

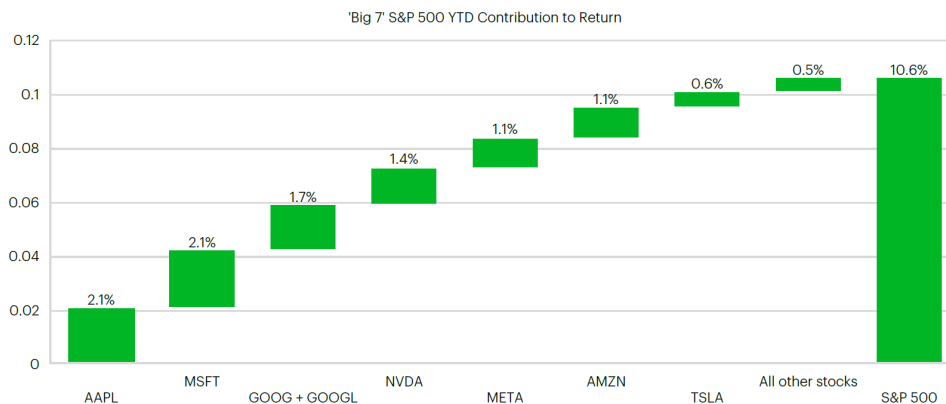
July 2023 Market Newsletter

June 30, 2023

Prepared by Andrew Kay, MBA, CFA, Senior Portfolio Manager
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Opening Comments

- We are halfway through the year 2023 and it has certainly been interesting! Inflation continues to dominate the financial headlines this month as investors keep a close eye on the potential for future interest rate hikes.
- A major amount of positive return in US equity markets this year has been driven by just seven large companies (Apple, Amazon, Microsoft, Google, NVIDIA, Meta, and Tesla). As of May 31st they had accounted for over 90% of the year to date gains in the S&P 500. (see figure below)



Source: FactSet as of May 31, 2023

Noteworthy News

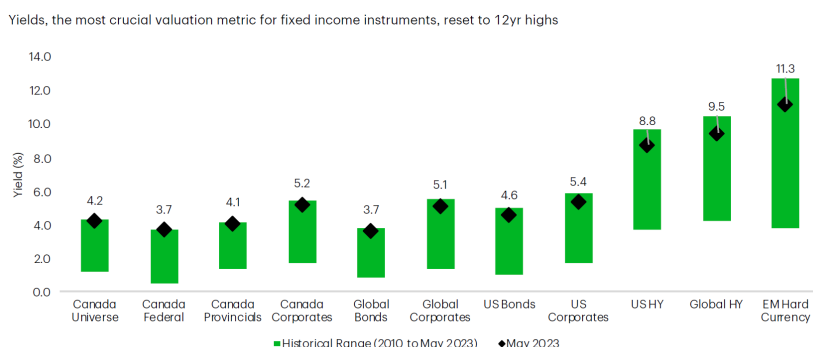
- Year over year inflation in Canada fell to 3.4% as of today's latest Consumer Price Index report from Statistics Canada, down from 4.4% in April. This is a positive development for the Bank of Canada as their efforts to control inflation via raising interest rates are starting to bear fruit. The Bank of Canada has a long term inflation target of 2.0% however so there is still a fair amount of work to be done.
- The inflation problem has not been unique to Canada, or in fact North America, as the Bank of England raised its benchmark interest rate to 5.0% in somewhat of an unexpected move, and signaled that there may be more to come.

Fixed Income Is Still Attractive

- Fixed income markets have performed well year-to-date, with performance coming from higher bond prices, spread compression and higher coupon payments. As expected, the volatility in government yields and interest rates have remained elevated, but rates are marginally lower over the past five months, leading to positive performance. Credit spreads have remained resilient and have defied much impact from the slowing economy.
- Historical data suggest that higher yield levels translate into higher total returns in the future. This means that investors could benefit from holding bonds across fixed income asset classes because increased income tends to bolster total returns over time, even if prices remain volatile in the short term.
- In fact, a greater portion of income needs for investors can now be met with traditional fixed income than would have been the case in recent years. Bonds tend to perform well during recessionary periods, meaning the backdrop for fixed-income investments could be even stronger when central bank actions start to clip inflation. Remember, higher potential income and improved diversification are two of the bedrock reasons for owning bonds.

