

3rd Quarter 2023 Portfolio Management Gill Wealth Group



Wealth Management
Dominion Securities

October 31, 2023



Executive Summary

End of the steepest Central Bank rate hike cycle!

RBC Dominion Securities Inc.

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The central banks may be done with raising the short-term interest rates, a **22 year high**, for the current rate hike cycle that started in March 2022. This seems to be the message from the markets.

Inflation and the increasing short term interest rates that dominated the market discussions during the majority of the 2023 are not the current key focus of the markets.

We think that the bigger issue is **the increasing cost of financing** for the accumulated government debt at the current interest rate levels and the **ever-increasing budget deficits**. This is and will be the key **medium-term economic concern**.

This equation cannot continue forever without a large growth in tax receipts or spending reductions.

The important question is as to how long the current high interest rate levels are maintained? Market seems to suggest a higher probability of rate cuts starting in the second half of 2024, assuming inflation stays well behaved and some moderation in the economic activity in the first half of 2024 – a soft “recession”.

Persistent fears of “deep recession” since the start of 2023 did not materialize, so far. The recession concerns kept many market participants in cash or deposits in

2023, including some astute investors. Therefore, missing the market upturn and the participation in the potential stock market gains in 2023.

The fastest interest rate hikes, almost 5%, for any previous rate hike cycle during the previous 30+ years, resulted in extreme market turbulence in 2022. Market reaction and the volatility to adverse news gets amplified in such situations.

After a good run in the first half of 2023, we witnessed markets consolidation in the 3rd quarter with a weak September. We stayed invested in the first half of 2023 to take advantage of the stock market upturn and reduced the stock market allocation in August. The cash raised was reallocated to short term GICs, 1 & 2 years, at 22-year historical attractive rates. We think we are at or close to the peak in the short-term rates.

We will continue to streamline the remaining stock market exposure to stay consistent with our active diversification and investment strategy. Our investment process will always look to seek market exposure at the **lowest cost possible** for our client portfolios. The focus is to identify proven industry leaders and company management with active transformation strategies to adapt the business model to the ever-changing innovative and competitive landscape, *Exhibit 1*.

This is an ongoing and challenging process as we try to **ensure wealth preservation and to maintain measured growth** in your investment portfolios for your hard-earned savings over the medium term.
Thank you.

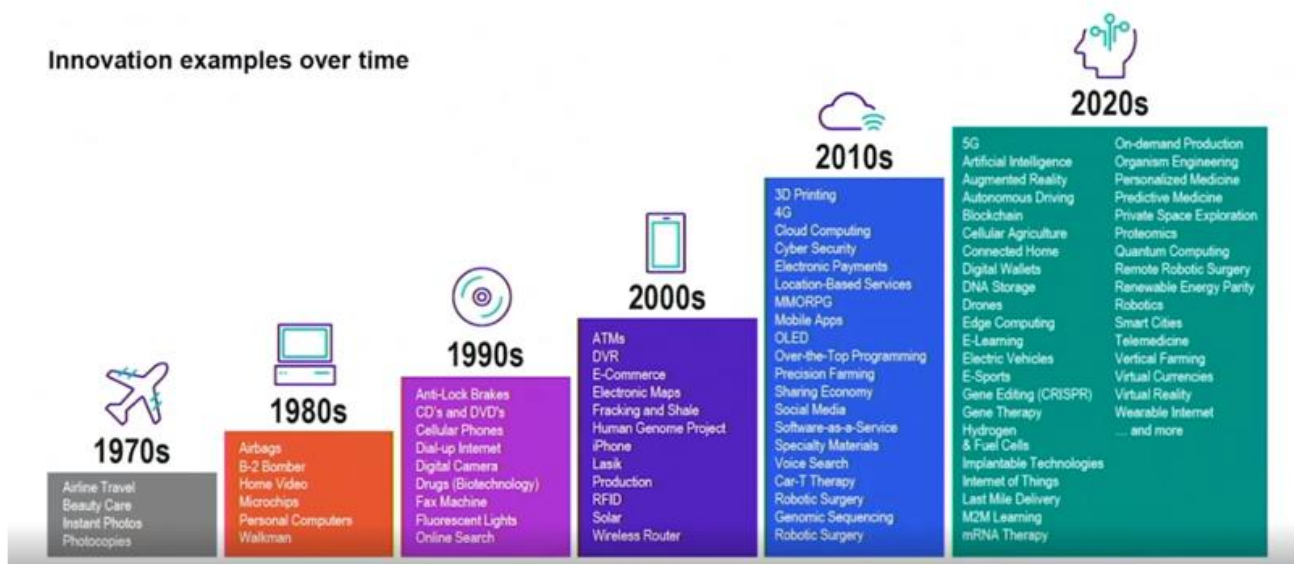
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Exhibit 1 (Source: Dynamic Funds)



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