HARBOURFRONT
WEALTH MANAGEMENT

WATERMARK
PRIVATE PORTFOLIOS

SEPTEMBER 2023 COMMENTARY

Market Review in Minutes

Equities

- The S&P 500 and the S&P/TSX Composite both had a negative month in September as investors digested the announcements from their respective central banks confirming that interest rates remain high for an extended period.
- The energy sector led the markets this month, which helped Canada's resource-heavy S&P/TSX Composite outperform the technology-heavy S&P 500.
- Higher oil prices are keeping inflation expectations higher, thereby keeping interest rates high, which in turn hurt bonds and longer-duration assets such as high growth potential, low-revenue technology companies.

Fixed Income

- Both the US Federal Reserve and Bank of Canada refrained from raising rates further during their September meetings, but still hinted they may take rates higher by 0.25% by the end of the year. The markets currently reflects the belief that they would keep interest rates higher next year.
- Overall, the Canadian Universe Bond Index recorded its largest monthly drop since August 2022 and is now down on the year – making it once again a tough year for the safety portion of portfolios.

Commodities

- Crude oil rose above $90 per barrel, as markets reacted to productions cuts announced by major oil producers, Saudi Arabia and Russia.
- Gold, a non-income producing asset, ended lower this month as interest rates moved higher.

As at September 30, 2023	Monthly % Total Return	YTD % Total Return
Canadian Bonds *FTSE Canada Universe Bond Index*	-2.62%	-1.46%
Canadian Equities *S&P/TSX Composite Index*	-3.33%	3.38%
US Equities S&P 500, in C$	-4.83%	12.82%
Gold	-5.08%	2.18%
Oil *West Texas Intermediate Crude*	8.56%	13.12%
Canadian Dollar	-0.15%	-0.32%

Notable Monthly Highlights

Canada – Another 0.25% interest rate increase expected

- Canada's consumer price index (CPI), a measure of inflation, came in higher than expected at 4% year-over-year vs the expected 3.8% increase; this marked the second consecutive rise in CPI since June 2023.
- Canada's housing starts and home sales fell in the month of August, but the cost of shelter continues to rise.

USA – America's national debt reached $33 trillion and federal shutdown was avoided

- The national debt reached $33 trillion and a temporary funding bill was approved over the weekend, averting a federal shutdown.
- US student debt holders are expected to start repayment of their student loans beginning October 1st.
- Economic data released this month lends support that inflation could be ticking up again:
    - US weekly jobless claims dropped by 20,000 for the week ending September 16, showing more people were employed, which could result in inflation staying elevated.
    - US existing home sales fell in August. Median existing house prices rose by 3.9% year-over-year.

World – Central banks around the world are mixed

- The European Central Bank decided to hike for the 10th time to a high of 4%, while the Bank of England decided to pause interest rates at 5.25%.
- China keeps its interest rate the same as it tries to stabilize its economy after a month of negative news surrounding economic growth, unemployment, and real estate concerns.

Watermark Private Portfolios
Outlook and Positioning

- We continue to favour a defensive positioning in the portfolios, with a continued focus on risk-adjusted returns.
- Our decisions to underweight equities and longer-dated fixed income in favour of allocating to floating rate notes that increase with interest rates have benefitted us this month, with global equities and bond markets having a poor month.

	Underweight	Target	Overweight	Outlook
Equities	X			We re-iterate our defensive view as we believe that interest rates remaining higher for longer, along with increasing global debt is not favorable to equity performance in the medium term. We expect to see a relief rally in equities, sending them higher before several major markets enter a recession. If S&P 500 holds the 4,200 level, then we will consider increasing our weight in global stocks.
Fixed Income			X	Our current portfolio positioning is slightly overweight to public fixed income via a floating rate ETF earning more than 5% (acting like a cashable GIC), which we feel provides a better risk-adjusted return asset than equities and longer-dated fixed income.
Private Credit		X		**Maintain long-term allocation** to Private Credit. As a primarily floating rate asset class, Private Credit benefits from the current rising rate environment. Structural challenges to traditional bank lending continue to make private credit a growing and attractive asset class.
Private Real Estate		X		**Maintain long-term allocation** 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 Conservative Plus Portfolios:

- Sold a 12% position in the CI Alternative Diversified Opportunities Fund due to the passing of the fund's CIO and the fund's strategy to keep buying longer-term bonds, which may continue to hurt its performance especially if we expect higher inflation and a higher-for-longer interest rate environment.
- Bought a 6.5% position in the Pender Alternative Absolute Return Fund as the lead fund manager's longer-term views align with our view that the interest rate regime has changed and interest rates may stay higher for longer. In addition, the lead fund manager is a dynamic asset manager who is able to leverage volatility in the marketplace via a more active tactical positioning.
- Holding the rest of 5.5% proceeds from CI Alternative Diversified Opportunities Fund in cash as we look to allocate back into the portfolios. Should stocks look like they will rally after the recent pullback, we will allocate funds back into global stocks. If not, we will add to our floating rate bond position that yields 5.2%

Changes in Portfolio Positioning Over the Past Month

In the Enhanced Conservative Core Portfolios:

- Sold a 20% position in the CI Alternative Diversified Opportunities Fund due to the passing of the fund's CIO and the fund's strategy to keep buying longer-term bonds, which may continue to hurt its performance, especially if we expect higher inflation and a higher-for-longer interest rate environment.

