Quarterly Commentary

July 2023

Surprise, Surprise, Surprise

Golly, Sarge! The technology sector sure has been strong this year!

Some of you may remember Jim Nabors playing Gomer Pyle in the 1960s TV sitcom of the same name. If Gomer were around today, now would be about the time he would be enlightening his 'Sarge' with this very obvious fact.

Indeed, the S&P Technology Sector has performed well beyond expectations in 2023 – up over 41% year-to-date at the time of writing, and nearly 51% over the low set in October 2022. With global interest rates having continued their march higher, and the constant rhetoric around an all-but-certain U.S. recession, this outperformance—and the performance of the broader S&P 500 by extension—has certainly been surprising. If you recall, higher interest rates and the potential for an economic slowdown were the very same reasons touted as the primary motivators of last year's painful selloff. Adding to this surprise is the fact that many market analysts and pundits were anticipating Canadian and European markets to outperform the U.S. in 2023.

While the headline increase in the S&P 500 is impressive (+16.9% to the end of Q2), digging a little deeper into the performance reveals a rather more subdued picture for the majority of equities making up that index. As of July 5th, approximately 71% of the year-to-date gain could be attributed to just seven stocks: Amazon (+50%), Apple (+53%), Google (+36%), Microsoft (+41%), Meta (+135%), NVIDIA (+193%) and Tesla (+158%), all propelled higher by an artificial intelligence-driven frenzy. Collectively, these now make up a staggering 28% of the overall index. Once again, we have a very narrow subset of mega-cap stocks, focused in a single sector (with the possible exception of Tesla), gobbling up significant amounts of investor capital, and driving a benchmark against which most other markets are compared. While we have no doubt artificial intelligence will have substantial impacts on the way companies (and societies) operate long into the future, can the significant multiple expansion experienced by these companies over such a short period of time really be justified today? Only time will tell. One thing we can say for sure is, following the unrelenting negativity experienced in 2022, the positive market momentum experienced so far in 2023 comes as a very welcome surprise.

Below we have outlined several other positive surprises we've seen throughout the first half of 2023, and a few not-so-positive ones thereafter:

Positive Surprises

- The North American housing market has remained remarkably resilient, despite substantially higher interest rates – this is even more compelling in Canada where, according to the Bank of Canada, approximately one-third of home loans are floating rate
- Recent bankruptcies and balance-sheet stress within the U.S. Regional Banking sector seems to have passed without much impact on broader financial markets
- The U.S. appeared to be headed towards a fiscal cliff as negotiations around increasing the debt ceiling became mired in divisive, partisan politics; thankfully, cooler heads prevailed, and an agreement was reached days before the U.S. Treasury forecast the country would run out of cash
- Corporate earnings, although weakening, are holding up well, despite inflationary input costs remaining elevated
- Rumblings about the potential for 'no recession' are starting to percolate to the surface

Negative Surprises

- The reopening of China post-COVID lockdown has not been the boon for domestic and global growth it was anticipated to be
- Energy and base metal prices have been challenged as a result of this backdrop

Market Commentary

U.S. Equities

- Equity markets continue to climb a wall of worry with the S&P 500 up 16.9% year-to-date, with the Dow Jones Industrial Average up just under 5%
- Of the eleven sectors in the S&P 500, seven had positive returns as technology, communication services, and consumer discretionary further extended their lead over all other sectors

Canadian Equities

- The S&P/TSX continued to lagged its southern cousin as the heavily weighted sectors of financials, energy, and materials (metals) continue to struggle. It appears that investors remain hesitant as they focus on a few key unknowns:
  - Is the housing market finally going to crack under the weight of higher interest rates?
  - In the near-term, how will prices in energy and metals markets balance tight supply with reduced global demand expectations associated with a slowing economy, particularly in China?
  - In the long-term, when will the lack of capital going into new production reach the tipping point where demand appreciably outweighs supply and pushes prices higher on a sustained basis? Will copper pricing finally break from the shackles of a slowing economic growth forecast (particularly, the Chinese real estate market) and embrace the promised tailwinds of electrification?
- The S&P/TSX Composite Index ended the first half of 2023 up 5.7%.

