WATERMARK PRIVATE PORTFOLIOS JUNE 2023 COMMENTARY

Market Highlights

Equity markets grinded higher in June, even though we saw interest rates move higher causing bond values to weaken:

- The TSX Composite Index rose 3.3% as inflation eased in Canada.
- The S&P500 was up 3.9% in CAD, led by mega-cap technology companies.
- The Canadian Universe Bond Index was essentially flat with a small gain of 0.1%.
- Gold fell 2.7%.
- Oil (represented by West Texas Intermediate Crude) rose by 3.8%.
- The Canadian dollar appreciated 2.4%.

North American Central Banks and Employment

With employment in Canada and the US remaining strong, monthly job numbers coming in stronger than expected and a decline of over 25% in the unemployment rates in the past year (see below), both the Bank of Canada (BoC) and the US Federal Reserve (FED) remain steadfast in their desire to reduce inflation:

- The BOC surprised markets in June by raising interest rates by 0.25%.
- The FED didn’t raise interest rates in June but indicated they will likely increase interest rates by another 0.5% this year.

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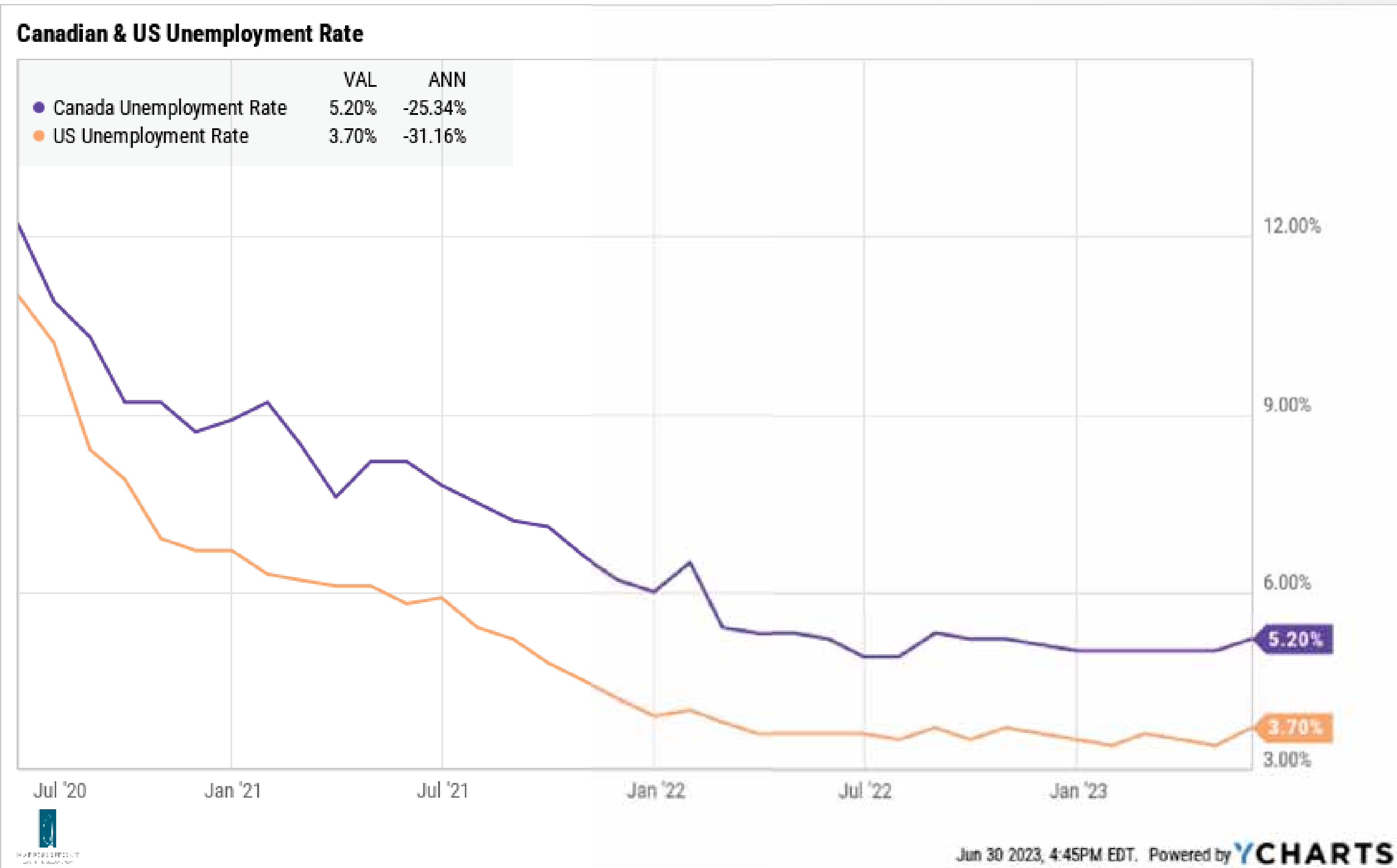

