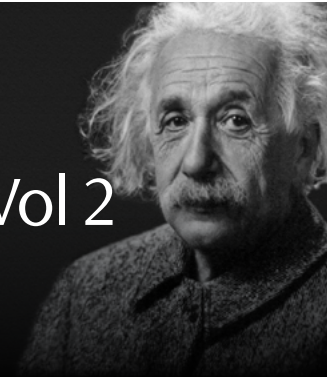




Wealth Management  
Dominion Securities

# 2023 Commentary Vol 2

## Stop the insanity



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### Jon Mitchell, Portfolio Manager

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I was born and raised an orphan in a land  
that once was free  
In a land that poured its love out on the  
moon;  
And I grew up in the shadows of your silos  
filled with grain,  
But you never helped to fill my empty spoon.

And when I was 10, you murdered law with  
courtroom politics,  
And you learned to make a lie sound just like  
truth;  
But I know you better now and I don't fall for  
all your tricks,  
And you've lost the one advantage of my  
youth.

And your money says in God we trust,  
But it's against the law to pray in school;  
You say we beat the Russians to the moon,  
And I say you starved your children to do it.

You are far across the ocean but the war is  
not your own,  
And while you're winning theirs, you're  
gonna lose the one at home;  
Do you really think the only way to bring  
about the peace  
Is to sacrifice your children and kill all your  
enemies?

The politicians all make speeches while the  
news men all take note,  
And they exaggerate the issues as they  
shove them down our throats;

Is it really up to them whether this country  
sinks or floats?  
Well I wonder who would lead us if none of  
us would vote.

Well my phone is tapped and my lips are  
chapped from whispering through the fence,  
You know every move I make, or is that just  
coincidence?  
Well you try to make my way of life a little  
less like jail,  
If I promise to make tapes and slides and  
send them through the mail.

And your money says in God we trust,  
But it's against the law to pray in school;  
You say we beat the Russians to the moon,  
And I say you starved your children to do it.  
You say all men are equal, all men are  
brothers,  
Then why are the rich more equal than  
others?

Don't ask me for the answer, I've only got  
one:  
That a man leaves his darkness when he  
follows the Son

Larry Norman, "The Great American Novel"  
(from the album *Only Visiting This Planet*,  
1973)

History may not repeat itself, but it does  
rhyme. Larry Norman wrote his classic  
Christian rock anthem in the midst of the  
Vietnam War and the unrest it caused on  
the nation with the draft involving high  
school graduates, the Arab Oil Embargo,  
rising inflation, and President Nixon being

impeached over Watergate, to name a  
few headlines. Today, we have rising food  
and energy costs, soaring housing costs  
and shortages of dwellings, numerous  
strikes over wages, a quagmire war in  
Ukraine, renewed hostilities in Israel/ Gaza,  
politicians with plummeting approval

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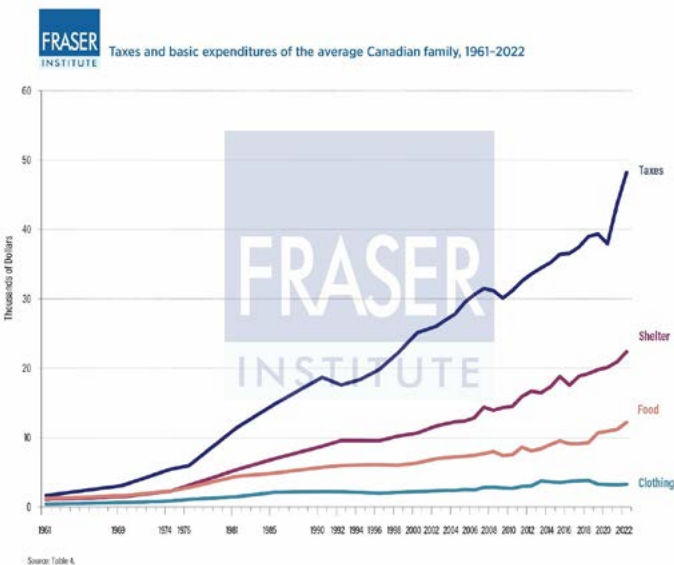
ratings, waning trust in what is being broadcast on the news, and a general feeling that we are going to be in this soup for awhile still. Albert Einstein, who is included briefly in the summer hit film Oppenheimer, once said, "The definition of insanity is doing the same thing over and over again, but expecting different results."

