflation at the 2% midpoint of a range from 1 to 3%. This is very similar to other G-7 targets so we can expect that most of the world's western economies will be increasing rates gradually until either inflation comes down to the 2% target or we get an interest rate induced crisis. This is a very uncertain process and as investors we will try to take advantage of fixed income opportunities while trying to avoid sectors and companies that become permanently damaged in the process.

Fixed Rate GICs

Duration	Rate*	Issuer
1 Year	5.35%	Vancity Credit Union
2 Year	5.20%	Laurentian Bank
3 Year	5.26%	FirstOntario Credit Union
4 Year	4.95%	Haventree Bank
5 Year	4.20%	HSBC Bank

**As of June 30, 2023* *Source: RJnet*

DISCOUNT BONDS

During the last few years of low interest rates, many bonds were issued at what we consider ridiculously low interest rates. As interest rates increased over the last 15 months these bonds have fallen in price, creating capital losses for owners who need to sell. This has created an opportunity for today's bond buyers, as we can purchase very safe bonds below par, pay our marginal tax rate on the low coupon, but half of our marginal tax rate on the capital gain when it matures at par ($100).

Example: Government of Canada 0.25% April 1, 2024 currently[1] priced at 96.77 for a 4.77% yield to maturity. This bond was issued at par (100) to the original buyer but due to the increasing rates there has been a capital loss.

Today's buyer earns interest income of 0.25 / 96.77 or a 0.258% yield which is fully taxable, but in nine months the bond matures at par for a capital gain which is taxed at half of interest income. This can be a very significant benefit in a taxable account.
This example uses wholesale prices, but clearly these discounted bonds present an attractive alternative for the fixed income portion of your portfolio. Discount bonds are also available with high quality corporate issuers such

[1] *As of June 30th, 2023*

as Canadian banks. These have higher yields than government of Canada bonds and provide a range of maturity dates and coupon levels. The lower the coupon the less current income but the greater the tax sheltered part of the overall return.

If you have funds on hand that you wish to keep very safe, but would like some tax sheltering call Meaghan or Mark and they can give you some choices that suit your situation.

PREFERRED SHARES

The Canadian preferred share market is dominated by what we call "reset" preferred shares. These shares reset the dividend level every five years, usually tied to the five year Canada bond rate. During the last few years many of these were reset at painfully low levels tied to the bond rates at the time. Today we have much more attractive bond rates for upcoming resets.

Preferred share dividends, like common share dividends, are paid with after-tax dollars by the issuer. In other words they do not provide a tax deduction to the issuing corporation. Due to this situation, both public and private corporations don't have to pay tax on preferred share income they receive to avoid double taxation. Unfortunately the federal government's March budget proposed an amendment that banks and insurers will have to declare dividend income as business income. If this amendment passes this should reduce the demand for preferred shares, and this may have already reduced the prices of some issues.

Regardless of how this settles we feel that there is good value for income investors in the preferred share market.

Below are some examples:

Name	Price	Current Yield	Reset Date	Reset Premium	Reset Yield Conservative*	Reset Yield Current*	Reset Yield Optimistic*
National Bank of Canada - Pref. G	$21.79	5.68%	11/15/2023	GOC + 2.77%	6.83%	7.40%	7.97%
Fortis Inc. – Pref. G	$18.55	5.92%	9/1/2023	GOC + 2.13%	7.16%	7.83%	8.50%
Toronto Dominion Bank - Pref. K	$22.19	5.35%	10/31/2023	GOC + 2.59%	6.50%	7.06%	7.63%

*GoC 5 yr. bond conservative estimate = 3.18%

*GoC 5 yr. bond current = 3.68%

*GoC 5 yr. bond optimistic estimate = 4.18%

Source: FactSet

The risks of preferred shares are:

1) The credit worthiness of the issuer.
2) Interest rate risk, if the reset date coincides with low interest rates the income can be reduced.
3) Liquidity risk, preferred shares do not tend to trade many shares each day, so you never want to be in a hurry to buy a lot of shares or sell a lot of shares on the same day.