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In addition to employment remaining resilient and supply chains still not functioning as they did before COVID, inflation will likely persist, and interest rates will stay higher for longer. Alternatively, we are now 15 months into the interest rate hiking cycle, which is typically when we start to see their impact on the economy, resulting in a difficult investment environment.

S&P500 Equity Valuations

With the recent rise in the S&P500, led by mega-cap technology companies, we have seen equity valuations creep up. Below is a chart of the price an investor would pay for $1 of earnings of the average company in the S&P500, which we see has been rising all year.

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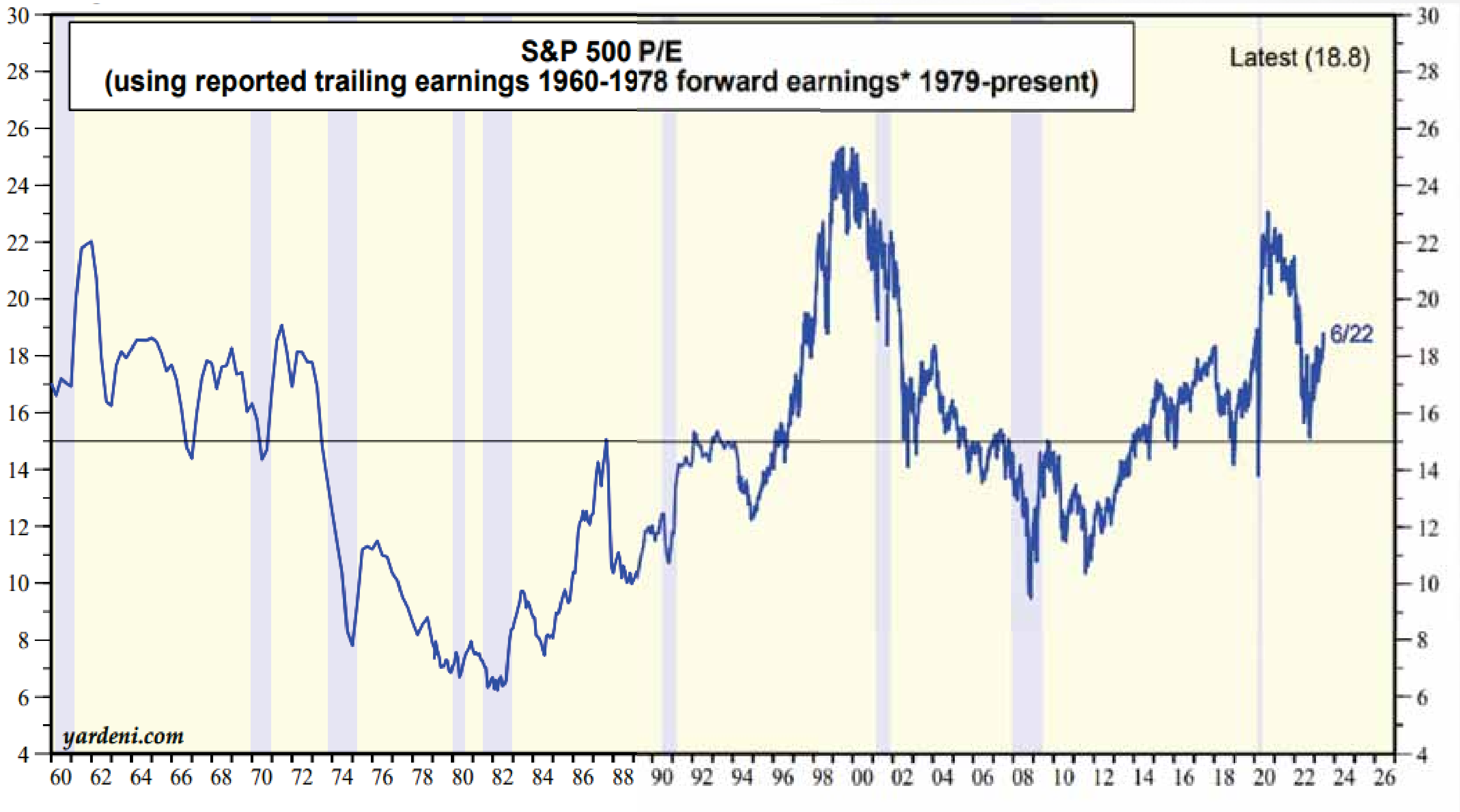

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The major question resulting from the above chart:

- Can companies, and more specifically, technology companies, grow their earnings enough so that they are reasonably valued?

