August 2023 Market Newsletter

August 1, 2023

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

- The market has swung between extreme bearishness in Q1 2023 (with outsized inflows to money-market assets) to extreme bullishness in Q2 2023 (with tech premiums at the 98th percentile of their historical range). Investors are being pushed and pulled by mixed economic signals.
- Oil and gas stocks are trading at attractive levels, with an enterprise value just 3.7 times estimated EBITDA*. This metric has only fallen below 4x in 2008 (a much worse economic environment). The historical average is 6x.

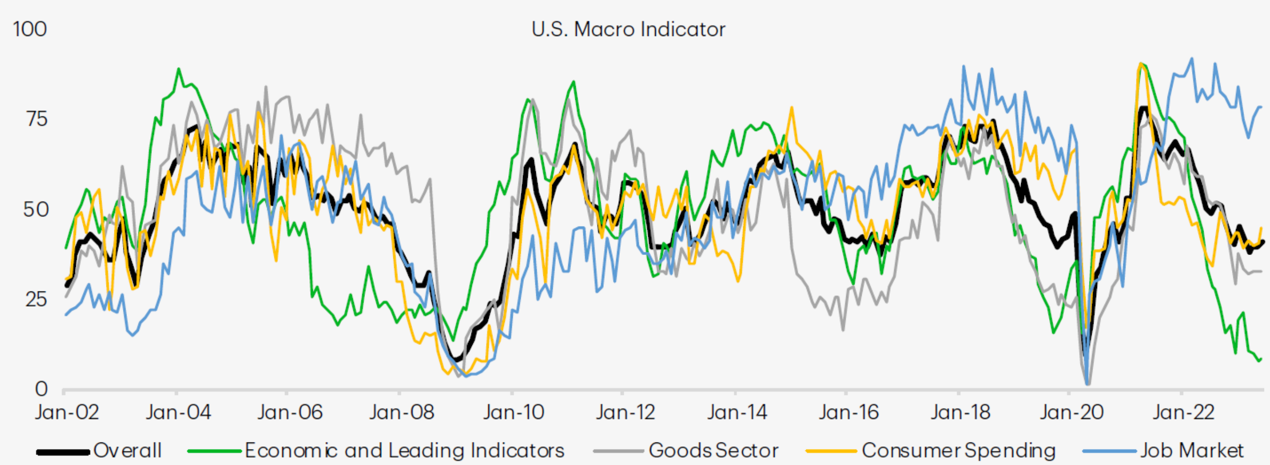
Noteworthy News

- On July 12th the Bank of Canada raised its benchmark interest rate to 5.00%, the 10th rate hike since March of 2022. The bank cited robust demand and tight labour markets causing persistent inflationary pressures.
- On July 26th the US Federal Reserve raised its funds rate by 0.25% to a target range of 5.25% to 5.50%, the highest level for the benchmark rate since 2001.

Employment Is The Last Man Standing

- Central Banks seem to be getting closer to reaching their goal of slowing the economy to control inflation. Most economic indicators are starting to reflect this in the US.
- Among US economic indicators, the economic and goods manufacturing data are viewed as leading indicators, while the jobs market and consumer spending are viewed as lagging indicators.
- In the figure below we can start to see the trajectory of the economy. While the jobs market remains strong and consumer spending has been resilient, we need to stress again that these are lagging indicators. The outlook for a softer labour market amid tight monetary policy should lead service spending to also slow.
- Overall economic growth, meanwhile, has been slowing consistently, and purchasing managers indices (PMIs) for the manufacturing side of the economy are already in contractionary territory, having fallen for eight months in a row.

Employment is the last man standing

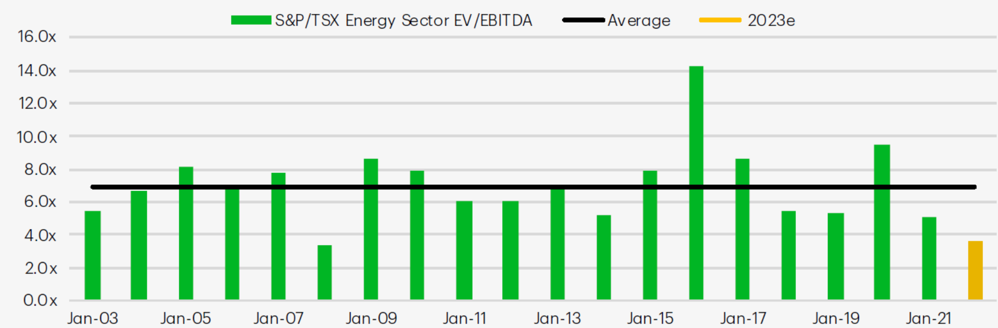


Source: FactSet, Wealth Investment Office as of July 10, 2023

Looking Forward

- Following a challenging 2022, global stock markets are trading sharply higher in the first half of this year with U.S. equities leading the pack.
- Overall, our outlook for global equities remains cautious as we expect corporate earnings growth to face headwinds as nominal economic growth slows. Over time, we expect higher-quality companies to overcome these headwinds, while market volatility can create attractive entry points. We continue to favour a "barbell strategy" for equity portfolios, with exposure to high-quality tech leadership companies alongside defensive, value and income stocks.
- Oil and gas is typically a highly cyclical industry, with energy stocks rising and falling with economic expansion and contraction. While industrial activity drives much of the demand for energy, the supply/demand balance has tightened structurally.
- At the same time, company management teams have generally moved their capital allocation framework away from investments in growth like new rig deployments and towards shareholder returns in the form of dividends and stock buybacks. These factors have turned oil and gas into a late-stage target of value and income investors this cycle.

Energy sector trading at deep value levels versus historical average



Source: FactSet, Wealth Investment Office, as of June 29, 2023

Closing Thoughts

- Regardless of what happens over the short term, a well-constructed portfolio is designed to navigate extreme scenarios. A good investment strategy is high-conviction over the long term. We continue to have our focus on long term outcomes for our investors. We hope everyone has a great last month of the summer! - Andrew & Nathan

Market Performance (Source: Bloomberg Finance L.P.)			
	Jul. 31 2023	Dec. 31, 2022	YTD Change
Equity Index Update			
S&P 500	4590	3840	+19.5%
S&P/TSX Comp.	20628	19385	+6.4%
MSCI EAFE	2199	1944	+13.1%
Government Bond Yields			
U.S. 10-yr Treasury	3.96	3.88	+0.08
Canada 10-yr Bond	3.50	3.30	+0.20
Foreign Exchange Cross Rates			
C$ (USD per CAD)	0.76	0.74	+2.7%
Euro (USD per EUR)	1.10	1.06	+3.8%

Official Policy Rate Targets Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	5.25% - 5.50%
Bank of Canada (Overnight Rate)	5.00%

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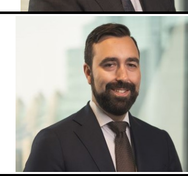

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