Due to the high quality of the above issuers, and the reset dates being during the next few months, we believe that each of these represent a good opportunity for income investors. Issuers of slightly lower quality and reset rates further into the future have much higher expected reset rates. An example is below:

Name	Price	Current Yield	Reset Date	Reset Premium	Reset Yield Conservative	Reset Yield Current	Reset Yield Optimistic
Brookfield Renewable Pref. C	$16.95	6.42%	7/31/2024	GOC + 2.94%	8.29%	9.76%	10.50%

*GoC 5 yr. bond conservative estimate = 2.68%

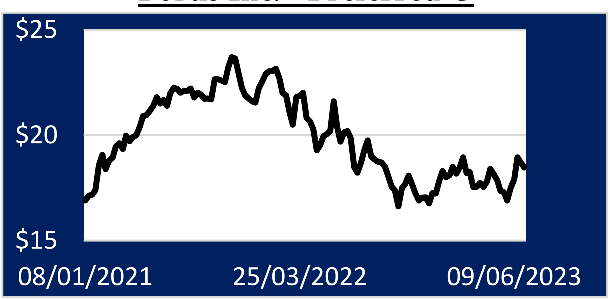
*GoC 5 yr. bond current = 3.68%

*GoC 5 yr. bond optimistic estimate = 4.18%

Source: FactSet

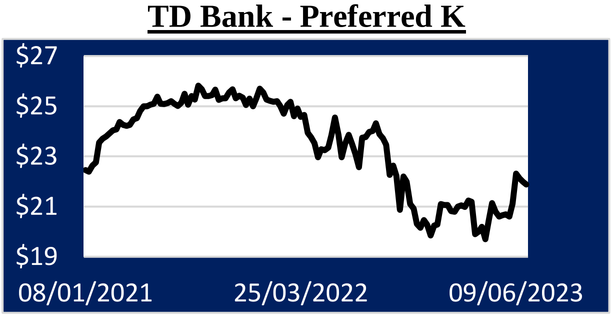
As the reset date of this preferred share is further into the future than the previous three examples we have used a conservative Canada five year bond reset rate of 2.68%, a full 1% lower than today's five year rate. While we like this and many other Brookfield issues, in order to benefit from the safety of diversification, care must be taken not to have too high a concentration in any particular company.

Fortis Inc. - Preferred G

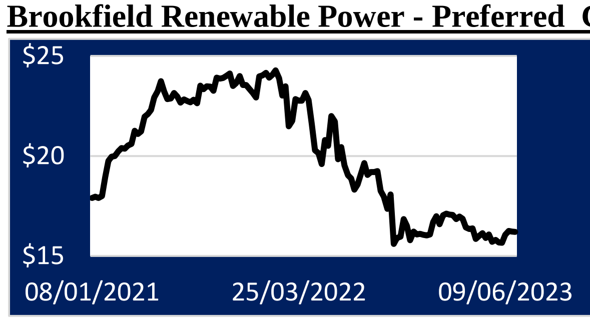


National Bank of Canada - Preferred G

TD Bank - Preferred K



Brookfield Renewable Power - Preferred C



Source: FactSet

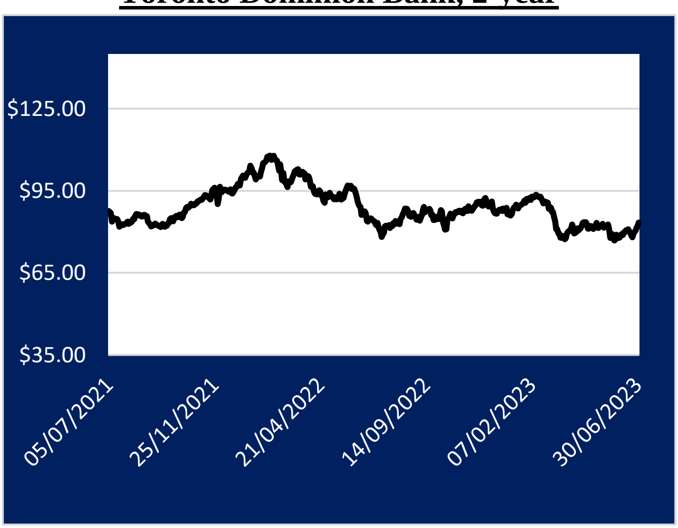
SOMETIMES YOU CATCH A BREAK!

