'Tis the Season, kind of.....

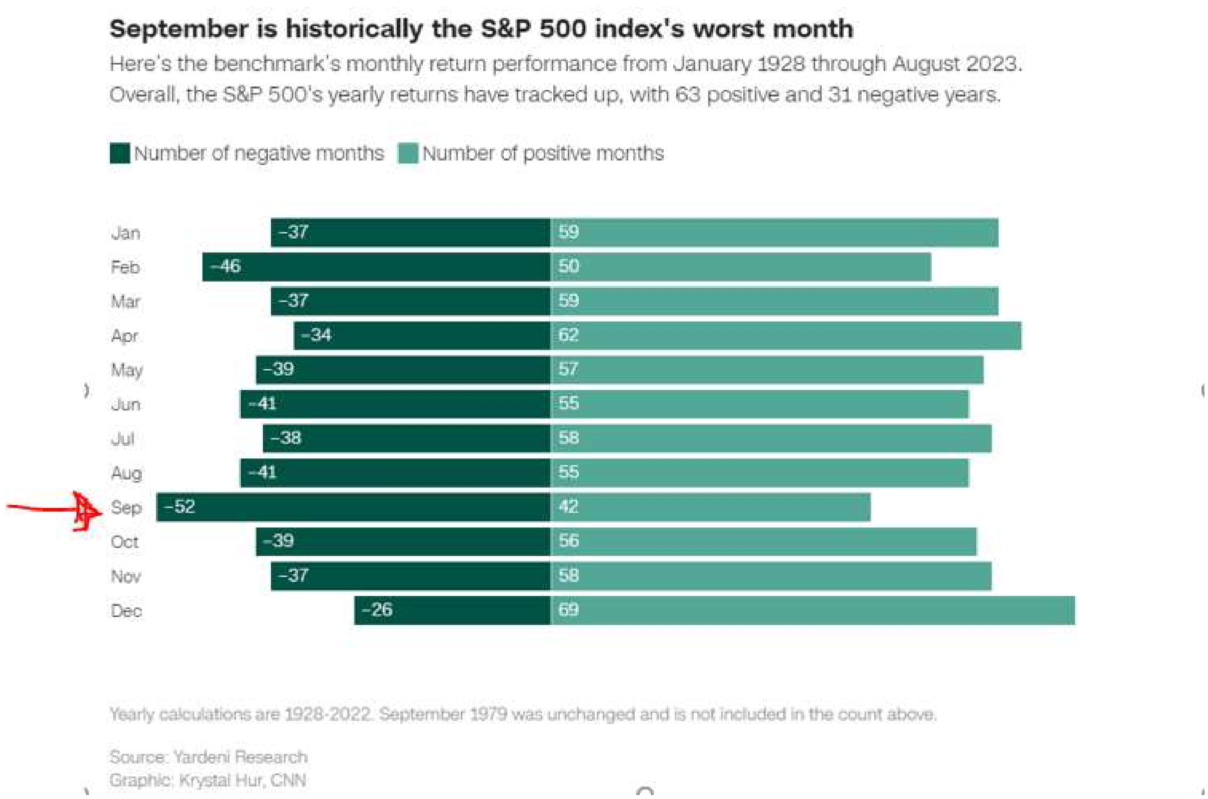
Fall 2023 Client Update

Good afternoon,

I hope everyone had a wonderful summer and were able to kick back and enjoy time with family and friends! From a market and portfolio perspective, the summer was fairly kind to everyone and there had been no real concerns for the portfolio.

As we head into **Fall, it is the time of the year we** **Seasonal weakness** in the markets. Historically September is the weakest month on average for the market. In reality, the softness in the market usually starts mid-August and so far we are in line for a typical experience.

In the illustration below, you can see that **September holds the title for most negative months going back to 1928**, however the S&P 500 has been up 63 of those years, with 31 negative years.



Inflation and Interest Rates:

U.S. Inflation figures were released today, showing the annual rate of U.S. Core inflation was 4.3% in August, down from July's 4.7%. However, **overall inflation rose to 3.7%,** ahead of forecasts and up from 3.2% in July. Core inflation excludes food and energy prices, so the average person is more interest in Overall Inflation rate changes.

While there was nothing earth shattering in these numbers, it does result in very mixed opinions on the direction of Federal Reserve rate decisions next week, and then into November.

Investors and Economists were hoping for continued cooling in CPI to open the door for a more certain pause in rate hikes and to be able to project when we may see a cut. I personally don't think a cut is on the table until well in 2024, especially with Oil, Gasoline and Jet Fuel prices continuing to increase.

Year to Date Returns: How are we managing?

Most clients' portfolios this year are up between 4% - 6% net of fees, which is inline with, or even slightly ahead of general market performance based on the **Toronto Stock Exchange** (up 4.12% year to date to Aug 12th) and the **Dow Jones** (up 4.89% YTD to Aug 12th). Both of those returns are before fee figures as well.

Where the returns differ for 2023 is in the S&P 500 and the Nasdaq Indices, which are comprised of Tech-Heavy companies that have rebounded strongly after their sharp 2022 decline. **The Nasdaq** is up 33% in 2023 so far, after being down 33% last year. **The S&P 500** is up 17% but was down 19.5% in 2022.

Sometimes an easier way to look at the path of market returns the past two years is to use dollar changes, as we all spend dollars and not percentages. For instance,

- $100k starting in 2022 invested in the Nasdaq market fell to $67K by years end! After the 33% increase so far in 2023, that $100 has only climbed back to $89.

