



HARBOURFRONT
WEALTH MANAGEMENT

**WATERMARK
PRIVATE PORTFOLIOS**

OCTOBER 2023 COMMENTARY



TRUE INDEPENDENCE™

Market Review in Minutes

Equities

- The S&P 500 and the S&P/TSX Composite both recorded their third consecutive negative month in October as geopolitical uncertainties heightened, while technology challenges continued to ensue between US and China. The S&P 500 in Canadian Dollars edged out a gain as the Canadian Dollar fell.
- The energy sector lagged the other sectors, dragging the heavy-resource S&P/TSX Composite down along with it.
- Major technology stocks were mixed this month:
 - Microsoft, Netflix, and Amazon rallied higher after beating earnings expectations.
 - Tesla slid after an earnings miss. Despite beating earnings expectations, Alphabet (Google) slid due to an earnings miss in its pivotal cloud segment and Meta (Facebook) fell as well due to soft Q4 guidance.
 - Apple and NVIDIA will report earnings on November 2 and November 21, respectively, after market close.

Fixed Income

- The Bank of Canada has decided to leave rates unchanged at 5% during its October meeting, causing Canadian bonds to rally. The US Federal Reserve is expected to pause in the upcoming November meeting but is expected to deliver a continued “hawkish” view.
- Volatility continues to be high at the long end of the interest rate curve. Trades, such as American hedge fund manager, Bill Ackman, closing out his short position, caused the long-term US treasuries to rally after his announcement.
- Overall, the Canadian Universe Bond Index logged a gain of 0.37%, which was the first monthly gain since April 2023.

Commodities

- Crude oil ended at around \$81 per barrel as news broke out about the war in the Middle East between Israel and Hamas, injecting volatility in the equity and commodity markets.
- Gold ended higher this month as investors flocked to this “safe haven” asset amidst the geopolitical tensions.

As at October 31, 2023	Monthly % Total Return	YTD % Total Return
Canadian Bonds <i>FTSE Canada Universe Bond Index</i>	0.37%	-1.09%
Canadian Equities <i>S&P/TSX Composite Index</i>	-3.21%	0.06%
US Equities S&P 500, in C\$	0.52%	13.41%
Gold	6.87%	9.20%
Oil <i>West Texas Intermediate Crude</i>	-10.76%	0.95%
Canadian Dollar	-2.17%	-2.48%

Notable Monthly Highlights

USA – 10-year benchmark borrowing cost climbed above 5% and 30-year fixed mortgage rates have reached 8%

- The long-term interest rates have skyrocketed this month with the 10-year yield crossing 5% (for the first time in 16 years) and the 30-year US treasury yield reaching its highest level since July 2007.
- The 30-year fixed mortgage rate also climbed to 8%, which was a level not seen since August 2000.
- The US Federal Reserve re-iterated that inflation is still elevated and reconfirmed its commitment to bring inflation rate down to its 2% target level. The US Federal Reserve continue to monitor economic data:
 - The closely watched core CPI, an inflation metric that excludes volatile food and energy prices, reported an increase of 0.3% in September and was in line with expectations; this reflects some progress in the battle with inflation.
 - US existing home sales fell by 2% in September to 3.96 million units (lowest level since October 2010).
 - Conversely, retail sales jumped 0.7% in September vs the expected 0.3% consensus as more households have been spending on motor vehicles and more at restaurants and bars; this robust US consumer spending may give more reason for the US Fed to potentially raise rates if it continues to surprise on the upside.

Canada – The Bank of Canada decided to hold its key policy rate at 5%

- Several economic indicators have led to the Bank of Canada's decision to refrain from raising interest rates:
 - Home sales (seasonally adjusted) declined by 1.9% in September and new listings increased by 6.3%. The number of active listings relative to home sales rose by 3.7% (the third consecutive monthly gain), meaning that the supply for homes slightly grew; however, this active listings to sales ratio still remains relatively low compared to its historical average.
 - Annual inflation rate slowed down unexpectedly in September to 3.8%.
 - Business sentiment in Canada weakened based on Bank of Canada's latest business outlook survey as more companies expect the negative impacts of rising rates start to eek into their expected sales and investment activity.
 - According to Bank of Canada's Business Outlook Survey, expected wage growth over the next 12 months is easing; however, this level remains elevated.