On February 27, 2022 Canada's TD Bank entered into an agreement with First Horizon Bank (FHN) where TD would purchase FHN for US $13.4 billion, $25 per share. The benefit to TD is that they would gain over 400 new branches in the US southeast, expanding their already significant US presence. FHN was trading around $18 per share prior to the takeover so existing shareholders would receive close to a 39% premium to the existing share price. While this deal was going through the regulatory and political hurdles there was a crisis in the US regional banking sector, with FHN being a regional bank. While their acquisition was looking worse by the day, TD had a strong incentive to honor their agreement to purchase in order to keep their credibility for future transactions.

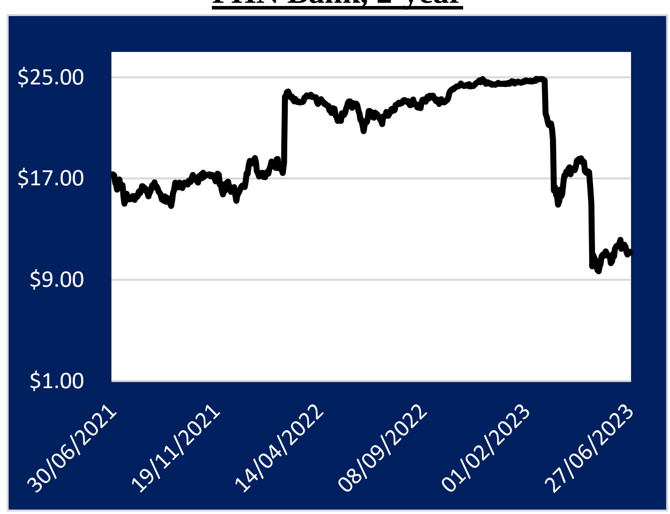
While one would have thought that US regulators would have been delighted to see Canadian shareholders bail out US shareholders during their regional banking crisis, the takeover did not get approved. This had an immediate negative effect on FHN, which currently trades at $11.27, far below the $25 offer price. TD shareholders should be dancing in the streets, as they would have absorbed an over $7 US billion paper loss should the transaction be completed. TD paid FHN $225 million as a break fee, but this is quite painless compared with the alternative.

The reason that this interests us is that TD is left with a very large amount of excess capital which may be returned to shareholders in the form of dividend increases. TD currently trades at a very reasonable 10.42 times earnings with a 4.77% dividend yield and trades at $82.11, 24.7% below its all-time high of $109.07 in February of 2022. We feel that TD has good risk/return potential for investors who do not already have a full position.

