Building your financial future

Team Chartier, Grandmaison

Wealth Management Advisors and Portfolio Managers

2022

Awards of Excellence

Wealth Management

Montreal

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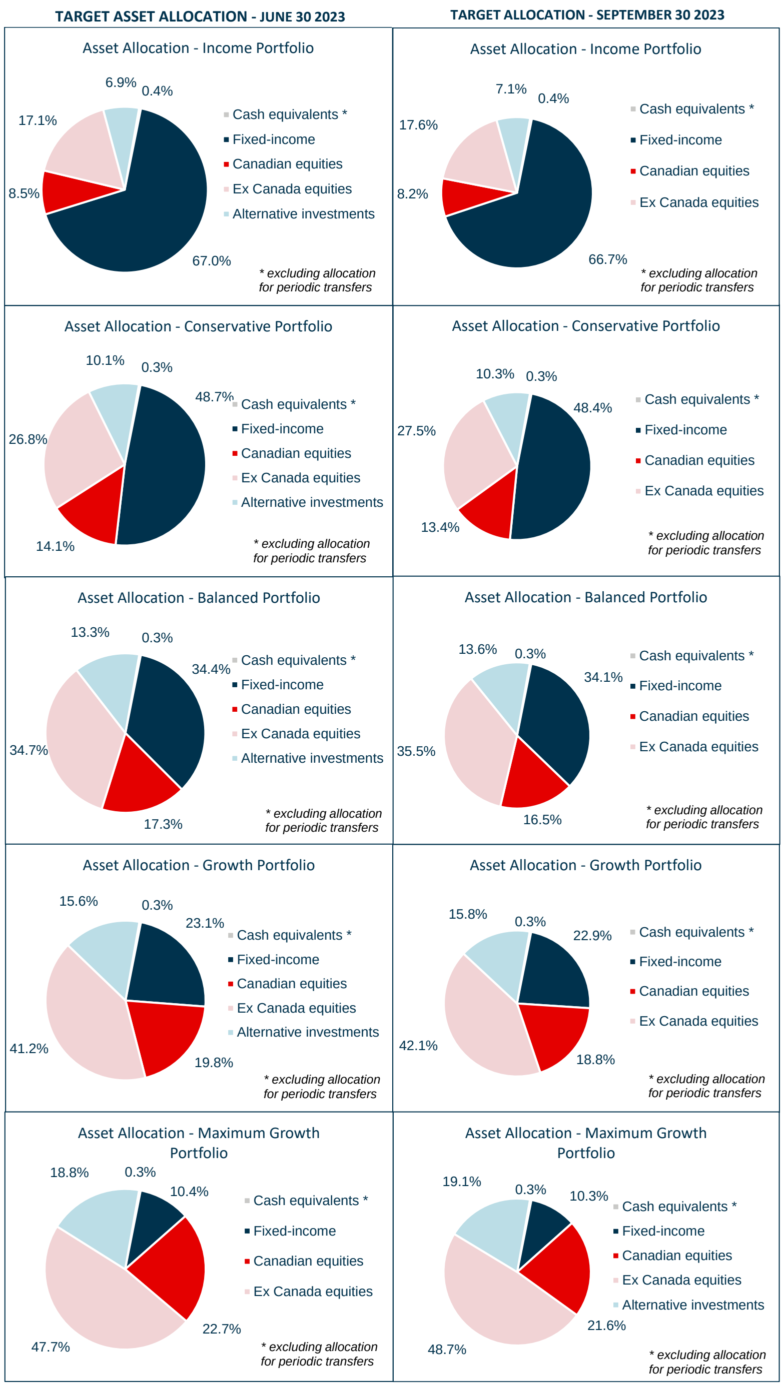
3RD QUARTER 2023 SUMMARY

Asset Allocation Strategy

We did not make changes to the asset allocation in the porfolio during Q3. The observed variations result from market movements.



Portfolio Model Revisions

During the last quarter, we decided to sell shares in Innergex Renewable Energy Inc (INE), which specializes in renewable energy production, a sector that remains sensitive to sustained rate hikes by central banks. Since March 2022, the period has therefore been rather difficult, and considering that economists are not yet predicting a downward trend in rates, we decided to reduce our exposure to this sector. In addition, reported production was below expectations due to difficult weather conditions, and the outlook for the coming quarters was not encouraging.

Additionally, we sold shares in Finning International Inc (FTT), a Caterpillar dealer and distributor of heavy machinery and spare parts. We believe that in an economic context of declining growth, this type of industrial company would no longer be as attractive as it was at the time of purchase. As FTT has reached its initial potential, we have taken profits on the stock.

We reinvested the proceeds of these sales in a Canadian equity mutual fund, the Manulife Smart Dividend ETF (CDIV). This is an actively managed exchange-traded fund (ETF) focused on paying consistent and growing dividends over time. Furthermore, CDIV's active management allows us to optimize the portfolio's security weight, resulting in an allocation that is often very different from that of Canadian stock market indices, with less exposure to the financial sector, for example. Given the economic slowdown in Canada, we consider this a prudent choice. The emphasis is on quality stocks, and CDIV's dividend yield at the end of September was 4.9%.