- Bought a 19.5% position in this low-cost iShares Core Balanced ETF as a strategic holding with proceeds from the CI Alternative Diversified Opportunities Fund sale. With recent changes to our other defensive and income-generating holding, McCartney Low Vol Strategies, the portfolio is heavily tilted to income-generating assets. Therefore, with the most recent equity pullback, we feel that it is a prudent time to allocate and get equities back in line with its benchmark.

Changes in Portfolio Positioning Over the Past Month

In the Equity Income Plus Portfolios:

- Sold a 23% position in the CI Alternative Diversified Opportunities Fund due to the passing of the fund's CIO and the fund's strategy to keep buying longer-term bonds, which may continue to hurt its performance, especially if we expect higher inflation and a higher-for-longer interest rate environment.

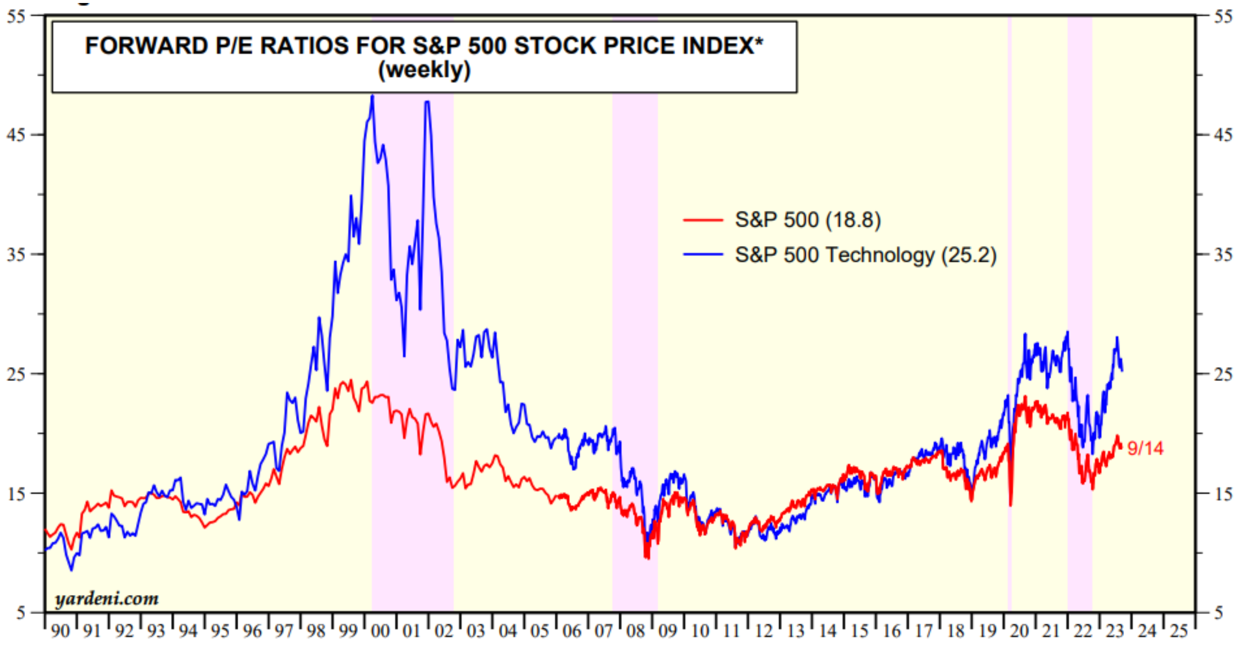
- Bought a 23% position in the Pender Alternative Absolute Return Fund as the lead fund manager's longer-term views align with our view that the interest rate regime has changed and interest rates may stay higher for longer. In addition, the lead fund manager is a dynamic asset manager who is able to leverage volatility in the marketplace via a more active tactical positioning.

Did You Know?

Although the valuations of the S&P 500 Technology sector is not at the same level as it was in the 2000s, the pathway is like the dotcom bubble in 2000, where it peaked twice within a 2-year period.

Our opinion:

As Mark Twain once said, “History never repeats itself, but it does often rhyme.” It appears to us that the technical setup is similar to the dotcom bubble and we would expect to see the S&P 500 valuation to come down over the next several quarters, especially if interest rates remain higher for longer. Furthermore, we are seeing year- over- year revenue decline (growth falling) from the largest company in the world and tech leader, Apple. Should this trend on Apple continue, then we expect the price to fall further from here and notably Apple is 7% of the S&P500 Index and 11% of the Nasdaq 100 Index.



* Stock price index divided by forward consensus expected operating earnings per share. Monthly through December 2005, then weekly.
Note: Shaded red areas are S&P 500 bear market declines of 20% or more. Yellow areas show bull markets.
Source: Standard & Poor’s.

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%	▲	2.60%	▲	19.2	▬
Canada	4.00%	▲	5.00%	▬	5.50%	▬	1.12%	▼	13.1	▲
China	0.10%	▲	3.45%	▬	5.20%	▼	6.30%	▲	9.9	▲
Japan	3.20%	▼	-0.10%	▬	2.70%	▲	1.60%	▼	14.6	▲
United Kingdom	6.70%	▼	5.25%	▬	4.30%	▲	0.40%	▲	10.3	▲

Source: Trading Economics

DISCLAIMER

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