There seems to be a growing number of things that are dividing us, as compared with those issues that unite us. Where are these divisions stemming from? Some were deliberately started by our political leaders, while some are being wrought upon Canadians by the United Nations or World Economic Forum (climate action versus ranchers/ farmers or the entire energy sector). Are these issues that we even have a say about? Or is a position being imposed onto society and there is no ability to even discuss them, let alone debate them? I fear that society is becoming more and more divided with groups / cliques forming of like-minded individuals, and we are being reinforced in our views by the proliferation of readily available media. Is there no room to even have a discussion, let alone a debate? Again, I pose the question: Why is this happening and why now?

**Rates: The end may not be near**

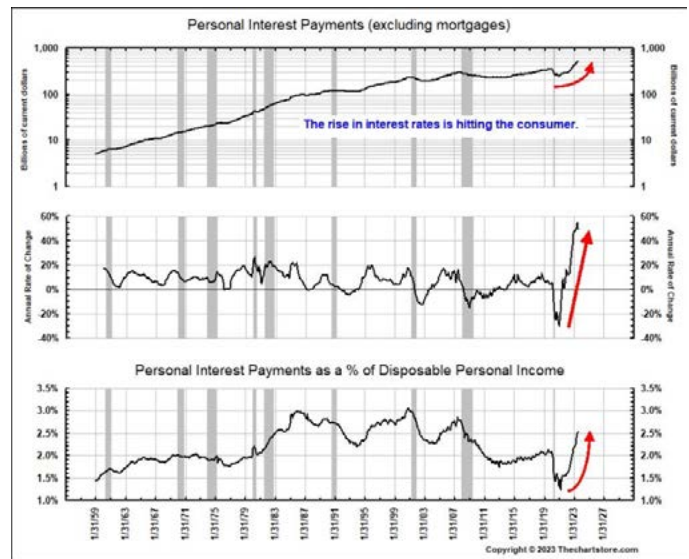
There is a growing resignation I hear in my conversations with friends and clients that what we are seeing (higher interest rates, rising cost of goods, inability of young people to secure housing or general limits to free expression of ideas or opinions, to name a few) is going to persist for some time. We may have been through these situations before, but perhaps we have become complacent as a consequence of more than a decade of uncommonly low interest rates and seemingly low inflation. I have often told our clients that I felt that the real costs that most people experienced were more inflationary than the official Statistics Canada readings. The largest expense that households face each year is the cumulative impact of taxes (income, property, school and consumption). The Fraser Institute published a study recently entitled, "Taxes versus the Necessities of Life,"<sup>1</sup> which effectively illustrates that government taxes have exploded in the last few years, further handcuffing our spendable income.

This chart says it all.



Source: The Fraser Institute, used with permission

The impact of interest rates is reflected in this chart, provided by my contacts at Institutional Advisors/ Charts and Markets:

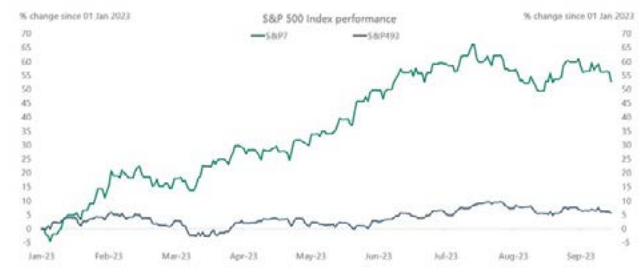


Source: [Thechartstore.com](https://Thechartstore.com) Used by permission from Institutional advisors.