Looking Forward

- Our outlook for global equities remains cautious. Corporate earnings continue to face headwinds as nominal growth slows and further modest profit deterioration is expected against the challenging economic backdrop. Over time, we expect higher-quality companies to overcome current headwinds, but we expect further market volatility to create better entry points.
- We maintain an overweight to fixed income, given that yields across the asset class remain well above the lows of the past decade and offer attractive risk-adjusted potential returns. We believe fixed income will outperform over the next 12 months. Bonds can also provide diversification benefits, reduce overall portfolio volatility and preserve capital.
- We prefer allocating to fixed income versus cash and equivalents. While cash returns have become more attractive based on the current rate environment, fixed income total returns should outperform over next 12 months.



Source: FactSet as of June 7, 2023

Closing Thoughts

- We continue to monitor increasingly important trends, such as the trajectory of inflation and its impact on equity and fixed income valuations. If you have any questions about your personal portfolio, please do reach out to us. We wish everyone a sunny month of July! - Andrew & Nathan

Market Performance (Source: Bloomberg Finance L.P.)			
	June 30 2023	Dec. 31, 2022	YTD Change
Equity Index Update			
S&P 500	4450	3840	+15.9%
S&P/TSX Comp.	20157	19385	+4.0%
MSCI EAFE	2132	1944	+9.7%
Government Bond Yields			
U.S. 10-yr Treasury	3.84	3.88	-0.04
Canada 10-yr Bond	3.27	3.30	-0.03
Foreign Exchange Cross Rates			
C\$ (USD per CAD)	0.76	0.74	+2.7%
Euro (USD per EUR)	1.09	1.06	+2.8%
Official Policy Rate Targets			
Central Banks		Current Target	
Federal Reserve (Fed Funds Rate)		5.00% - 5.25%	
Bank of Canada (Overnight Rate)		4.75%	

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Disclaimer

Sources quoted include TD Asset Management and Bloomberg Finance L.P. Additional sources include TD Wealth Investment Office Monthly Perspectives June 2023, the US Federal Reserve, and the Bank of Canada. The information contained herein has been provided by Andrew Kay, Senior Portfolio Manager and Nathan Leveille, Associate Portfolio Manager and is for information purposes only. The information has been drawn from sources believed to be reliable. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any investment. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual's objectives and risk tolerance. Certain statements in this document may contain forward-looking statements ("FLS") that are predictive in nature and may include words such as "expects", "anticipates", "intends", "believes", "estimates" and similar forward-looking expressions or negative versions thereof. FLS are based on current expectations and projections about future general economic, political and relevant market factors, such as interest and foreign exchange rates, equity and capital markets, the general business environment, assuming no changes to tax or other laws or government regulation or catastrophic events. Expectations and projections about future events are inherently subject to risks and uncertainties, which may be unforeseeable. Such expectations and projections may be incorrect in the future. FLS are not guarantees of future performance. Actual events could differ materially from those expressed or implied in any FLS. A number of important factors including those factors set out above can contribute to these digressions. You should avoid placing any reliance on FLS. Index returns are shown for comparative purposes only. Indexes are unmanaged and their returns do not include any sales charges or fees as such costs would lower performance. It is not possible to invest directly in an index. Bloomberg and Bloomberg.com are trademarks and service marks of Bloomberg Finance L.P., a Delaware limited partnership, or its subsidiaries. All rights reserved. TD Wealth Private Investment Counsel represents the products and services offered by TD Waterhouse Private Investment Counsel Inc., a subsidiary of The Toronto-Dominion Bank. All trademarks are the property of their respective owners. *The TD logo and other TD trademarks are the property of The Toronto-Dominion Bank or its subsidiaries.