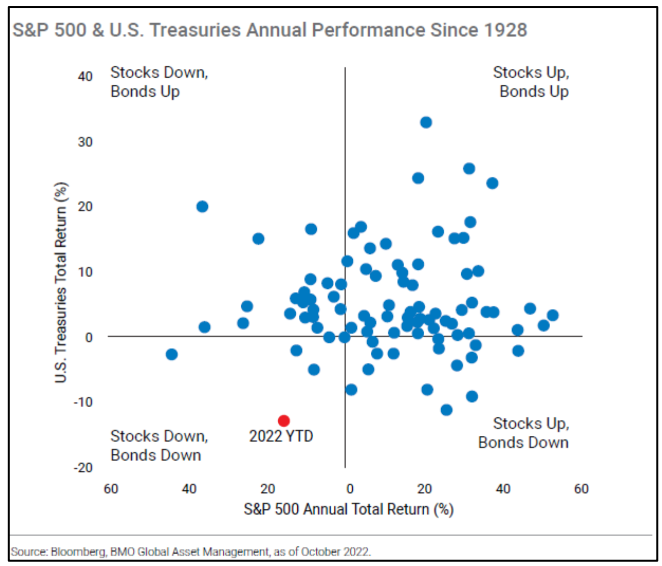
DIVIDEND VALUE PARTNERS | RAYMOND JAMES®

The Dividend Value Discipline™
4th Quarter 2022

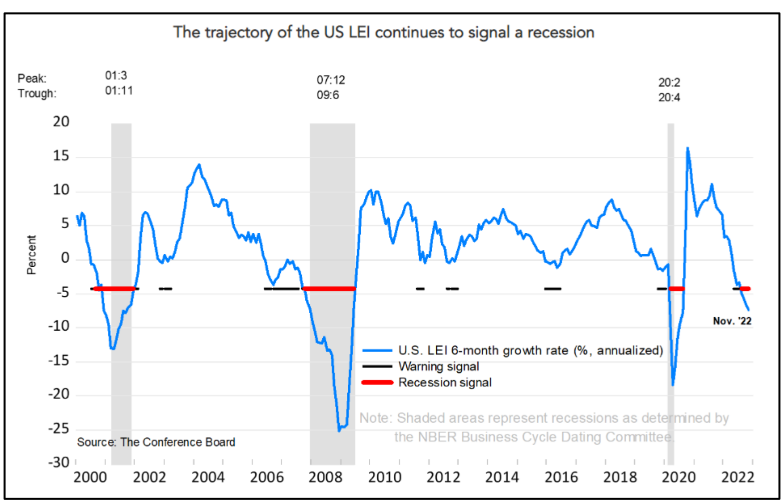
Quarterly Commentary

A Statistical Anomaly

The kindest way to explain the awful investment environment in 2022 is to say it was a statistical anomaly. Since 1928, this was only the fourth time that both bonds and stocks had negative returns in the same calendar year. For 2022, those returns were also down double digits in the U.S., which marked the worst return (-17.5%) for balanced investors since the 1930's. Typically, central banks act counter-cyclically to the economy, lowering interest rates as the economy slows and raising rates as the economy accelerates. With unprecedented high inflation, central banks were forced to quickly raise interest rates even as the economy was slowing in 2022, which subsequently hurt both equity and bond markets. We suspect central banks will return to their traditional role of leaning against the economic cycle later this year as inflation moderates.



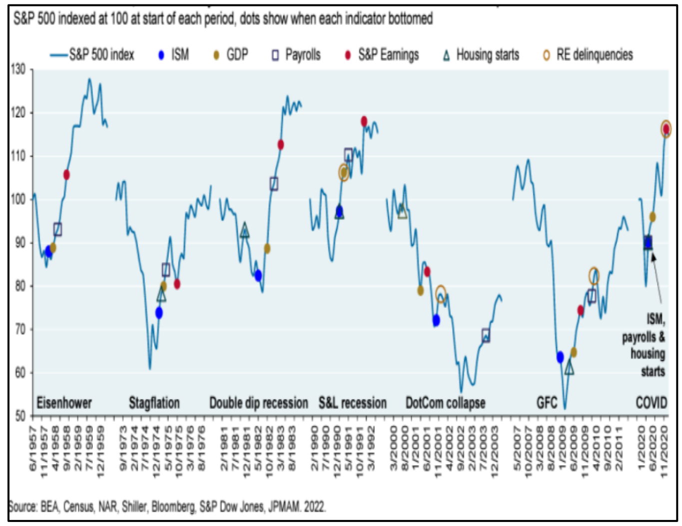
The year 2022 was one for the record books. This was after a very good year in 2021 where we saw double digit growth, excessive savings and spending, and easy monetary conditions. The years 2021 and 2022 were in stark contrast to one another, while 2023 may be a year of normalization.