Should central banks get their wish and slow down inflation, they will likely have to cool down the economy, which should result in a contraction in earnings. We, therefore, look forward to the next three weeks, where the bulk of companies in the S&P500 will report earnings, giving us a check on how cheap or expensive equity markets are and if higher interest rates are starting to impact their earnings.

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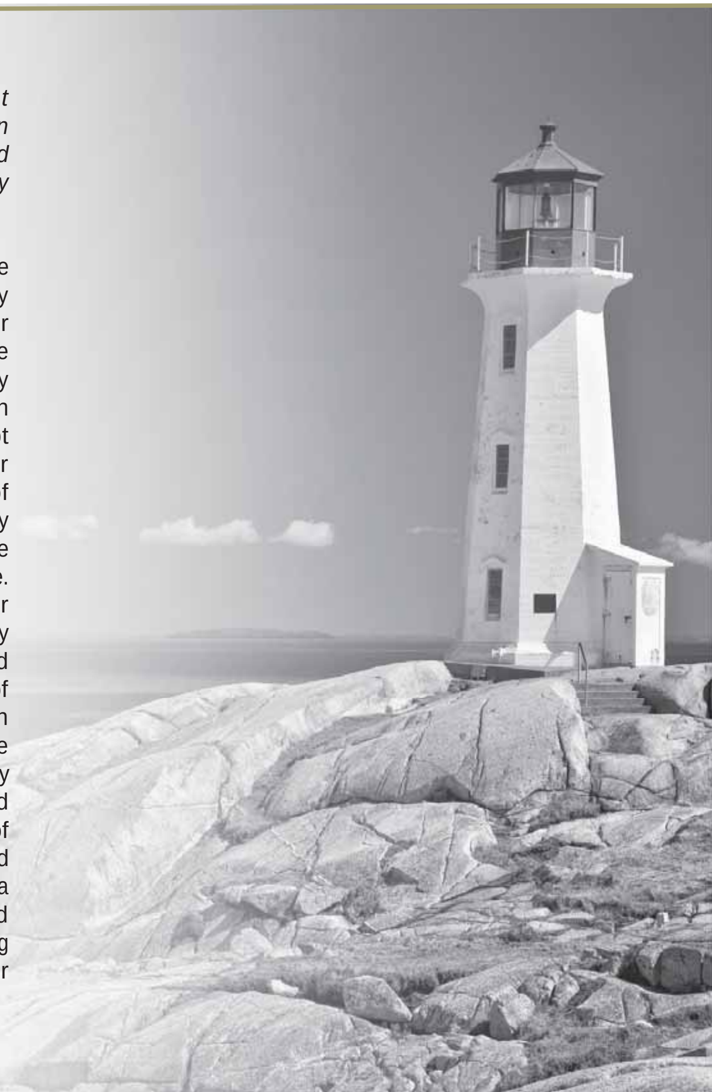
Outlook and Positioning

Given the strength of the labour market in North America, the aggressive monetary policy stance by the central banks and the high equity valuations in an economy that may weaken, we are continuing our defensive stance:

- Private Credit – Earning higher income with higher interest rates.
- Private Real Estate – With strong immigration, we are seeing higher rents on Canadian apartment and industrial properties.
- Floating rate bonds – We have shifted our Canadian equity allocation to floating rate bonds, which benefit when interest rates go higher and are low risk.

When employment numbers fall and unemployment increases, we should see the economy slow, and equity prices and valuations should fall. At this point, we will sell the floating rate bonds and shift back into equities for the next run higher.

DISCLAIMER



I have prepared this commentary to give you my thoughts on various investment alternatives and considerations which may be relevant to your portfolio. This commentary reflects my opinions alone and may not reflect the views of Harbourfront Wealth Management. In expressing these opinions, I bring my best judgment and professional experience from the perspective of someone who surveys a broad range of investments. Therefore, this report should be viewed as a reflection of my informed opinions rather than analyses produced by Harbourfront Wealth Management Inc."

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