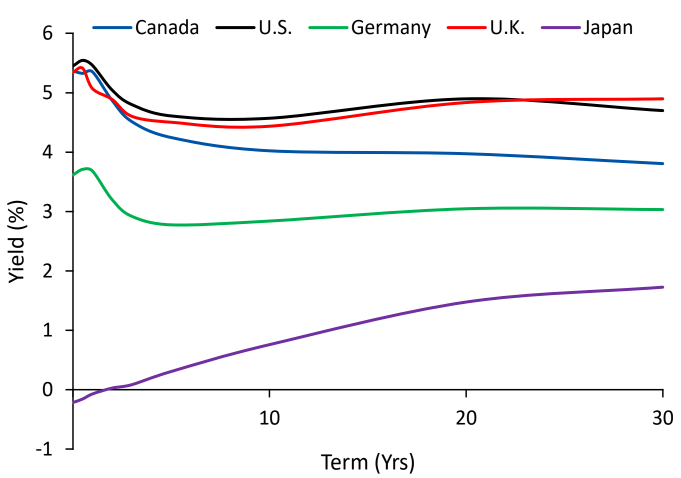
Market Statistics

	Sep/23	Jun/23	Mar/23	Sep/22
Yields (%)				
90 Day T-Bill	5.06	4.90	4.34	3.58
10 Yr. Canada Bond	4.02	3.26	2.90	3.16
30 Yr. Canada Bond	3.82	3.09	3.04	3.10
Rates				
C.P.I. (annual %)	4.00	2.81	4.30	6.86
US$/C$	0.74	0.75	0.74	0.73
Euro/C$	0.70	0.69	0.68	0.74
Prices (US$)				
Crude Oil (bbl.)	91	71	76	79
Natural Gas (mm)	2.93	2.80	2.22	6.77
Gold (oz.)	1,848	1,921	1,969	1,662

Market Returns

	Periods Ending Sep. 30/23			
			Annualized	
	3 Mo.	1 Yr.	5 Yrs.	10 Yrs.
S&P/TSX	-2.2	9.5	7.3	7.5
S&P 500 (C$)	-1.2	20.0	10.9	15.0
S&P 500 (US$)	-3.3	21.6	9.9	11.9
MSCI EAFE Net (C$)	-2.1	24.0	4.1	6.7
MSCI EAFE Net (US$)	-4.1	25.6	3.2	3.8
MSCI World Net (C$)	-1.4	20.3	8.2	11.3
MSCI World Net (US$)	-3.5	22.0	7.3	8.3
Bond Universe	-3.9	-1.4	0.1	1.6
91 Day T-Bills	1.2	4.4	1.7	1.2

Yield Curves



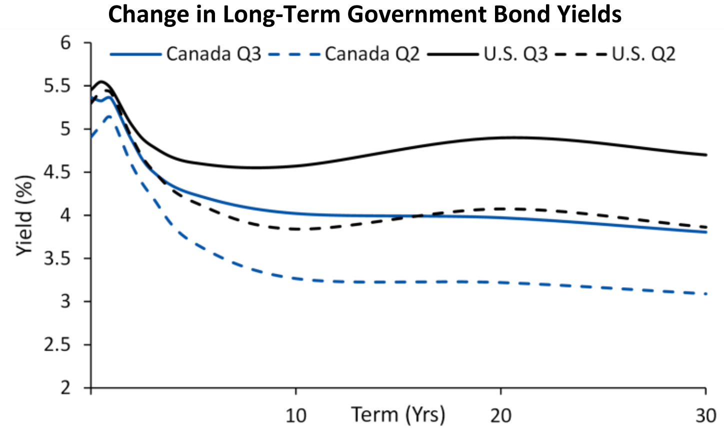
The Economy

Our last Coerente View highlighted the dramatic rise in North American short-term interest rates over the past twelve months. The rate increases were driven by central banks trying to cool inflation that surfaced in the post-Covid environment. Suppressed activities, low interest rates and flush bank accounts resulted in a surge in consumer spending as health concerns abated. The resulting economic growth has been accompanied with inflation rates increasing significantly above the central bank target of 2%. (See top chart on page 2.)

While economic growth is finally decelerating, inflation rates remain above target levels and there is now a consensus view that interest rates will need to remain high for a longer period of time than originally anticipated. It has been our premise that multi-year wage settlements, now averaging in excess of 4%, will sustain inflation rates well above the 2% target. (See middle chart on page 2.)

The acceptance of the "higher for longer" short-term interest rates and inflation outlook has also driven long-term interest rates upward. The table below indicates the change in longer-term government bond yields for Canada and the U.S. during the third quarter. They have increased by approximately 0.75% reaching the 4% and 5% level, respectively.

Change in Long-Term Government Bond Yields

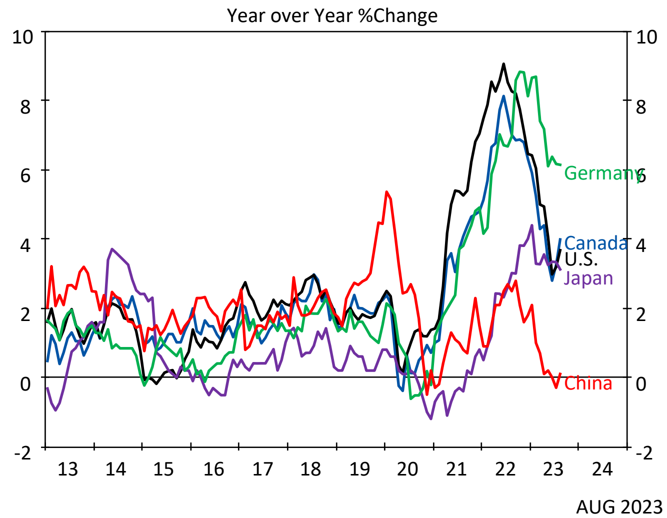


Historically, unmanipulated long- term interest rates (i.e., without the effect of quantitative easing where central banks purchase bonds in order to keep long-term interest rates low) usually reflect a level that provides a small "real" yield – a rate of interest that slightly exceeds the rate of inflation. Current long- term bond yields would therefore suggest sustained inflation rates in the 4-4.5% range. Rising long-term interest rates are also usually indicative of continued economic growth. If a recession were imminent, we would expect long term bond yields to decline.