Leading Indicators

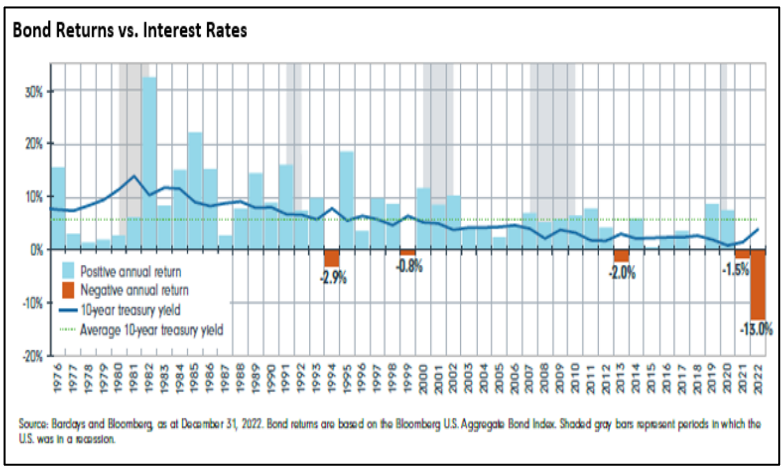
There are three categories of economic indicators: leading, coincidental, and lagging. According to the trajectory of the Leading Economic Index (LEI), we should expect the U.S. economy to head into a recession within the next quarter or so. The December report showed widespread weakness within manufacturing, housing construction, and financial markets. The LEI and ISM Survey (more on this later) are both indicating we are in the midst of an economic slowdown, with only the potential severity (mild, moderate, or severe) in question. Labour markets are the only sticky factor, but headlines of corporate layoffs are now becoming common within the news. Despite the negative connotation this brings, it's what needs to happen for central banks to shift their policy and usher in a new economic cycle.

Where's the Bottom?



Anticipating a bottom in the equity markets is no easy task. In the history of U.S. recessions, equity markets typically bottom before most other economic data such as GDP, payrolls, corporate earnings, housing starts, and delinquencies. The one indicator that most reliably coincides with a bottom in equity markets is the ISM Survey. The ISM Survey is a monthly measure of U.S. economic activity for goods and services. Over the past several months, the ISM reading has been declining and is now in contraction territory. When it bottoms, this is often when equity markets are close to their lows. So, in the months ahead, we will be watching the ISM reports to signal the worst is over for the equity markets.

