



**HARBOURFRONT**  
WEALTH MANAGEMENT

**WATERMARK  
PRIVATE PORTFOLIOS  
AUGUST 2023 COMMENTARY**



**TRUE INDEPENDENCE™**

# Market Review in Minutes

## Equities

- The S&P 500 and the S&P/TSX Composite both recorded a negative month in August, with the S&P 500 in Canadian Dollars edging out a gain as the Canadian dollar fell.
- The energy sector was the only one that traded positive this month, which helped the heavy-resourced S&P/TSX Composite hold up better than its US counterpart. Utilities lagged the rest of the sectors.

## Fixed Income

- Interest rates in both Canada and the US increased for the first half of the month, pushing bond prices lower.
- These losses were pared in the latter half of August after a lower-than-expected US job openings report, increasing the probability of a pause in interest rate hikes.
- Overall, the Canadian Universe Bond Index ended the month slightly lower.

## Commodities

- Crude oil rose to about \$83 per barrel as the US experienced a large crude inventory drawdown.
- Saudi Arabia announced that it will extend its production cuts, driving up oil prices.
- Gold ended lower this month with the US dollar increasing as the US Fed indicates further rate hikes may be necessary.

As at August 31, 2023	Monthly % Total Return	YTD % Total Return
<b>Canadian Bonds</b> <i>FTSE Canada Universe Bond Index</i>	-0.18%	1.19%
<b>Canadian Equities</b> <i>S&amp;P/TSX Composite Index</i>	-1.37%	6.94%
<b>US Equities</b> S&P 500, in C\$	1.15%	18.55%
<b>Gold</b>	-2.16%	7.65%
<b>Oil</b> <i>West Texas Intermediate Crude</i>	2.24%	4.20%
<b>Canadian Dollar</b>	-2.34%	0.19%

# Notable Monthly Highlights

## USA – Economic data shows that macroeconomic backdrop is improving

- US credit was downgraded from AAA level to AA+ by rating agency Fitch.
- Despite some progress in reducing inflation levels, the US Fed has reiterated its stance to bring inflation back down to the 2% target level, which means that the Fed could implement further rate hikes if necessary.
- Labour market is slowing down: BLS US Bureau of Labor Statistics reported a job openings decline of 8.8 million in July 2023 versus the expected 9.465 million.
- Core PCE (inflation calculated number that the US Fed uses) came in as expected but still far from the US Fed's target: Core CPE was in line with expectations at 4.2% YoY.

## Canada – Annualized GDP Quarter on Quarter growth rate fell 0.2% and missed vs the 1.2% forecast

- The Canadian central bank will meet for its next interest rate policy decision on September 6.