As the weight of interest rates and costs sets in on households and corporations, their impact is evident in investor demand, as company share prices in many established sectors (financials, utilities, telecommunications, real estate and even the defensive oriented consumer staples) are feeling the pressure. The year-to-date (to September 30, 2023) results for these Canadian sectors are: Canadian banks -2.5%, Telecommunications -10.7%, Utilities - 7.4% and Real Estate Investment Trusts -6.0%.

These results would be similar in the U.S., however, seven of the S&P 500 companies have had such a positive effect that they have produced a reasonable nine-month return of 13% for the S&P 500 index. The seven companies are: Microsoft, Apple, Nvidia, Alphabet, Meta, Amazon and Tesla.

So far in 2023 S&P7 is up more than 50%. S&P493 is basically flat.

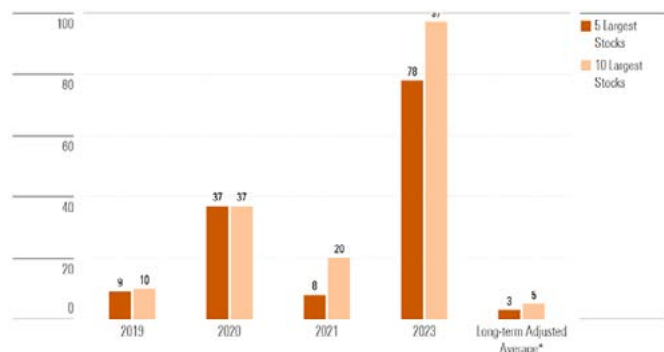


Source: Bloomberg, Apollo Chief Economist

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Looking at this another way:



Source: Morningstar Direct. Data is based on the Morningstar US Large-Mid TR USD Index. Data as of May 31, 2023. \*Adjusted average excludes 2011, 2015, 2018, and 2020 to remove distortions caused by those years' negative or flat market returns.

In this bar chart, you can see the concentration of returns (Y axis) that the largest five or 10 U.S. companies is limited to (largest 10 firms account for 97% of S&P 500 returns), which is massively different from the long term average of just 5% of the S&P 500 returns. We have always heralded diversification (number of holdings, different sectors, size of companies, geographic areas) as a benefit for risk management, but for 2023, the major contributor has been limited to very large cap technology firms (and Tesla).

### Conflict update

It is now over 20 months since Russian forces entered Ukraine. It is unknowable as to exactly how many soldiers have died on both sides, but the U.S. believes nearly 500,000 Ukrainian and Russian soldiers have been wounded or killed.<sup>2</sup> Nearly 58,000 American soldiers perished in the Vietnam War, which went on for eight years before the U.S. units were withdrawn in 1973.<sup>3</sup>

The situation is more of a stalemate currently, with both sides dug in on their respective battlelines with the territories that Russian forces have overrun over a year ago still under their control. This includes the two disputed provinces (Donetsk and Luhansk), and most of the southern coast, with the exception of Odessa, which remains the primary sea terminal for Ukrainian grain and commodity exports. However, there has been an on and off blockade by the Russian Navy of freighters leaving Odessa. None of the Ukrainian counteroffensives were able to retake a significant portion of land, unfortunately.<sup>4</sup>

Within a month of the war starting, diplomats from Ukraine and Russia sat across a table from each other in Turkey trying to negotiate a cessation to the hostilities, with plans for further meetings with Presidents Zelenskyy and Putin.<sup>5</sup> Yet, here we are today, with the U.S. aid to Ukraine already at US\$75 billion,<sup>6</sup> and President Biden seeking approval from Congress for another US\$60 billion for a new emergency funding package that he requested in his address to the nation on October 19, 2023.<sup>7</sup>

On October 7, 2023, thousands of Hamas soldiers terrorized western Israel breaching the security wall in several places in Gaza killing nearly 1,400 Israelis and taking over 200 individuals hostage back to Gaza. The same day, Israel declared war on Hamas and has been bombing positions in Gaza now for over two weeks, while amassing a major military presence on the

border for a possible invasion into Gaza. It is estimated that over 5,000 Palestinians have died and more than 14,000 have suffered injuries as a result of the aerial bombing by Israel.<sup>8</sup>

