MAY 10, 2023

The Market Letter

Market Commentary

The stock market has performed well so far in 2023. Since the start of the year, the TSX is up 5.6% and the S&P500 is up 7.4%. The pace of inflation and interest rate increases in both the Canada and the U.S. have slowed. This has helped fuel a stock market rally after a painful 2022. Despite the rebound in stocks, most investors are understandably worried. Geopolitical uncertainty, the rising cost of living, and a negative media feedback loop are hard to ignore. The stock market is focused on 3 things: US debit ceiling negotiations, inflation & interest rates, and more recently: a deteriorating economy.

In the near-term, an agreement on raising the U.S. debit ceiling is needed in the coming weeks to avoid a default. In the past, last minute resolutions have always been achieved. What is worrisome this time, is that Congress is divided and both Democrats and Republicans seem particularly entrenched. We think much of this is political postering and a resolution will be achieved, but we can expect continued volatility as the deadlock continues.

As inflation has slowed and investors speculate that Central Banks are done raising interest rates and may even be able to begin cutting rates later this year (Fed pivot), the focus is now shifting toward a slowing economy and trouble in the U.S. banking sector. Slowing inflation and speculation of a "Fed pivot" have helped the stock market, but with this comes significant risk of a recession in the 2nd half of this year. Recessions are not usually good for stocks.

So, does this mean "sell in May and go away?" Historically, the stock market has underperformed in the 6-month period from early May to the end of October. This does not mean the stock market is going to crash, but that the chances of outsized returns are less likely than in the other 6-month period. Coupled with the afore mentioned headwinds, this could be particularly true this year.

For most investors, this does not mean sell everything and go fishing for 6 months. Those who own high quality companies should continue to collect their dividends and focus on the long term. It is also impractical to jump in and out of the stock market as this may result in significant tax consequences and it is impossible to know when the next bull-market will begin. It is better to view my cautionary words as a time to be defensive: Stick with high quality companies with solid fundamentals and be cautious about investing new money into stocks for the time being. With returns on cash over 4% and GIC rates around 5%, it is okay to keep some cash on the sidelines until conditions improve.

Basket Update

Our Growth & Income Private Portfolio (Basket) has performed well over the long term, but has underperformed its benchmark recently. This is due to weakness in our renewable energy stocks (Innergex, Northland Power) and lack of exposure to mining stocks, which have outperformed recently.

Weakness in the renewables has been due to challenging weather conditions, which has reduced power generation. These are one-time events beyond the control of management and can change quarter-to-quarter. Given the long-cycle nature of our investments, we do not place undue emphasis on quarterly results and continue to like these companies long term.

Metals and mining stocks are difficult to invest in. They are highly volatile, are at the mercy of commodity prices, and pay little in the way of dividends. A slowing economy could also pose a challenge. However, decarbonization and electrification will likely increase demand for key metals such as copper and nickel over the long term and we may enter the space at some point. In the meantime, we will be patient until we have more clarity on where we are in the economic cycle.

The average dividend yield on the Basket is approaching 5% and continues to be our preferred solution for Canadian stock exposure to compliment the Canoe Defensive Global Equity Fund and our US High Conviction Private Portfolio.

NATIONAL BANK FINANCIAL WEALTH MANAGEMENT

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Fixed Income Rates

Daily Money	
NBI Cash Performer (CAD)	4.30%
NBI Cash Performer (USD)	4.65%

GICs	
1-year	5.08%
2-year	4.86%
3-year	4.61%
4-year	4.57%
5-year	4.55%

Rates are as of May 11, 2023 and are subject to change at any time.

Banking Offering

National Bank offers an industry leading banking package, specifically tailored to NBF clients. We offer bank accounts, mortgages, personal loans, lines of credit, credit cards, and commercial lending solutions. Here are our current rates:

Mortgage Rates	
5,4,3-year fixed	4.94%
2-year fixed	5.59%
1-Year fixed	6.04%
Variable	prime – 0.50% = 6.20%
Home Equity Line of Credit	prime = 6.70%

Financial Planning

Investors often ask themselves, "will I be okay?". With a volatile stock market and lots of negativity on the air waves, it is easy to lose sight of long-term investment goals. It is critical to maintain this long-term view to avoid damaging returns. Putting a financial plan down on paper can help mitigate short term distractions. NBF offers a range of planning tools depending on an individual's situation. Please reach out to us to learn more.

Client Communications

I regularly email economic & geopolitical updates. For those that would like to receive these updates and are not already, please let us know. Please also let us know if your email address has changed.

I have prepared this commentary to give you my thoughts on various investment alternatives and considerations which may be relevant to your portfolio. This commentary reflects my opinions alone and may not reflect the views of National Bank Financial Group. In expressing these opinions, I bring my best judgment and professional experience from the perspective of someone who surveys a broad range of investments. Therefore, this report should be viewed as a reflection of my informed opinions rather than analyses produced by the Research Department of National Bank Financial.

The securities or sectors mentioned in this letter are not suitable for all types of investors and should not be considered as recommendations. Please consult your investment advisor to verify whether this security or sector is suitable for you and to obtain complete information, including the main risk factors.

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IIROC Investment Industry Regulatory Organization of Canada

CIPF Canadian Investor Protection Fund MEMBER