## China – Fears of global contagion

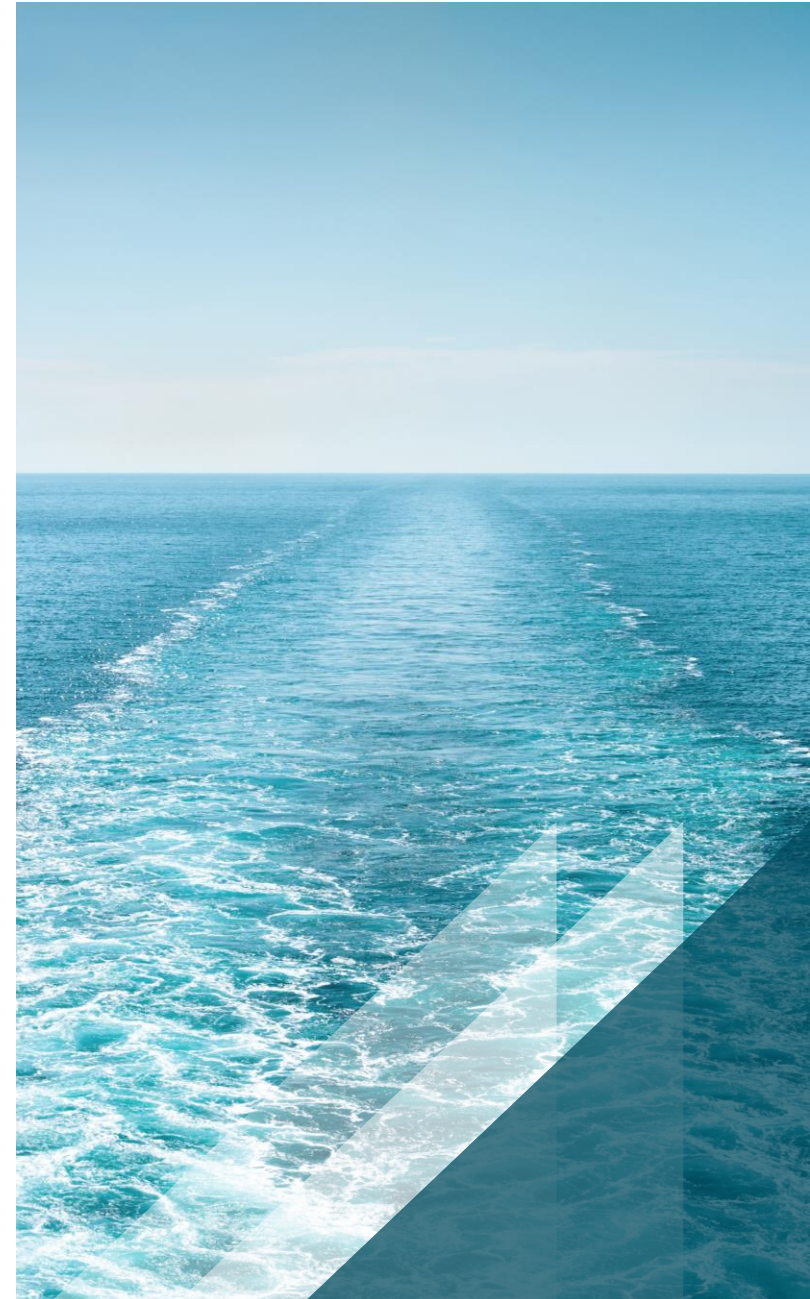
- One of the more major headlines over the past month was the state of the world's second largest economy. China is facing several headwinds, including a slowdown in GDP growth, rising youth unemployment, and continued troubles in real estate. China's largest property developer, Evergrande, has filed for US bankruptcy protection. A slowdown in China is expected to have a material impact on global growth.



# Watermark Private Portfolios Outlook and Positioning

- We continue to favour a defensive positioning in our strategic asset allocation, with a continued focus on risk-adjusted returns.
- Our decisions to underweight equities, refrain from chasing the Megacap-8 stocks, and overweighting floating rate notes have been beneficial this month as the global equities notched its first monthly loss since February 2023.

	Underweight	Target	Overweight	Outlook
Equities	X			We reiterate our defensive view as we believe that in the long-term, the equity markets still face several headwinds such as deep yield curve inversions, mounting global debt, and a high risk of recession. We believe, however, that in the short- to medium-term, the equity market could rally higher before we may see a recession.
Fixed Income			X	Our current portfolio positioning is <b>slightly overweight to public fixed income via a floating rate ETF earning more than 5%</b> as it is currently yielding a strong risk-adjusted return compared to equities and public fixed income.
Private Credit		X		<b>Maintain long-term allocation</b> to Private Credit. As a floating rate asset class, Private Credit benefits from the current rising rate environment.
Private Real Estate		X		<b>Maintain long-term allocation</b> to Private Real Estate. Strong immigration in Canada, the significant gap between housing supply and demand, and increasing rents continues to benefit our Private Real Estate holding.



# Changes in Portfolio Positioning Over the Past Month

## In the Enhanced Plus Portfolios:

- Sold the Vanguard Emerging Markets ETF to eliminate exposure in China.
- Added TD US Small-Mid Cap ETF, which selects quality US small/mid cap companies with low valuations.
- Sold Nutrien Ltd. as management lowered guidance due to “unprecedented volatility” in fertilizer markets.