The UN Security Council met on October 18, 2023, with a goal of trying to diffuse the situation with a resolution that would have condemned all violence and hostilities against civilians and all acts of terrorism, and would have unequivocally rejected and condemned the terrorist attacks by Hamas that took place in Israel starting on October 7. It would have also called for the immediate and unconditional release of all hostages, and for the protection of all medical personnel and humanitarian personnel, as well as hospitals and medical facilities, consistent with international humanitarian law. The United States (one of the five permanent members of the UN Security council) vetoed the resolution, which had the support of all the 10 elected security members and two of the permanent members (France and China), while the U.K. and Russia abstained from voting on the resolution.<sup>9</sup>

### COVID-19 pandemic (what pandemic?) update

It is evident, at least in the U.S., that the residents there are taking a pass on the fall mRNA booster shot, with less than 3% of eligible Americans receiving a booster as of October 18, 2023 (down from 17% a year ago).<sup>10</sup> Meanwhile, Pfizer, the largest distributor of COVID-19 vaccines, has taken a US\$5.5 billion charge in their most recent quarter for returned doses of Paxlovid (oral COVID-19 prescription medication) and their original mRNA vaccines.<sup>11</sup> As I noted in an earlier commentary, only the Province of Alberta has taken steps to do a formal investigation into the provincial government response to the pandemic measures. The final report, chaired by Former Leader of the Reform Party, Preston Manning, will be released next month.<sup>12</sup>

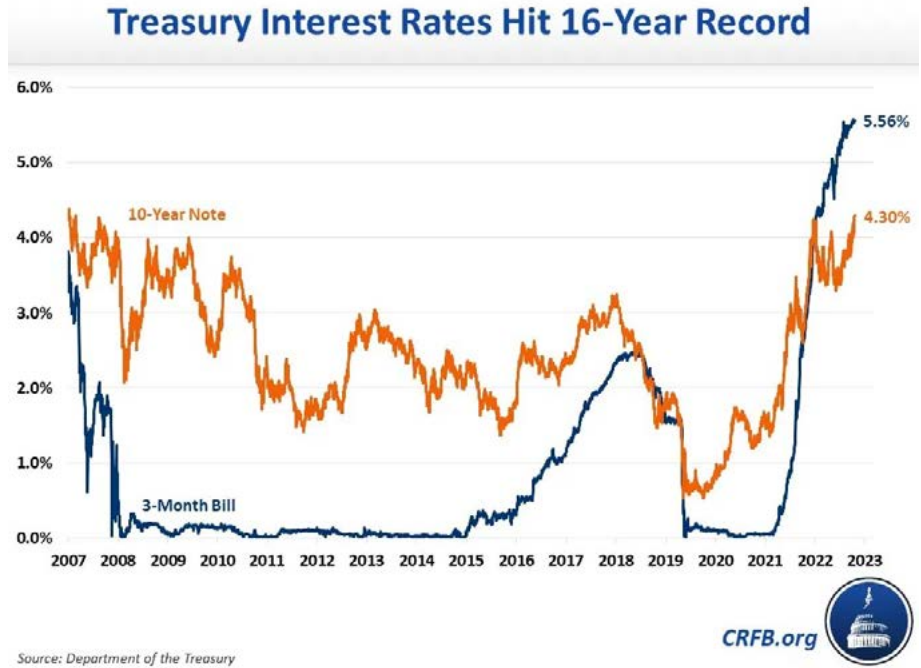
Manning was also one of the volunteers behind the National Citizens Inquiry (NCI), which led meetings with a panel of commissioners in seven cities across Canada this year, interviewing nearly 300 individuals who were impacted in different ways by the lockdowns, restrictions, vaccine mandates and vaccine injuries, along with 100 expert witnesses from a range of professions. The NCI published their interim report in September. Although every public health officer in Canada was asked to testify, none did.<sup>13</sup>

