Eastport FINANCIAL

MARKET & ECONOMIC SUMMARY

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MARKET SUMMARY

Third Quarter 2023

S&P/TSX Composite TR

Q3	YTD	1 year
↓ 2.2%	↑ 3.4%	↑ 9.5%

S&P 500 TR (USD)

Q3	YTD	1 year
↓ 3.3%	↑ 13.0%	↑ 21.6%

MSCI EAFE GR (C$)

Q3	YTD	1 year
↓ 2.0%	↑ 7.4%	↑ 24.3%

ICE Bof AML Canada Brd Mkt TR

Q3	YTD	1 year
↓ 3.9%	↓ 1.7%	↓ 1.7%

THIRD QUARTER HIGHLIGHTS

- S&P/TSX Composite range bound closing at 19,541.30 on Sep 29th
- S&P 500 hits 4-month low of 4,238.63 on Sep 27th
- Canadian dollar hits 11-month high of $0.7639 USD on July 14th
- WTI Oil strikes 12-month high of $95.03 USD on Sep 28th
- Bank of Canada increases overnight rate by 0.25% to 5.00% in Q3

SUMMARY

Equities in the U.S., Canada, and globally began the quarter on a positive note but faded in August and September, resulting in negative returns. However, year-to-date, equity markets remain in positive territory. Bond markets saw U.S. and Canadian yields rise due to credit rating downgrades and inflation concerns. Both presenting cheap buying opportunities for the long-term investor.

In the job market, signs of a slowdown emerged in the third quarter, with wage growth in Canada also slowing down. This slowdown in employment and wage growth is viewed positively by the Federal Reserve and the Bank of Canada as they monitor inflation and aim to engineer an economic slowdown. To improve trade relations, treasury secretary Janet Yellen visited China and implemented stimulus measures to boost the post-COVID economic recovery. The European Central Bank and the Bank of England made rate adjustments, while the Bank of Japan maintained its long-held target for 10-year bond yields.

In terms of inflation, the U.S. headline CPI came in at 3.7%, largely driven by energy and rent costs. The core inflation reading, which excludes food and energy, was 4.3%. The Federal Reserve held rates steady for the remainder of the third quarter but expressed the possibility of further rate hikes if the economy did not slow enough to keep inflation in check. Canadian inflation initially cooled but then climbed to end the quarter at 4%, driven by higher gas prices, food prices, mortgage costs, and rising rents.

In the capital markets, major indices such as the S&P/TSX Composite Index, S&P 500 Index, Nasdaq Index, MSCI World Index, and MSCI EAFE Index ended the quarter in negative territory. Rising bond yields, concerns about a U.S. government shutdown, and uncertainty surrounding interest rates and inflation weighed on North American equities.

Oil prices experienced a surge in the third quarter, surpassing US$90 for the first time since 2022, due to production cuts by Saudi Arabia and OPEC. In currency markets, the U.S. dollar rallied on relative economic strength and elevated bond yields, while the Canadian dollar also strengthened against other major currencies.

Looking ahead, markets are entering a transition period with potential volatility as the rate-hiking cycle nears its end. Investors will seek clarity on the impact of previous rate hikes, the duration of high rates, and the conditions for central banks to reverse course. Regardless of the market cycle, it is important to maintain a disciplined approach to investing, focusing on long-term goals, and regularly reviewing and diversifying investments to mitigate risk.

"We wait in great anticipation for the grey recession cloud to either materialize or blow over so markets can move forward rather than oscillate" – Matthew Jenkinson

STRATEGIC NOTES

Interest rates are like gravity to asset (homes, stocks, bonds, etc.) prices, to quote Warren Buffett. When interest rates go down, which they have for 40 years and significantly artificially low for the past 15 years, asset prices go up. To the contrary, if interest rates go up, asset prices go down, albeit slower then faster based partially on the time it takes for the markets (housing, stocks, bonds, etc.) to realize and come to terms with it.

To have interest rates lower than a willing buyer and willing lender would agree to, interest rates need to be subsidized (Ray Dalio). For the good part of 15 years the central banks of the world have been subsidizing lower rates by buying their own government's debt through a process called quantitative easing. We can see this debt on the global reserve banks balance sheet.

There is substantial doubt they can continue buying their own government's debt without risking inflation which means rates will most likely not go down below what a willing borrower and willing lender would agree. Historically, over the prior century or so, this has been ~5%. Therefore, the expectation is a behavioral bias, known as the recency bias, which over time is going to be dismantled by reality. We can actually see this in the movement of the yield curve over the prior 12-18 months.

Recency bias which is described as "events of the recent past have more of an effect on our behavior as they're more easily remembered than those further in the past". The result is people continuing to live and spend as if they're in an artificially low interest rate environment; "interest rates were low so they're going to be low again" is how most all of us, even yours truly and I know about the bias, very illogically process the information. The result is a persistently spend-thrift economy.

As the market psychology aligns to reality so will asset prices. As such we remain defensive in areas where the managers we use have scrutinized the price to value and believe the price paid is fair at worst, cheap at best and as asset prices get revalued our assets will face less revaluation headwinds and we believe more likely a tailwind as desirable investments. Furthermore, our fixed income yields are more than 5.5% as a great tailwind to rougher economic conditions. We wait in great anticipation for the grey recession cloud to either materialize or blow over so markets can move forward rather than oscillate.

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.

Cy Korun, CFA
Senior Advisor – Eastport Private investment Counsel

Matt Jenkinson CFA, CKA
President - Eastport Private Investment Counsel