RAYMOND JAMES® | Family Wealth Counsel Advisory Group

Investment Commentary November 2023

As we move towards the end of the year (the holidays will be here before we know it!), we continue to believe that this cycle will end in mild recessions in both Canada and the U.S. Although inflation has come down dramatically from its peak in June 2022, the battle to two per cent could drag well into 2024, and although we believe we are very close to the end of the tightening cycle as demonstrated by the pausing of central bank increases, we can't rule out that any short-term resurgence in inflation could prompt further interest rate hikes. Having said that, we do believe rates are peaking or close to peaking. There is a risk of overtightening and as global economic growth is already slowing, this could put even more pressure on the economy. We have recently seen indicators that demonstrate consumer spending might finally be starting to abate. However, labour markets continue to be tight. We are in recession in certain sectors, and we do believe the economy will weaken, which would ultimately be good news for our strategy particularly.

Why would a weak economy be good news? Know the stock market is not the economy and is generally more forward looking. It can move up in anticipation of a better future even when indicators point to a weakening economy. We are seeing signs that some consumer spending is abating, new orders are declining, some broad layoffs have occurred, and we believe the covid savings is near the end, which will help to further curve discretionary spending. It's been one of the culprits of this persistent inflation.

Our core strategy is to maintain exposure to a diverse group of high-quality investments with solid and increasing dividends that are supported by strong cash flows. Over the long term, these investments have historically provided better risk-adjusted returns than the market, and they provide cash flow for clients who require income or in cases where income is not required, the cash flow is reinvested.

This strategy has been struggling in this environment because index performance on the Canadian side and U.S. side this year has been primarily driven by a few technology stocks that have benefitted from the advancement of AI that we only have limited exposure to.

The other issue of course has been the effect of rising rates on the bond market, which drives down overall performance on a typical 40/60 balance growth portfolio. As rate sentiment changes however and it appears this may be happening now, this asset mix will contribute to higher returns that are more in-line with historic performance. We focus on this philosophy as it works over time – chasing performance of a few stocks is a risky game, which we avoid playing.

What we do know is that it has been a long time since the forces of the financial markets have provided us with such an attractive opportunity to rebalance our portfolios with lower risk exposure and a potential for higher future returns than right now. We highlight the three things we have been doing to take advantage of the current markets.

- Moving more investable assets into the bond market to lock-in the higher yields by using money markets instruments for liquidity and laddered bonds, ETFs and funds with a duration focus of 1-3 years and 3-5 years.

- Narrowing our selection of equities for a higher concentration of large cap dividend stocks that are currently under-valued, offering the potential for higher stock prices and dividend pay outs in the future.

- Being more selective on sector exposure to reduce risk and lower volatility.

- Ensuring your cash flow is protected by safe assets – our core philosophy.

We know it is very easy to get emotionally involved with your investments and the financial markets and why wouldn't it be. It is a very important part of your life and therefore quite normal. It is also difficult to think long term, especially when this downturn has been going on now for over 17 months. Although we can't time the market, we believe we are close to the turning point with far better days ahead for our strategy.

We have attached a link to our recent Strategist Investment Outlook that mirrors our thinking and provides a more detailed outlook.

As always, please do not hesitate to contact us if you are worried and need some reassurance or would like to review your portfolio with us. We always welcome your calls and are always here for you.

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