Wealth Notes

Q3 2023

BEYOND THE NOISE

The third quarter offered investors very few places to hide.

This edition of the third quarter 2023 Wealth Notes is very concise in an effort to give our readers a current update on why the markets have come under pressure since their peak on July 31st, 2023. This edition also seeks to provide additional information based on the podcast that Cody and I shared with you on September 27th. If you haven't had a chance to view it yet, you can access it through the link provided below.

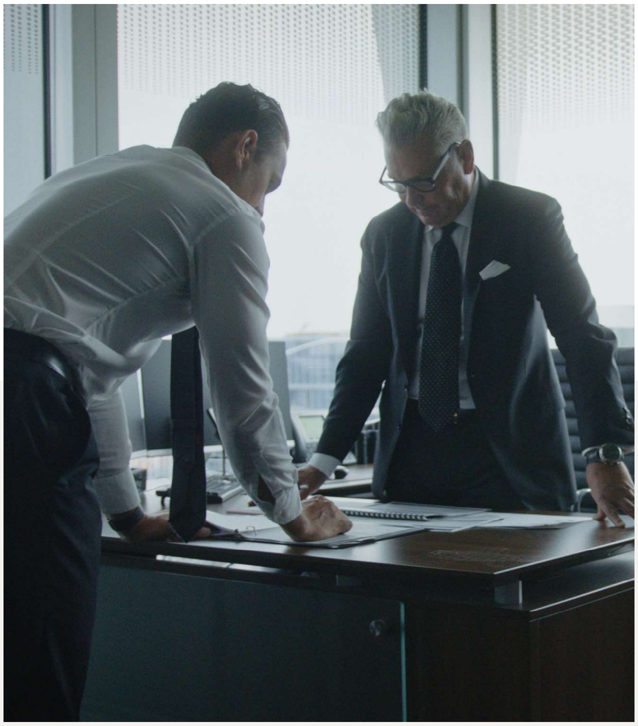
https://vimeo.com/868811967

The third quarter offered investors very few places to hide. All major markets moved to the downside. Here is a performance update on the major markets:

Major Markets	
S&P 500	-3.3%
NASDAQ	-4.1%
Dow Jones	-2.6%
Russell 2000	-5.1%
S&P/TSX	-3.0%
MSCI EAFE	-4.1%

The S&P 500 peaked on July 31st, 2023 at 4,588.96. At the time of writing on October 3rd, 2023, the S&P 500 stood at 4,229.45, down 359 points or -7.8%. However, the S&P 500 is still up a respectable 10.60% year to date.

On the Canadian homefront, the S&P/TSX peaked on July 31st, 2023, at 20,626.24. On October 3rd, the index closed down to 19,020.92, which was a 1,605.32 point drop to the downside, representing a pullback for the quarter of -7.8%. The major detriment to the Canadian market was the Financial sector, the largest component of the S&P/TSX. All the 6 major banks have been under pressure in 2023.

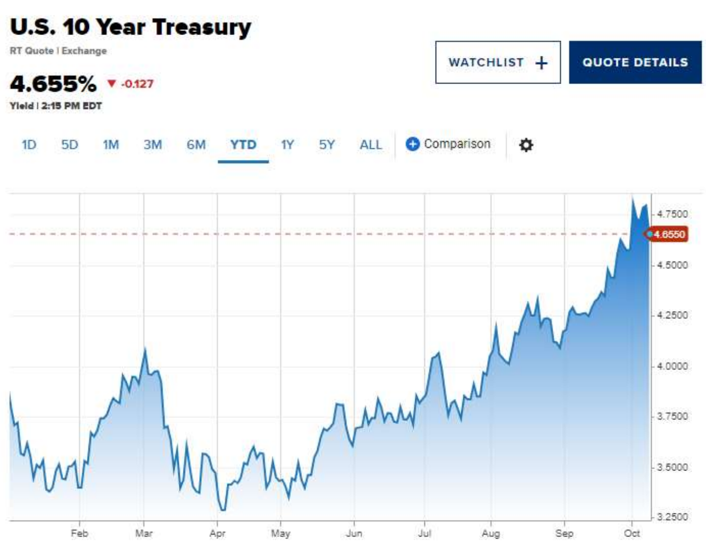


Ken Gordon, PFP, CDFA, CFDS
Senior Wealth Advisor

Cody Gordon, CFA, CIM
Portfolio Manager and Wealth Advisor

Major Banks	
RY	-11.63%
TD	-9.15%
CIBC	-9.10%
BMO	-11.75%
BNS	-10.80%
NA	-4.57%

Interest rates are the primary driver of equity performance today and have been since the markets peaked at the end of July 2023. The negative performance of the equity markets over the last two months can be explained clearly by the following chart.