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Investment observations

Often when I meet with mutual fund or investment fund representatives, we discuss “where are the flows going,” that is, where are advisors actually investing their clients money at the margin? The chart below shows the difference between 90-day money (U.S. Treasury Bills) and 10-year U.S. Treasury Bonds, which this week closed just under 5%. Rates in Canada are about 5.2% for short-term funds, while one-year Guaranteed Investment Certificates (GICs) are at 5.5% from the largest chartered banks. This is an area where a lot of funds are indeed flowing. The major question to ask is, how long can interest rates stay at these levels before their impact starts to wreak havoc on the economy? Every business with a bank loan is paying a minimum of 7.2% on their loan today, the highest rate in 20 years. As an investor, when should you start looking at locking in longer term rates, which you will receive even if rates start to edge lower?



Energy in five graphs

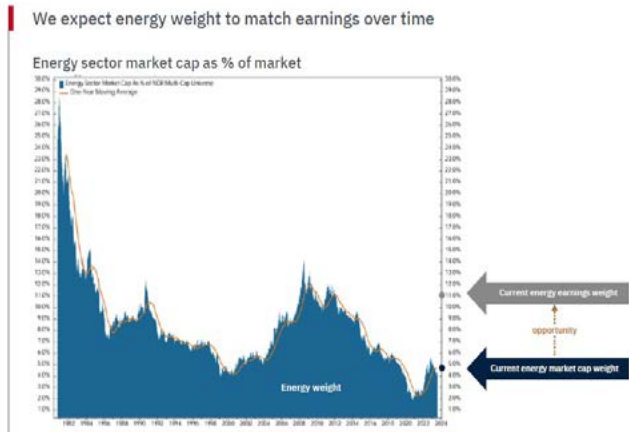
Balance sheet fortresses & cash machines



[https://www.icicibank.ca/en/personalbanking/ratehistory\\_popup/interestrates](https://www.icicibank.ca/en/personalbanking/ratehistory_popup/interestrates)

I am sure you heard me say last year, that the only saving grace most clients had in 2022 was oil and gas producing companies, which benefited from the significant rise in commodity prices in the early months of the Ukraine – Russia conflict. Prices did sell off late into the year, and into the summer of 2023. Energy has remained in the top three sectors for three consecutive years, with the largest energy sub-sector (integrated oil and gas firms) gaining 58% on a compound basis over the past three years, which is nearly four-fold when compared with the second-best sector, Financials, that compounded at 13% in the same period. The oil and gas producers have never had such strong fundamentals, which is illustrated in this “Energy in five graphs” chart, courtesy of Canoe Financial. The second chart shows that the representation of the sector as a percentage of the whole S&P 500 market is just 5%, despite the fact that the earnings of the energy sector represent nearly 11% of the index earnings.

Energy representation in the market still very compressed



Sources:  
 1. Ned Davis Research as of 8/10/2023.  
 2. FactSet, BofAUS Equity & Quant Strategy as of 6/8/2023. TD Research as of 3/13/2023

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Lastly, a few short words on gold, which has climbed nearly US\$180 since October 6, 2023, nearly touching the major line of US\$2,000 an ounce. This has been the third time in the last three years that gold has reached this significant milestone. In the chart below, all of the U.S. Gold Reserves are measured as a percentage of the U.S. Monetary Base (all money in circulation). Today, U.S. gold reserves account for only 9.2% of the monetary base, yet in 2008, just 15 years ago, gold represented nearly 31% of the monetary base. This illustrates the speed to which the monetary base has increased in the past 15 years (most of it coming in the last 10 years) as the price of gold today and in 2008 is virtually the same at about US\$2,000 an ounce.