Toronto Dominion Bank, 2-year

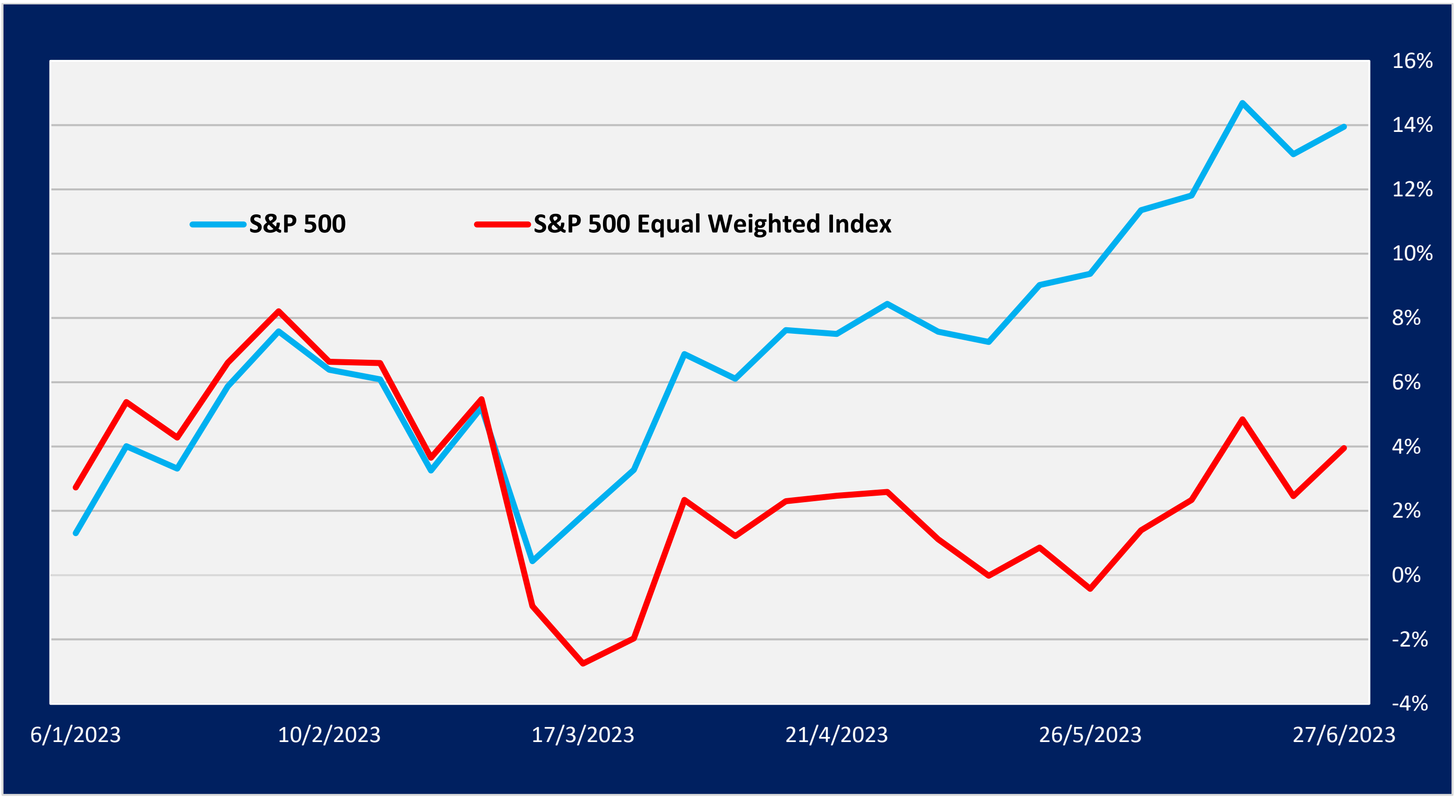


FHN Bank, 2-year



Source: FactSet

S&P 500 vs. S&P 500 Equal Weight



Source: FactSet

The above chart indicates that without the dominant weighting of the "Magnificent Seven" stocks in the S&P 500, it would only be up 4% year to date rather than 14%.

SUMMARY AND STRATEGY FOR THE THIRD QUARTER OF 2023

While predicting interest rates and markets is a humbling endeavor, we feel that uncertainty and pessimism are already embedded in the prices of many investments. For the most conservative part of your portfolio quality bonds are trading at discounts for yields in excess of inflation and tax benefits. For higher yields there are many preferred shares that seem attractively priced for income and future capital gains. While we plan to continue to own Apple, Google, Microsoft, and Amazon, part of the "magnificent seven" large cap growth companies, we currently prefer other quality companies that are out of favour but provide a better risk/reward from these levels. If you have any questions regarding your finances call Meaghan or Mark.

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CLIENT APPRECIATION EVENT - SAVE THE DATE

We are pleased to announce that we will be hosting our client appreciation event at the Nanaimo Golf Club on Wednesday, September 13, 2023, from 4 PM to 8 PM. Dinner and drinks will be provided, and we will have live music from Bill and Donna Konsorado. Please mark your calendars, and look out for your invitation in the mail in the coming month. Have a terrific summer!

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!