December 2023 Market Newsletter

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Opening Comments

- We still await the full effect of higher interest rates in Canada on both the consumer and real estate markets, but we anticipate that the Canadian economy will continue to slow under the weight of higher interest costs.
- U.S. earnings growth is starting to stabilize and show signs of positive momentum. Valuations have become more consistent with a slowing growth environment, which offers some potential support for the U.S. stock market, even in a modest slowdown.

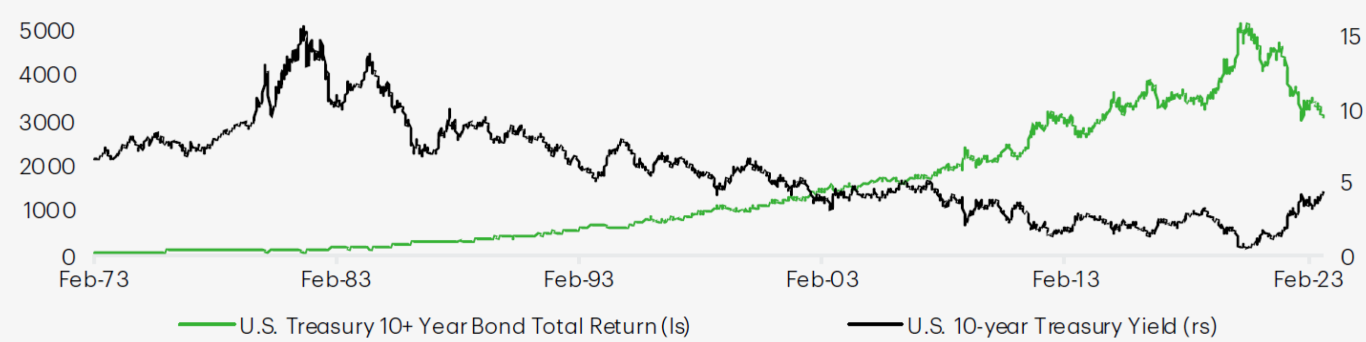
Noteworthy News

- On November 21st Statistics Canada released their Consumer Price Index (CPI) data for October and it was up 3.1% from a year ago and down from a 3.8% increase in September.
- U.S. Federal Reserve Chair Jerome Powell alluded on November 16th that further rate hikes would not be "appropriate" at this time, given recent evidence that U.S. inflationary pressures are continuing to ease at a gradual pace. He added that if it becomes appropriate to raise rates further, they would not hesitate to do so.

Historic Interest Rate Opportunity In Fixed Income

- From 1980 to the outset of the pandemic, long-term yields have conducted a marathon race to zero. That means that, while investors were frustrated to see their yield chipped away over that time, they were also consistently consoled by the fact that the coupon, and the capital gain derived by ever lower rates, worked with almost clock-like precision.
- Over the past 18 months, however, those same investors have been nursing losses on their fixed income portfolio amid the sharp increase in global inflation and policy rates.
- It's understandable, given the elevated market uncertainty, that investors would now prefer to put their money into short-term deposits — which are yielding just under 5% as of November 22nd — and shy away from duration risk, but the bond market is now providing investors with the opportunity to lock in long-term returns at levels not seen for 16 years (see figure below).
- The biggest determinant for fixed income return is the current yield, and right now the yield is good to great, with the Bloomberg U.S. Aggregate Bond Index average yield at 5.18% as of November 21st, with a potential for additional returns if interest rates decline in the future.

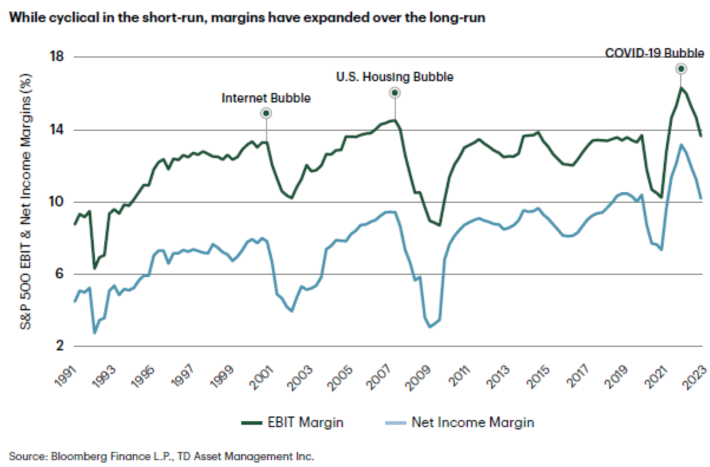
Rates present a historic opportunity



Source: FactSet, WIO as of September 30, 2023.

Looking Forward

- When it comes to investing in public equities, a key factor when evaluating a stock is the level and the future path of profit margins or simply "margins".
- At the level of individual companies, the path of margins has major implications on the prospect for earnings growth and can drive major shifts in valuations if it is seen to be improving or deteriorating. Investors also look at margins at a broader equity market level, by aggregating the outlook across a range of companies, to assist in making asset allocation decisions.
- Over the next decade, margins are expected to be flat to modestly higher. Headwinds will include greater employee bargaining power, and higher interest costs as long-term debt is refinanced, while tailwinds will include continued growth of the Technology sector, and productivity gains from AI & robotics.
- Given the difficulty in forecasting the path of interest rates, corporate taxes, and the speed of AI adoption, the most sensible strategy for investors is to stick with a basket of high-quality companies. High-quality companies, with pricing power, strong margins, strong free cash flow generation, and with the ability to reinvest cashflow into projects with attractive returns, are the most attractive.
- Firms with these qualities are ultimately best positioned to outperform, regardless of what the macro environment throws at them.



Closing Thoughts

- While 2023 has continued to be an interesting year in the markets to say the least, we are constantly reviewing both economic trends and investment opportunities to enhance your portfolios.
- As the year draws to a close we would like to take the opportunity to thank you all for your business and, more importantly, your trust. Happy Holidays to you and your families! - Andrew & Nathan

Market Performance (Source: Bloomberg Finance L.P.)			
	Nov. 30, 2023	Dec. 31, 2022	YTD Change
Equity Index Update			
S&P 500	4569	3840	+19.0%
S&P/TSX Comp.	20244	19385	+4.4%
MSCI EAFE	2125	1944	+9.3%
Government Bond Yields			
U.S. 10-yr Treasury	4.34	3.88	+0.46
Canada 10-yr Bond	3.55	3.30	+0.25
Foreign Exchange Cross Rates			
C$ (USD per CAD)	0.74	0.74	0.0%
Euro (USD per EUR)	1.09	1.06	2.8%

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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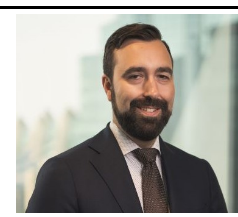

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Sources quoted include TD Asset Management and Bloomberg Finance L.P. Excerpts from Wealth Investment Office (WIO) Portfolio Strategy Quarterly Q4 2023, TD Wealth WAAC Perspectives November 2023, and TD Asset Management Investor Knowledge - "Getting to the Bottom of - the Bottom Line" and WAAC Perspectives, November 2023. Additional sources include the US Federal Reserve, and the Bank of Canada.

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