

# Investor Insights



## Q3 2023 - Investor Insights

### Market Review

The third quarter of this year saw a retreat across both the Canadian and U.S. markets. For our Canadian markets the rise we experienced in the beginning of the year, in particularly the first quarter, was nearly erased. The last couple months of this quarter each registered negative monthly returns, leaving us relatively flat year-to-date to the end of the quarter. By sector for Canada, Communications and Utilities had the largest retreat this quarter, down in the mid-teen range. The notion of “higher for longer” rates has really hampered the valuation of stocks within these sectors, as higher dividend paying stocks sensitive to the interest environment see a compression in their stock prices. The 10-year U.S. Treasury bond yields pushed through the October 2022 highs, reaching levels above 4.5%, which haven’t been seen for over a decade and a half. The Energy sector was one of the only sectors to register positive returns for the quarter, pushing this sector into positive territory year-to-date. The surge in oil West Texas Intermediate (WTI) for 3Q finally drove WTI into the green after the first two consecutive negative quarters. The U.S. markets were similarly down for this period but their previous two quarters significantly outpaced Canadian markets. Which has provided low-double-digit positive returns year-to-date to the end of 3Q. The U.S. markets have been in favour over the Canadian markets, led by growth



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stocks and technology sector. The S&P Growth and S&P Value indexes both negative for this latest quarter, with Value showing a deeper decline over Growth. Year-to-date, the Growth index has by far outperformed, with high teen double-digit returns versus a mid-single-digit return for Value. After three quarters of this year the Nasdaq still leads the major indices with mid-20's return numbers, reflective of the outperformance of growth stocks. Gold remained subdued with the strength of U.S. Dollar, and continued to chip away at the strong returns of the first quarter of this year, maintaining a year-to-date return just below mid-single digit territory.

## **Our Portfolios**

Our portfolios over this recent quarter were relatively in line with general market downward movement. Our High Income portfolio was the exception with a slightly positive end for the quarter, heavy concentration in the energy sector of this portfolio supported the almost one percent gain. The higher rate environment we've been in for the past year along with the recent move of 10-yr U.S. Treasuries beyond its high mark of last of year October continues to push equity prices of companies that pay good dividends. A large part of our Canadian equity holdings in our portfolios are aligned with a value focused and stable dividend paying qualities that have been extensively affected resulting in a decrease in the valuation of their stock prices. Our Infrastructure portfolio which holds a concentrated position of solid dividend paying and dividend growing stocks focused in the areas of telecom, energy, rail & road infrastructures, felt the increase in long-term government bond yields as this portfolio experienced the largest quarter decline slightly above mid-single digit numbers. Our various Canadian portfolios year-to-date are all down in the one to three percent range. The TWM US/International portfolio also had a negative quarter just shy of a mid-single digit return but year-to-date is positive in the mid-teen range. With recent decline in markets, opportunity to utilize cash we've been holding on the sideline as part of a tactical allocation has been put to work. The valuations are extremely attractive, and we added in the financials, telecommunications and utilities areas.

## **Outlook**

As we look back from the previous quarter where the momentum of long-term yields were in a declining trend, this quarter we saw another breakthrough of their highs which have negatively impacted equity markets. These sustained higher levels in yields beg the question when will it ease. There are indicators that show a recession is on the horizon, like the inverted yield curve, plunging consumer confidence, weak industrial production and slowing bank credit but economic activity continues to remain positive. The arrival of a recession doesn't seem to have played out yet and the door seems to be open for a soft landing, but forecasting models and historical patterns used to predict this recession and the movement of the markets are much more difficult. The post-pandemic economy is certainly not following the pre-pandemic playbook. But it does seem very plausible that there will be a point where central banks will need to ease monetary

conditions, therefore patience and discipline continue to be our mantras. Our equity holdings will continue to pay as we wait and if and when we see the easing of long-term yields, those stocks will perform positively.

### **Did you know....**

According to a survey released by Lawyers' Professional Indemnity Co. (LawPRO)

- The majority of Canadian adults, 56%, do not have a signed will.
- 29% of Canadian adults do not have a will because they do not know how to proceed to get one.
- 88% of Canadians aged 27 to 34 do not have a will. The most common reason for not having a will at this age is that they think they are too young (21%).
- However, this age group is amongst the most in need of a will because of the important milestones they are facing at that age, such as having children and buying a home.
- And finally, 71% of Canadian adults do not have a signed power of attorney nor, in Quebec, a mandate of protection.

Estate planning can be a sensitive subject, and we often prefer not to talk about it. However, by planning your estate, you're giving your loved ones a wonderful gift by avoiding worries for them later. Peace of mind and a happy family are common goals for estate planning. Estate planning is the ongoing process of managing, preserving, and transferring wealth. You can eliminate uncertainties and ensure a smooth distribution of your estate by anticipating and planning for the transfer of your assets. With a properly structured estate plan, you can maximize the value of your estate by reducing taxes and other related costs as well as reducing the stress on your beneficiaries.

### **What is estate planning and why is it important?**

Succession planning is a game plan that outlines all the important actions and decisions to follow. Basically, it entails:

- Getting your wishes in writing as they relate to the inheritance of your assets when you pass away.
- Detailing your wishes as much as possible to avoid any disagreements between your loved ones.
- Covering a breadth of possibilities beyond just death. For instance, you can designate a person to manage your estate in case you become incapacitated. Should you have a stroke or a degenerative disease like Alzheimer's that results in a loss of independence, you'll be better off if you had planned for this possibility.
- Setting up mechanisms to protect one of your inheritors if you think they won't be able to manage a significant amount of money themselves.
- Choosing the main people who will be involved in managing your estate.

Interested in learning more about planning your estate or if you have any concerns, please let us know and we'll take a personalized look at your situation. As a helpful guide, we've included the Estate Planning Guide along with an information piece for BC residents. For clients living in other provinces, please contact us for your applicable document in your residing province.

Sincerely,

**Rana Lee, CIM**

**Wealth Advisor & Portfolio Manager**

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