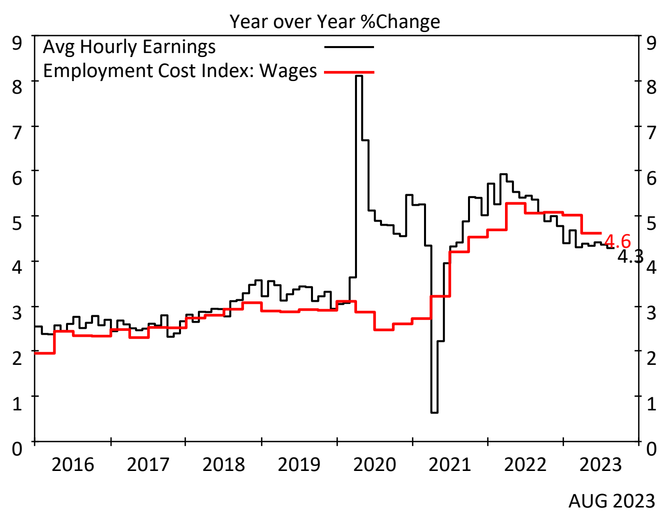
The Markets

The rise in long-term interest rates resulted in bonds being the worst performing financial asset category during the third quarter. The Bond Universe index returned -3.9%. The only good

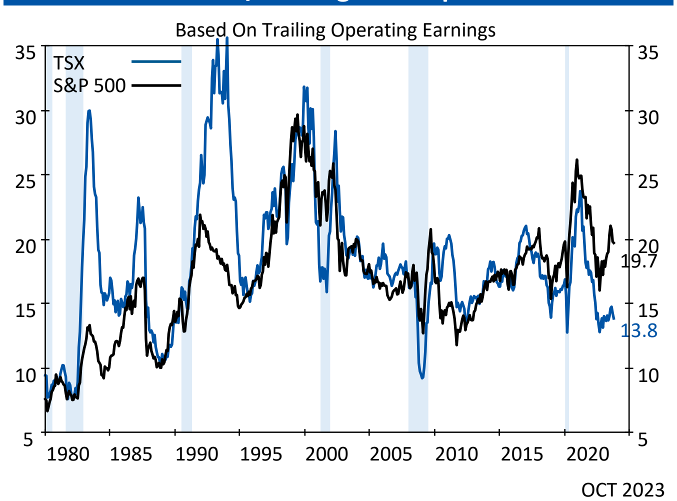
Inflation



U.S. Wages



Price/Earnings Multiples



news is that any new bond purchases now earn a yield around 5%. This higher bond yield has attracted funds and tempered demand for equities as the S&P/TSX dropped 2.2% and the World Index fell 1.4% last quarter. The World Index decline was lessened for Canadian investors by the 2% slide in the Canadian dollar which settled at $0.74 cents U.S. The weakness was somewhat surprising given the price of crude oil rose to the $90 per barrel range and our currency usually follows changes in this dominant commodity. The offset this time around, appears to be the higher level of interest rates in the U.S. versus Canada (as indicated on the page 1 Yield Curve chart) which makes the U.S. dollar more attractive to foreign investors.

Equity markets remain bifurcated as the largest U.S.-based technology related companies with exposure to artificial intelligence (AI) continue to dominate in 2023. The table below indicates that virtually all of the S&P 500 return (10.9% of 11.7%) has come from seven stocks. This implies the rest of the market, on average, has provided relatively flat performance. Speculation is clearly rampant as evidenced by the rapid and sizable appreciation in the shares of these companies. Any added earnings derived from AI related technologies is not yet quantifiable and may, to some extent, be muted as a cost of doing business.

Year-to-date 2023 S&P 500 Contributions

	Price Return (%)	Weight (%)	Contrib. to Index (%)
Nvidia	197.7	1.1	2.2
Meta (Facebook)	149.5	0.8	1.3
Tesla	103.1	1.0	1.1
Amazon	51.3	2.3	1.2
Alphabet (Google)	48.5	3.1	1.5
Apple	31.8	6.0	1.9
Microsoft	31.7	5.6	1.8
		20.0	10.9
S&P 500 Price Return			11.7

Apart from the above companies, valuations in the stock market remain historically reasonable. The chart opposite shows the higher price/earnings valuation of the S&P 500 relative to the Canadian S&P/TSX. The difference can be entirely explained by the (on average) 33 times price/earnings multiple carried by the above companies.

Bond yields in excess of 5% are certainly more attractive and we remain cognizant of the risk that inflation may in fact continue to trend higher. Thus, any bonds added to accounts are relatively short in maturity with a maximum term of 5 years. The shape of the yield curve does not currently reward investors with higher yields when buying longer maturities. Ultimately, during periods of inflation the ownership of shares of companies that can pass along cost increases continue to be the preferred investment vehicle.