3rd Quarter Highlights

After a strong start to July, equities experienced a more turbulent period over the following two months, as volatility returned to the stock markets. For their part, North American bond yields hit new highs in over 15 years, driving down the current value of bonds. The third quarter was also characterized by a recovery in oil prices to their highest level since last November, and by a general appreciation of the US dollar.

In the United States, economic growth has again exceeded forecasts - good news in itself, but seen by the financial markets as a risk that the US Federal Reserve (FED) will raise its policy interest rate again between now and the end of the year. In fact, the resilience of consumers and the resistance of the job market, caused by excess savings and the significant increase in the federal deficit, are not conducive to the long-awaited slowdown in inflation.

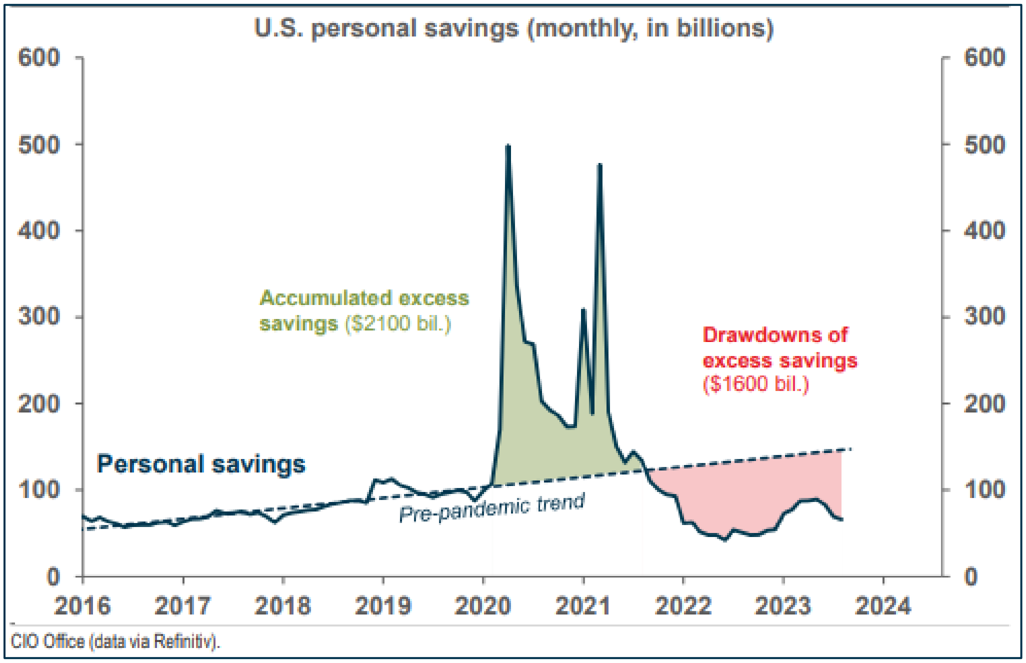
In Canada, the central bank raised its policy interest rate twice this summer, even though the economy was already signalling an underlying slowdown (falling real GDP per capita, rising unemployment rate) and had yet to feel the full impact of the hikes applied since the start of the tightening cycle. At this pace, growth expectations in Canada are low for the next 12 months.

On the markets, this translated into a general decline in stock and bond indices during the quarter, accelerating since the second half of September.

Outlook

Despite the more difficult economic context described above, the question is whether this situation is representative of a trend that is beginning or coming to an end.

What is reassuring is that we seem to be approaching a turning point, with particularly the exhaustion of excess savings accumulated by American households during the pandemic, which would have the effect of slowing inflation.



In Canada, the effects of past rate hikes should be increasingly felt.

However, for financial markets, the decisive factor will remain the choice of monetary policy by central banks in their battle against inflation. In the most optimistic scenario, if inflation slows down to the level targeted by central banks, we could expect a rate cut within two to three quarters, sustained household consumption and an easing job market.

In a more likely scenario according to economists, rising energy prices would keep inflation above the comfort level of policymakers, central banks would keep the door open to further tightening and would resist expectations of rate cuts before 2025.

Given these uncertainties, we are maintaining our defensive positioning initiated in the first quarter of 2023, when we increased our bond ratio. Furthermore, with the addition of CDIV to Canadian equities this quarter, as mentioned above, we are focusing on quality and prudence. Non-Canadian equities are still a growth contributor to the portfolio, with companies boasting solid balance sheets and low debt levels. Finally, the alternative portion, uncorrelated with other asset classes, is an excellent complement to equities and bonds, with the primary aim of protecting capital and adding value to the portfolio.

At such times, it is worth remembering that selling in times of heightened uncertainty is usually synonymous with heavy losses, as it often means selling low and missing out on the rebound. Most importantly, remember that the only certainty is that there will always be uncertainty; this is the price to pay for long-term capital appreciation.

The chart below[1] demonstrates that letting emotions get the better of you can sometimes leads to short-term gains, but almost always to long-term losses.

Let's not forget that through our investment discipline, risk management and rigorous personal support, we continue to be your partner in financial success, whatever the economic climate.

"A goal without a plan is just a wish." - Antoine de Saint-Exupéry

[1] CIO Office (Data via Refinitiv)