World – The Middle East, Europe and Asia witnessing heightened geopolitical tensions

- Israel-Hamas has been an important topic throughout the month, with markets reflecting trepidation, concerns around risk of prolongment and contagion, and related supply chain disruptions.
- The technology challenges between US and China continues as the US implemented a restriction to stop exporting NVIDIA's high-end AI chips to China; as a result, NVIDIA, a key AI chip supplier of China, saw its stock price fall after the announcement.
- China keeps the benchmark rates the same as economic data shows some stabilizing: Q3 GDP growth grew and September exports declining less than consensus.
- European Central Bank held its key interest rate at 4% after 10 consecutive hikes.

Watermark Private Portfolios Outlook and Positioning

- Our decisions to underweight equities and overweight floating rate notes has been historically beneficial, as global equities continue to post losses in October. As equity markets have retreated to key technical levels, we have trimmed our fixed income exposure (the floating rate notes) and used the proceeds to bring our equity exposures closer to our target benchmark.
- The month end marked a change in positioning vs. our positioning earlier in the year. Please note our change in positioning below, which occurred at the end of the month:

	Underweight	Target	Overweight	February to Mid-October	October End
Equities				US equity markets were expensive and narrowly led by the technology sector. We disliked the high valuations these companies were priced at.	Global equity markets softened in October, posting a 3 rd consecutive negative month. We saw equity markets hold above key technical levels – the S&P 500 held at 4100. We have changed our positioning from underweight equities to neutral public equities as we believe that equity markets could rally in the short-term to medium-term before entering a recession. In addition, with share buybacks starting up again and with the equity markets historically performing well during November to May (seasonality), we believe the equity markets have a strong probability of closing higher by the end of the year.
Fixed Income				We favoured an allocation to floating rate notes, which provided more than 5% in a rising rate environment. We held this exposure to reflect our continued belief that interest rates were rising and because we felt it provided a better risk-adjusted return than equities and longer-dated fixed income.	We believe interest rates are at or near their peak. From this level, there is greater uncertainty about rates rising vs. rates dropping, particularly as we begin to see the impact of previous rate increases be reflected in slowing domestic economic data. We wanted to allocate into public equities but also increase our maturity on our fixed income debt by selling the floating rate notes.
Private Credit				We favoured private credit as a diversifying source of yield. We like the floating rate nature of the fund and the defensive income provided by its mortgage allocations.	Although we believe public market yields have become more attractive than when rates were at zero, we nonetheless continue to see strong merit in a stable allocation to private credit . We prefer to reserve our exposure to floating rate credit to this segment of the portfolio. Further, as increased regulation continues to limit bank lending, the diversification provided by private debt is meaningful and growing.
Private Real Estate				We saw strong tailwinds in support of private real estate. The select areas of focus of Forsyth Private Real Estate fund (apartments, student housing) are expected to remain resilient.	We continue to see strong tailwinds in support of private real estate; therefore, we are maintaining long-term allocation to private real estate . Strong immigration in Canada, the significant gap between housing supply and demand, and increasing rents continue to benefit our private real estate holding. As an equity holding in the portfolio, we view this as a stable and defensive equity exposure.

Changes in Portfolio Positioning Over the Past Month

In the Enhanced Conservative Plus Portfolios:

- By the end of October, we sold the rest of the Invesco Floating Rate Note ETF and used the proceeds to buy iShares Core Canadian Short Term Corporate Bond ETF (10% allocation).

In the Enhanced Balanced & Growth Plus Portfolios:

- In early October, we trimmed Invesco Floating Rate Note ETF by 5%.
- We then used proceeds from Invesco Floating Rate ETF to add to Percy Harris Global Equity position (5% allocation).
- By the end of October, we sold the rest of the Invesco Floating Rate Note ETF and used the proceeds to buy iShares Core Canadian Short Term Corporate Bond ETF (9% allocation in the Balanced Plus and 8.5% in the Growth Plus portfolios).

In the Low-Cost Balanced & Growth Plus Portfolios:

- By the end of October, we sold all the iShares S&P/TSX Composite High Dividend Index ETF and used the proceeds to buy iShares Conservative Balanced ETF (20% allocation in the Low-Cost Balanced Plus and Low-Cost Growth Plus portfolios).
- By the end of October, we sold all the iShares Floating Rate Note ETF and used the proceeds to buy iShares Conservative Balanced ETF (7% allocation in the Low-Cost Balanced Plus and 7.5% in the Low-Cost Growth Plus portfolios).

