GREEN PRIVATE WEALTH

HARBOURFRONT WEALTH MANAGEMENT

Green Private Wealth of Harbourfront Wealth Management is a discretionary portfolio management group focused on helping investors achieve their goals through building wealth and managing their risks.

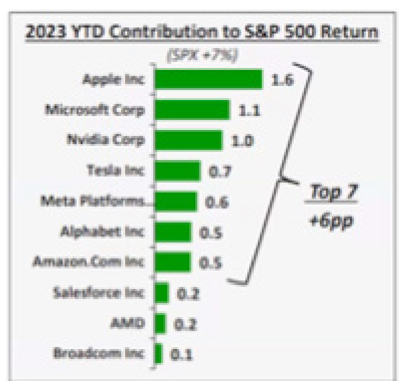
Month in Review - April 2023

Markets were up again in April with the TSX Composite outperforming the S&P 500 as it gained 2.9%, while the S&P 500 finished up 1.8% (in CAD). Bond market volatility continued, as the Canadian Universe Bond Index zig-zagged all month before finishing up 0.9%. Once again, we're keeping our eyes on the bond market for economic signals regarding interest rates and the state of the economy, but for the safety portion of the portfolio, we prefer private credit and private real estate as they are currently less volatile in this inflationary investing environment.

Markets

Global stock markets appear to have had a strong start to the year. However, when we look at individual company returns, we see seven technology companies accounted for 83% of the gain in the S&P 500 during the first quarter, due to their large size in the index and their strong performance.

Seven tech giants contributed 83% of S&P 500 total returns in Q1 2023



The impact of these seven companies can also be seen in the S&P 500 Equal Weight Index. This gives each company in the index the same weight (whereas the S&P 500 Index assigns a weighting to each company depending on its size). The return year-to-date on the average company is reduced with the equal weight index up 0.2% (in USD) year-to-date.

Month in Review - April 2023

This chart demonstrates how the equal weight index has traded sideways since last April, below the highs from Q1, and turning downward below last November's highs (below the top blue line), indicating:

1. **The S&P 500 is led by a few mega-cap companies and overly dependent on their returns.**
2. **The current price for mega-cap technology revenues (Price/Sales ratio) is very high and at some point, will likely result in a pull-back to lower this ratio.**
3. **The average company in the S&P 500 has traded sideways over the last year and isn't generating momentum.**

Those looking at the S&P 500 year-to-date might assume everything is great, yet a deeper dive into how the average company is performing shows that is not the case. Additionally, weakness led by the regional bank failures in March has caused relatively poor performance in smaller companies recently. The iShares Russell 2000 ETF, which tracks the investment returns of 2000 smaller publicly traded US companies, was down 1.8% in April and is flat on the year. It paints the same picture as the average company in the S&P 500, providing evidence of the prudence in staying defensive during uncertainty related to factors like the US debt ceiling debate, inflationary pressures, and increasing unemployment in recent weeks.

The US debt ceiling debate will likely increase volatility (stocks and bonds) if no resolution is passed approaching the deadline. Although it's likely a resolution is passed and this key risk can be removed from the market, the risk to the downside is much larger. Failure to negotiate an extension could result in a downgrade of US debt, similar to 2011, with the uncertainty leading to a quick drawdown in stocks. Stock markets may look attractive with a strong start to the year in the S&P 500 Index, but outside those seven large companies, the average company is not supporting that. With a high probability that we are heading into a recession, we believe it's best to remain defensive until central banks pivot and boost the economy with lower interest rates, and watch for company valuations (Price/Earnings ratios) to go lower if stocks pull back over the summer months.