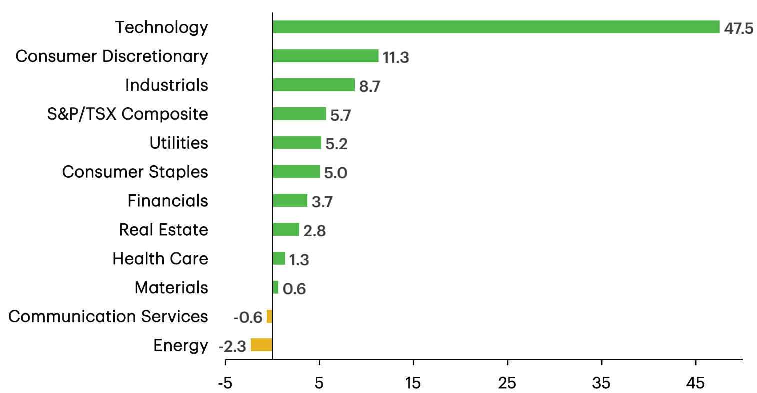
Fixed Income

- By the end of last year, fixed-income traders were starting to predict when in 2023 interest rates would begin their slow march back down to more sustainable levels; that timeline is now being pushed out into 2024, despite the anticipated end of the rate-hiking cycles in Canada and the US
- The recent 25bp increase delivered by the Bank of Canada has driven short-term rates to their highest level in over 20 years
- The Canadian Investment Grade Bond Index is slightly positive year-to-date at 1.1%, while the U.S. Investment Grade Bond Index is positive 1.5%

International Equities

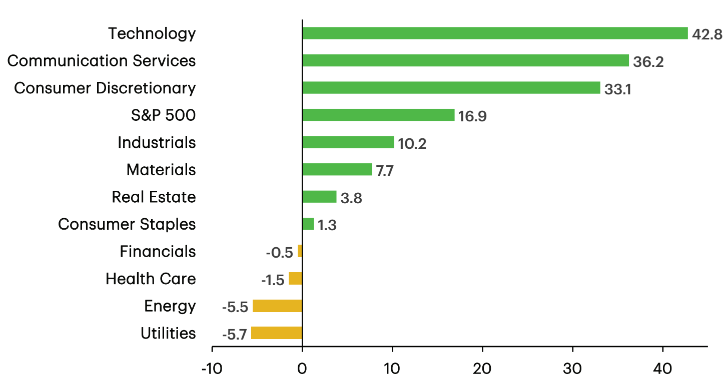
- International developed markets diverged significantly in the second quarter, with funds flowing to tech-heavy markets like Japan, while European markets treaded water for the most part
- The MSCI European Monetary Union Index rose 1% (in Euro terms) in the quarter, trading within a tight range, while the Japanese Nikkei 225 Stock Average finished up 18.5% (in Yen terms) for the quarter (6.7% in CAD terms)

Annual S&P/TSX Sector Returns



Source: FactSet as of June 30, 2023. Index total returns.

Annual S&P 500 Sector Returns



Source: FactSet as of June 30, 2023

Team Update

We would like to welcome Aehwa Mun to the Borger Griffiths Wealth Management team. Aehwa joins us from our partners in retail banking where she provided a high level of customer service through her role as a Personal Banker.

We would like to wish Maddie, and her newly expanded family, all the best during her maternity leave.

Devon, Alejandra, Aehwa, and I thank you for your business. We continue to look forward to working with you and your family, and helping to navigate your financial journey with deep knowledge, diverse experience, and commitment on your side. If you have any questions or issues you would like to discuss, we would be happy to receive your call. Thank you again, we hope you enjoy the rest of your summer.

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Wealth Management

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Source:
Bloomberg Finance L.P. as of July 4, 2023. Total returns including dividends and distributions in native currency.
FactSet, TD Wealth Investment Office, Bloomberg Finance, Before the Open newsletter.