In the Enhanced Balanced & Growth Core & Low-Cost Core Portfolios:

- In early October, we trimmed iShares Floating Rate Note ETF by 5%.
- We then used proceeds from iShares Floating Rate Note ETF to add to Percy Harris Global Equity position (5% allocation).
- By the end of October, we sold the rest of the Invesco Floating Rate Note ETF and used the proceeds to buy iShares Core Canadian Short Term Corporate Bond ETF (20% allocation in the Enhanced and Low-Cost Balanced Core and 25% in the Enhanced and Low-Cost Growth Core portfolios).

Did You Know?

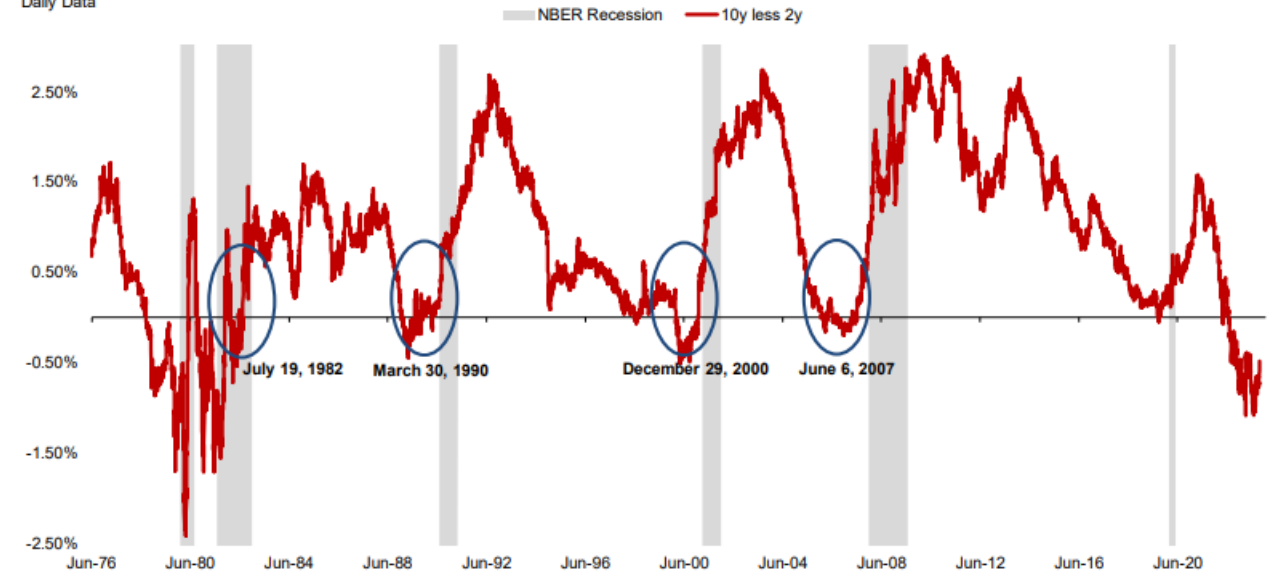
As seen on the chart, the US 10 and 2-year yield spread does not often go in the negative territory. When the difference between these two yields become negative (when the US 2-year treasury yield trades higher than the 10-year treasury yield), the result is an “inverted yield curve.” Historically, when this curve starts to un-invert, the resulting event has often led to recessions (as depicted by the grey shaded areas).

Our opinion:

In the past two months, as the curve has quickly become less inverted, we anticipate recession is just around the corner. Until then, we could still see some short to mid-term equity rallies before a recession is fully cemented.


























Difference between US 10- and 2-year Treasury Yields

Daily Data



Source: NBF, Bloomberg, NBER

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.
USA	3.70%		5.50%		3.80%		2.90%		18.3	
Canada	3.80%		5.00%		5.50%		1.12%		12.4	
China	0.00%		3.45%		5.00%		4.90%		9.6	
Japan	3.00%		-0.10%		2.60%		1.60%		14.2	
United Kingdom	6.70%		5.25%		4.30%		0.60%		10.4	

Source: Trading Economics

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