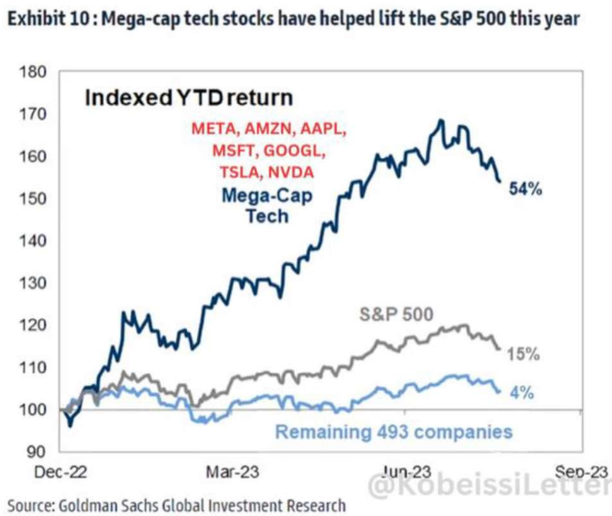
- For the S&P 500, $100K fell to $81K in 2022 and has climbed back to $94K so far in 2023

This illustrates that while these massive returns in 2023 look good, they are only trying to recover from a disastrous 2022.

For clients, your portfolios have been managed to consider downside risk control. Because of this most portfolio's fell 6% - 9% after fees on average in 2022. There are induvial exceptions for certain clients that have either GIC only portfolios or held more growthy investments.

Using the same measurement above,
- **the average client has had $100K decline in 2022 and recover to about $97K in 2023,** which while not back to where 2022 began it is much closer than what has occurred in any of the North American Markets.

In my opinion, we have done a better overall job since the start of 2022 during this market turbulence and have managed risk. ****Anyone who would like their specific return figures I am happy to provide, and as you know will be discussed when we host our scheduled meetings.*



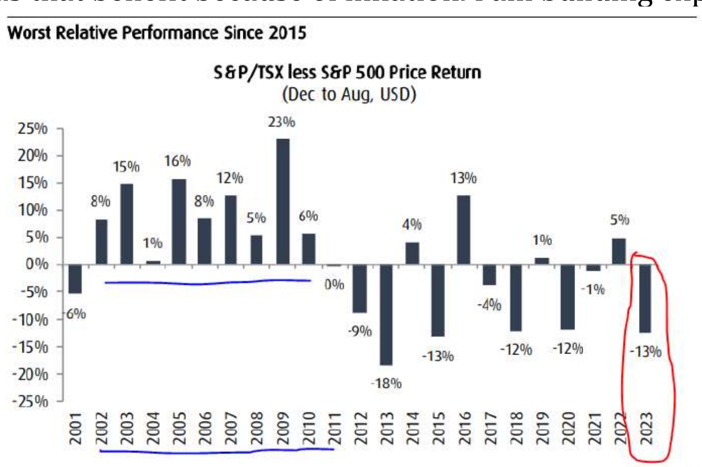
AS YOU CAN SEE IN THE GRAPH, THERE ARE 7 COMPANIES THAT ARE DRIVING A MAJORITY OF THE GAINS IN 2023 ON THE U.S. MARKET.

THE 493 OTHER COMPANIES ON THE S&P 500 WERE UP ONLY 4% ENDING IN AUGUST, WHEN THE INDEX INCLUDNG THE "MAGNIFICENT 7" STOCKS WAS UP 15% TOTAL!

What to expect into year end?

If I went by the statistical evidence of how the Canadian Market performs relative to the U.S. market in years when Canada has lagged, I would say the focus should still be on U.S. companies in the portfolio.

However, as seen below, it has been some time since Canada has lead and outperformed the U.S. on a consistent basis. The blue underlined period was during our last commodity cyle from 2002 to 2009. Since then the underperofmrance, as seen below in Canada, has been almost every other year and sometimes significantly so. I am positioned with clients for an eventual shift to where Canada could see outperformance for a few years. Energy prices and many other commodities have recovered from the 2022 price declines, and are contributing to inflations' pesky rise. While inflation hits our pocketbooks, the way to attempt to offset it is to invest in areas that benefit because of inflation. I am building exposure to these areas.



Final Thoughts:

The last couple years have been challenging for investors.

The News has constantly reported that a recession was right around the corner, that we would see rates decline by the summer of 2023, and that inflation would ease. We haven't seen any of these play out yet!

My goal is to communicate often enough to keep every client informed on the thoughts that guide the investment strategy for **their money**, and sometimes those views can differ from the mainstream.

I also don't want to over communicate to a point where my emails get lost in your inbox.

Please feel free to share with me your communication preferences at anytime. We have a schedule for all clients to be contacted for a review meeting, but if you are feeling like you need an update ahead of those calls from Jocelyn or Brittany, please reach out.

Lastly, if you have **friends or family who mention they aren't contacted by their advisors often, or are looking for a change,** I am happy to meet with them to discuss how we may be a fit for their overall wealth needs.

As well, please be reminded that as a client of BMO Nesbitt Burns and BMO Private Wealth, included you have access to our **Wealth Planning Specialists** covering Trust, Estate & Will Planning, Business Succession and Tax Planning. These professionals are here to work with our clients on various planning needs and coordinate a holistic plan view with your other professionals (such as your accountant or lawyer) if you need these services. Feel free to ask me about this at our next meeting if interested.

With that, I want to thank you for your continued trust in our team.

All the best!

Ryan, Jocelyn & Brittany

Ryan Coburn, B.Mgt, CIM®, PFP®
Vice President & Market Leader, ***BMO Private Wealth***
Portfolio Manager, & Senior Wealth Advisor, ***BMO Nesbitt Burns***

(T) 403-382-3498

Check out our Website: www.ryancoburn.ca