RBC Dominion Securities Inc.

2nd Quarter 2023
Portfolio Management
Gill Wealth Group

Wealth Management
Dominion Securities

July 15, 2023

RBC Dominion Securities Inc.

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Executive Summary

End of the bear market since late 2021 confirmed!

2023 YTD equity market performance defied consensus expectations of a serious recession in 2023, by posting decent gains.

The sectors that were the laggards in 2022, technology, performed the best and the leaders, energy, amongst the worst for the first half of 2023.

First Half 2023 return scorecard

Dow Jones 30: 4.33%
S&P 500 Equal weight: 5.98%
S&P 500: 16.37% (top 7 techs drove the gains, larger market cap has a larger representation)
Nasdaq 100: 32.86%
TSX: 3.32%

Although the central banks continued with the rate hikes in 2023, the pace of rate hikes has slowed down, as the inflation uptrend has now reversed.

Central banks declared goal was to control inflation and ensure healthy employment levels. The recently published economic figures seem to be indicating that these goals are being achieved and the financial markets have reacted accordingly.

With the 500 basis points (5%) rate increases being the fastest for a 12-month period, we are yet to see the full impact of this monetary tightening on the economy.

A potential explanation as to why the economies didn't stumble in the face of steep rate hikes (trillion of dollars' worth of Covid era stimulus that piled up in consumer and other accounts)

Markets being forward-looking price discount mechanisms are anticipating a "golden path" scenario: declining inflation but the economy still avoids a deep recession, "soft landing" *(see Exhibit 1).*

So, for the investors that were patient and stayed with our investment strategy after the 2022 market sell down, the portfolios were able to participate in the 2023 first half upturn.

Worst case scenario would have been to panic and get out of the market after experiencing the gut-wrenching market action during first half of 2022 (realize losses) and sit on the sidelines (miss the 2023 gains).

Simple rule and lesson learnt: Don't try to time the markets, focus on making the right investments with medium term time horizon but keep streamlining your portfolios (improve the risk return profile).

Going forward, if the "golden path" scenarios evolves, the USD 5 trillion in cash or short term fixed income investments (GICs, T-bills) in the US market alone, will start chasing the market for the fear of missing out, the "FOMO" effect.

And that may be the time to book some profits and reduce the risk in your portfolios.

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Exhibit 1

Goldman Sachs chief economist Jan Hatzius:

"We are cutting our probability that a US recession will start in the next 12 months" to 20% from 25%.

"The recent data have reinforced our confidence that bringing inflation down to an acceptable level will not require a recession."