Source: Meridian Macro Research. Data as of 9/23/2023. Included for illustrative purposes only. Past performance is no guarantee of future results

**Current Implied Government Overnight Rates**

Canada			US		
Meeting	Implied Rate	#Hikes	Meeting	Implied Rate	#Hikes
10/25/2023	5.05	0.11	11/01/2023	5.33	0.03
12/06/2023	5.10	0.31	12/13/2023	5.39	0.24
01/24/2024	5.13	0.42	01/31/2024	5.42	0.39
03/06/2024	5.13	0.42	03/20/2024	5.38	0.22
04/10/2024	5.11	0.33	05/01/2024	5.28	-0.18
06/05/2024	5.07	0.17	06/12/2024	5.16	-0.65
07/24/2024	5.04	0.03	07/31/2024	5.05	-1.11
09/04/2024	4.99	-0.15	09/18/2024	4.92	-1.63
Target:	5.00				
Effective:	5.04		Effective:	5.33	

Source: Bloomberg

So this figure implies little change by the Bank of Canada over the next year, leaving rates at approximately 5.0% while there is a greater probability that the U.S. Federal Reserve (the Fed) will start lowering interest rates mid-way thru 2024, but only by between 0.25% and 0.50%.

**Notable Quotes**

*“When peace comes, we will perhaps in time be able to forgive the Arabs for killing our sons, but it will be harder for us to forgive them for having forced us to kill their sons. Peace will come when the Arabs will love their children more than they hate us.”*

– Former Israel Prime Minister Golda Meir

*“It’s a recession when your neighbor loses his job; it’s a depression when you lose yours.”*

– Former U.S. President Harry Truman

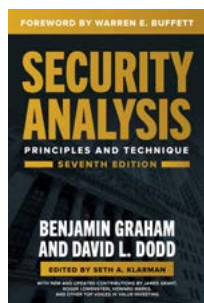
*“The stock market is a device for transferring money from the impatient to the patient.”*

– Warren Buffett

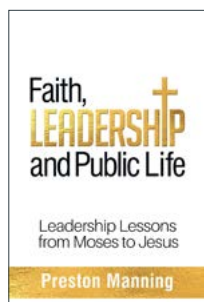
*“In economics, things take longer to happen than you think they will, and then they happen faster than you thought they could.”*

– Economist Rudiger Dornbusch

**Books I’ve read recently:**



**Security Analysis Principles and Technique – 7<sup>th</sup> Edition**  
 Edited by Seth Klarman.



**Faith, Leadership and Public Life**  
 Preston Manning

**Sector performance**

Below is a table of the performance of various sectors for the 2023 Q3 results / Year-to-Date and three-year rolling periods.

Investment index	Q3 2023 return	Year-to-Date September 30, 2023	Three-year compound return
S&P/ TSX composite index	-2.2%	3.4%	9.9%
S&P 500 (C\$)	-0.8%	13.3%	10.9%
NASDAQ comp (C\$)	-1.7%	22.7%	6.5%
Short-term comp bond index	-0.1%	0.8%	-1.2%
iShares U.S. High Yield Bond Index ETF (XHY, C\$ Hedged)	0.1%	4.3%	0.3%
US\$ / C\$	2.6%	0.2%	0.6%
Gold bullion (C\$)	5.4%	3.5%	-0.1%
Global gold mining index (XGD – C\$)	-9.0%	-8.1%	-10.1%
iShares Energy Index (XEG – C\$)	20.5%	14.0%	65.3%

## Team Updates

- Jon (and family) got a short trip to Ottawa this August, which was a welcome break.
- James and Nicole had a short trip to Montreal this summer, which they enjoyed.
- Pauline and Frank had a short driving holiday in September visiting some small communities in Alberta and Montana.
- As always, we are open to speaking to any of your friends that may benefit from a second opinion on their investments or current wealth plan.
- Finally, we would like to recommend that you circle back to our website from time to time, as we are using that as one of our primary points of contact to post salient articles on our firm's views, along with details on relevant government programs and announcements. You can access it here: [ca.rbcwealthmanagement.com/jon.mitchell/](http://ca.rbcwealthmanagement.com/jon.mitchell/)

Again, stay safe and take care. We have a lot to be thankful for, living in Canada. Do your best to enjoy the positive moments each day, and please support your local businesses whenever you can.

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