# Did You Know?

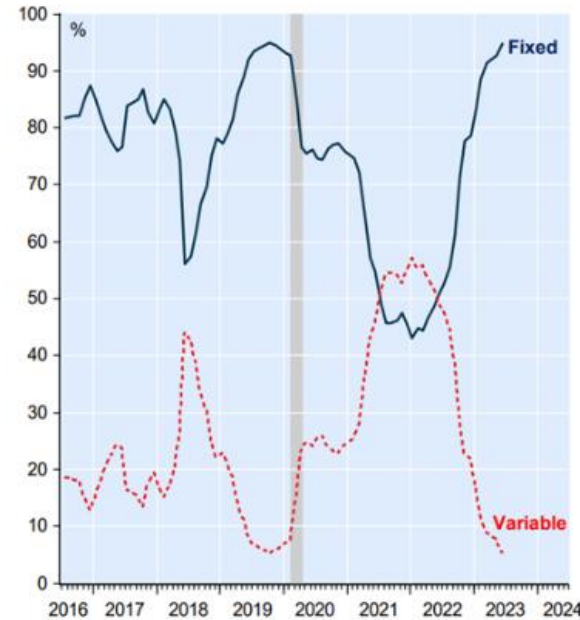
As seen on the chart to the right, approximately 65% of Canadian home mortgages were 5+ fixed terms in late 2020.

## Our opinion:

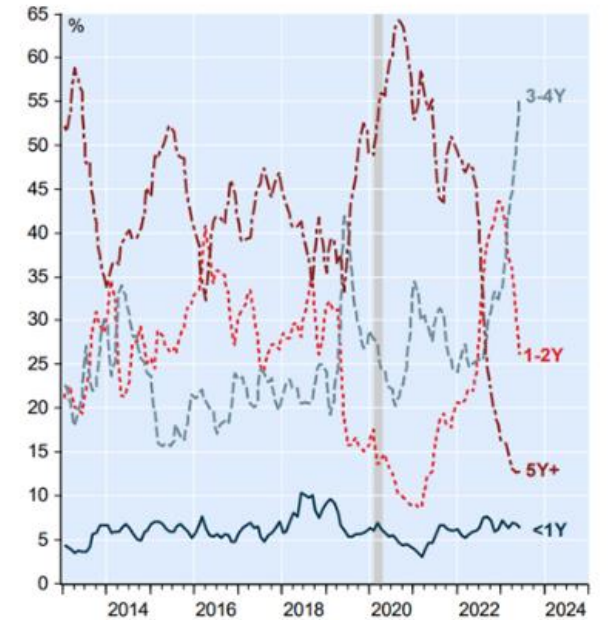
It could be a few more years before we see interest rates having a greater impact on the Canadian housing market. Homeowners will have to decide whether they refinance at higher rates or sell their homes.

## Canada: Mortgage gymnastics for borrowers under pressure

Distribution of mortgage originations, by rate type



Distribution of fixed-rate mortgage originations, by term length



NBF Economics and Strategy (data via Bank of Canada)

# Key Economic Indicators

	Inflation Rate		Interest Rate		Unemployment Rate		GDP Annual Growth Rate		Stock Market Valuation (Forward P/E)	
	Last	Chg.	Last	Chg.	Last	Chg.	Last	Chg.	Last	Chg.
<b>USA</b>	3.20%	▲	5.50%	▲	3.80%	▲	2.60%	▲	19.2	▼
<b>Canada</b>	3.30%	▲	5.00%	▲	5.50%	▲	2.21%	▲	12.8	▼
<b>China</b>	-0.30%	▼	3.45%	▬	5.30%	▲	6.30%	▲	9.7	▼
<b>Japan</b>	3.30%	▬	-0.10%	▬	2.70%	▲	2.00%	▬	14.1	▼
<b>United Kingdom</b>	6.80%	▼	5.25%	▲	4.20%	▲	0.40%	▲	10.1	▼

Source: Trading Economics



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