MARKET & ECONOMIC SUMMARY

Volume 11, Issue 3 – July 2023

MARKET SUMMARY

Second Quarter 2023

S&P/TSX Composite TR

Q2	YTD	1 year
⬆ 1.1%	⬆ 5.7%	⬆ 10.4%

S&P 500 TR (USD)

Q2	YTD	1 year
⬆ 8.7%	⬆ 16.9%	⬆ 19.6%

MSCI EAFE GR (C$)

Q2	YTD	1 year
⬆ 0.9%	⬆ 9.5%	⬆ 22.5%

ICE Bof AML Canada Brd Mkt TR

Q2	YTD	1 year
⬇ 0.8%	⬆ 2.2%	⬆ 2.8%

SECOND QUARTER HIGHLIGHTS

- S&P/TSX Composite range bound closing at 20,155.30 on June 30th
- S&P 500 hits 8-month high of 4,448.47 on June 16th
- Canadian dollar hits 10-month high of $0.7624 USD on June 26th
- WTI Oil range bound closing the quarter at $70.64 USD on June 30th
- Bank of Canada increases overnight rate by 0.25% to 4.75% in Q2

SUMMARY

Q2 was another strong quarter for investors with positive equity market returns and stable bond yields. The U.S., Canadian, and global equities closed the quarter and first half of 2023 positively, with technology being the leading sector. Despite brief volatility due to political events and the regional banking sector, bond yields remained stable. The Bank of England, European Central Bank, and Reserve Bank of Australia all aligned their monetary policy with the Fed and raised rates twice.

There were several positive economic indicators, such as job creation, although wage pressures in the U.S. labor market appeared to be easing. The broader inflationary trend in the U.S. showed prices were easing, albeit slowly. Canadian inflation also cooled in the quarter, largely due to lower gasoline prices, although food and housing costs remain elevated. After a four-month break, the Bank of Canada surprised by hiking rates 25 basis points to 4.75% based on concern over excess demand in the economy, a tight labor market, and increased housing market activity.

The S&P/TSX Composite Index, S&P 500 Index, MSCI EAFE Index, and MSCI World Index all ended the quarter positively. The S&P 500 had its best first-half performance since 2021, and the TSX gains were more modest due to its high exposure to the banking and oil sectors. Global stock gains were somewhat held back by a slower-than-expected post-pandemic recovery in China. However, Japanese stocks experienced a resurgence, with local indices reaching their highest level in 33 years, primarily driven by increasing demand from foreign investors.

Bond yields were overall stable reflecting investor optimism and cooling inflation. They rose in May due to uncertainty over the U.S. debt ceiling negotiations and concern about the U.S. regional banking sector. However, through June, bond yields stabilized again as Democrats and Republicans in Congress reached an agreement to extend the U.S. debt limit until 2025 and worries over recent bank failures subsided. Oil production was cut by OPEC in response to oil prices dropping.

Going forward, central banks are prepared to increase rates further in response to elevated consumer demand for goods and services, increasing housing activity, and higher wage growth than historical averages. However, there are more structural economic issues, such as labor and housing market imbalances, that monetary policy alone may not solve. Regardless of

where we are in the market cycle, it's essential to take a disciplined approach to investing and stay focused on long-term goals. Regular monitoring and reviewing of your portfolio ensure it remains on track, and diversifying investments reduces risk.

We appreciate your continued trust in us and our team to assist you in working toward your financial goals. If you have any questions regarding your portfolio, please do not hesitate to contact our office.

> *"Our expectations and preparation are for a hard landing but we'll happily accept being wrong." – Matthew Jenkinson*

STRATEGIC NOTES

There has been a lot of discussion in the media about hard and soft economic landing and which one will result from the central banks globally raising interest rates but what exactly do they mean by this?

The Federal Reserve uses different methods to impact the economy with their dominant tool being interest rates which can result in either a soft or hard landing. A soft landing is a gradual decrease in economic growth, while a hard landing is a sudden and severe downturn.

When the Federal Reserve raises interest rates, it can cause a soft landing by raising borrowing costs which slows down economic growth and prevents inflation from reaching unsustainable levels while not producing high unemployment. The goal being a gradual decrease to prevent a hard landing, which could occur if the economy overheats and leads to a sharp downturn and high unemployment.

Overall, the Federal Reserve's decision to raise interest rates is a delicate balancing act between preventing inflation and promoting economic growth. By carefully monitoring and adjusting interest rates, the Federal Reserve aims to achieve a soft landing and maintain a stable economy.

Although the markets have roared back since the lows of September 2022, we remain very cautious of the effects of interest rates having increased so swiftly which has caused business conditions and consumers to weaken. With further rate increases and tight credit conditions imminent and inflation still too strong our expectations and preparation are for a hard landing, but we'll happily accept being wrong albeit great performance year-to-date.

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The information in this letter is derived from various sources, including CI Investments, Signature Global Asset Management, Cambridge Global Asset Management, Globe and Mail, RBC GAM, National Post, Bank of Montreal Economics, Yahoo Canada Finance, OilPrice.Com and Trading Economics. Index information was provided by Morningstar, TD Newcrest and Bloomberg. Eastport portfolio returns are net of all investment management fees but do not include an advisory fee. This material is provided for general information and is subject to change without notice. Every effort has been made to compile this material from reliable sources; however, no warranty can be made as to its accuracy or completeness.