Source: CNBC

The benchmark yield has surged in the past two months to touch 4.8% as the Federal Reserve pledges to keep interest rates higher for longer. The 30-year treasury yield hit 4.9% on Tuesday, October 2nd, the highest level since 2007.

The stock market suffered a severe selloff on Tuesday, October 3rd, as surging bond yields rattled Wall Street. The S&P 500 dropped 1.4%, touching its lowest level since June during the day, as the 10-year treasury yield reached its highest point in 16 years.

Short-term pain from rate hikes may very well still lie ahead despite the impressive resilience from the global economic and economic data.

We are currently seeing signs of higher rates impacting stock prices over the last two months, and that is single-handedly the biggest culprit.

Get ready and prepare yourself for what could be an adventure this month. October is usually the month when markets bottom before the seasonally strong months of November and December in conjunction with the Christmas rally.

We at Verus Financial think investors should remain optimistic that markets can rally before the end of the year. Investors should also remember that the best opportunities to really make money are during times of fear, whether that's the market lows of October 2022, March 2023 or today.

It still makes sense to be constructive on the market if you ignore the doom and gloom and look at the data. The fundamentals of the economy clearly don't point to higher yields. In our view, the upward trajectory on bond yields is overdone, and when bond yields eventually drop, the sun will shine on equities one more time!

We at Verus remain optimistic that the markets could see a meaningful upside rally into year-end for the following reasons:

- Despite higher bond yields rattling equity markets, the US economy remains strong. Current US GDP is sitting at a very respectable 2.4%.

- The latest jobless claims data, which showed initial claims of 204,000 for the week ending September 23, 2023, still suggests strength in the labour market and the overall economy. The current US unemployment rate is currently sitting at 3.4%, and in Canada, it is 4%; both are historic lows.

- Although the core inflation data remains stubborn, interest rates have a good chance of staying higher for longer. There is a good chance that the Federal Reserve will hold steady on interest rates at their November meeting. Even if we get one more hike of a quarter of a percentage point in 2023, one has to conclude that the bulk of the interest rate hikes are most definitely in the rearview mirror. After the Feds rising interest rates, five full percentage points in the latest tightening cycle, will another quarter of one percentage point have a significant impact? We don't believe it will.

- Consumer spending remains strong as we enter the holiday season. On September 19, 2023, Amazon announced it was hiring 250,000 people in anticipation of a strong Christmas season.

Market volatility has always been, and always will be a natural part of the investment landscape.

- Corporate profitability still remains resilient. In the second quarter of 2023, 80% of S&P 500 companies beat analyst predictions. Although earnings estimates are being revised downwards for the third quarter, the balance sheets of corporate America still look very strong. Nearly half of the S&P 500 debt is not set to mature till after 2023, hence why so many companies have been immune to the significant increase in interest rates.

- Although most market pundits believe that a soft landing is not achievable, we at Verus are not alone in suggesting it remains possible and even plausible. Both Bank of America and JP Morgan have both currently reiterated that a soft landing is possible even though recession risks remain elevated.

Market volatility has always been, and always will be a natural part of the investment landscape. We understand it can be unsettling. As always, be rest assured we are diligently monitoring the situation and employing strategies to protect and grow your investments.

In challenging times, it's important to remember that a well-thought-out investment plan is designed with a long-term perspective. Short-term market movements may be unsettling, but our focus remains on your clearly documented financial goals.

Our commitment to you extends beyond market cycles. We are here to guide you through the ups and downs, providing the support and expertise needed to make informed decisions. Additionally, we will be proactive in keeping you updated on all relevant market developments and any adjustments that we feel may be necessary for your portfolios.

Cody and I would like to remind you of our wealth management luncheon, Beyond the Noise, on October 19th at Marine Drive Golf Club. We will be discussing our strategies going into 2024. As we are dedicated to sending you quarterly Podcasts, we will not be filming this luncheon, so your efforts in attending would be greatly appreciated.

Suite 3000, 475 Howe St.
Vancouver BC V6C 2B3

+1 604 235 2919
verusfinancial@nbc.ca