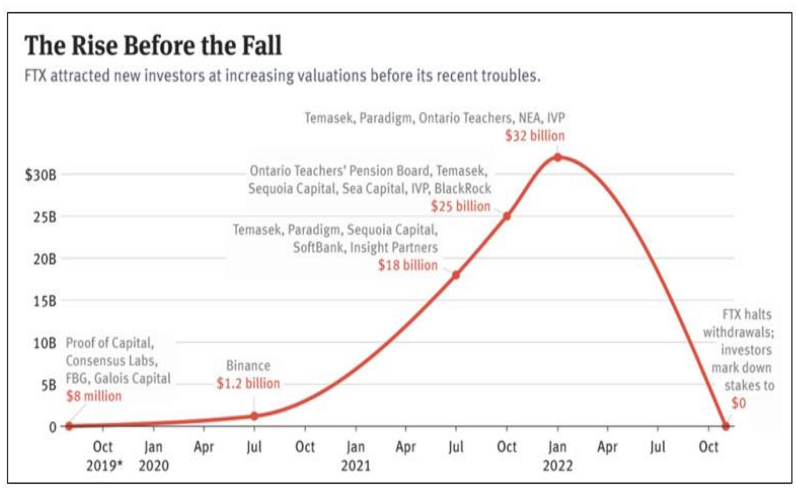
TINA



For the past several years, a common acronym in the investment world has been TINA - which stands for "there is no alternative." This referred to the pitiful yields offered on cash and bonds compared to the equity markets and other asset classes. When interest rates were at 0.25%, the yield on cash was almost zero and bonds were 2-3% at best. Now, with the sharp increases in rates, the yields on cash funds, GICs, investment grade bonds, high yield bonds, and global bonds are better than at any time in the past decade. TINA has become BAGA – "bonds are a great alternative!" Higher yields imply higher investment returns for bond holders and help improve the prospects for balanced portfolio managers like us. So finally, there is an alternative to investing within stocks, and we are seeing money move back into cash alternatives and bonds in a big way.

The Crypto Winter

This quarter saw the second-largest crypto currency exchange (FTX) collapse into bankruptcy, shocking the crypto world. What was a $3 trillion dollar marketplace, is now estimated at $800 million. FTX had over a million customers and its founder Sam Bankman-Fried was the poster boy for the crypto industry. This is not the first collapse of a crypto exchange or currency, but it's certainly the largest to date. The ripple effects of the collapse will take months to unfold. There has always been risks within the crypto world as it's largely an unregulated landscape. What happened at FTX exemplifies those risks and the repercussions of investing within that sector. Stay tuned for the Netflix documentary on this spectacular story.



Source: Securities filings, The Information reporting, PitchBook, Crunchbase (Crunchbook and Pitchbook estimates).

The Dividend Value Discipline Portfolio

The Dividend Value model portfolio returned +3.0% for the fourth quarter, and -5.8% for the full year (net of fees).

In a very poor year for investments, the Dividend Value portfolio defended quite well. The -5.8% annual return was ahead of our benchmark of -8.30%, and better than most equity markets around the world. Our portfolio was also better than the majority of our peer group managers which were down an average of 7.6% (for the Canadian Equity Balanced mandates). In tough markets, losing less is important and that's what the Dividend Value Discipline portfolio achieved in 2022.

Equities

	Currency	Level	1 Mo	3 Mo	6 Mo	YTD
Canada						
S&P/TSX Comp	CAD	19,385	-5.2%	5.1%	2.8%	-8.7%
S&P/TSX Comp TR	CAD	75,200	-4.9%	6.0%	4.5%	-5.8%
S&P/TSX 60 Comp	CAD	1,169	-5.7%	4.6%	2.0%	-9.2%
S&P/TSX Small Cap	CAD	688	-2.1%	7.8%	4.5%	-11.2%
United States						
S&P 500 Comp	USD	3,840	-5.9%	7.1%	1.4%	-19.4%
S&P 500 Comp TR	USD	8,178	-5.8%	7.6%	2.3%	-18.1%
Dow Jones Ind Avg	USD	33,147	-4.2%	15.4%	7.7%	-8.8%
NASDAQ Comp	USD	10,466	-8.7%	-1.0%	-5.1%	-33.1%
S&P 600 Small Cap	USD	1,158	-6.9%	8.7%	2.6%	-17.4%
International						
Euro Stoxx 50	EUR	3,794	-4.3%	14.3%	9.8%	-11.7%
FTSE 100 (UK)	GBP	7,452	-1.6%	8.1%	3.9%	0.9%
CAC 40 (France)	EUR	6,474	-3.9%	12.3%	9.3%	-9.5%
DAX (Germany)	EUR	13,924	-3.3%	14.9%	8.9%	-12.3%
IBEX 35 (Spain)	EUR	8,229	-1.6%	11.7%	1.6%	-5.6%
CSI 300 (China)	CNY	3,872	0.5%	1.8%	-13.7%	-21.6%
HANG SENG (Hong Kong)	HKD	19,781	6.4%	14.9%	-9.5%	-15.5%
NIKKEI 225 (Japan)	JPY	26,095	-6.7%	0.6%	-1.1%	-9.4%
TOPIX (Tokyo)	JPY	1,892	-4.7%	3.0%	1.1%	-5.1%
KOSPI (S. Korea)	KRW	2,236	-9.6%	3.8%	-4.1%	-24.9%
S&P/ASX 200 (Australia)	AUD	7,039	-3.4%	8.7%	7.2%	-5.5%
BOVESPA (Brazil)	BRL	109,735	-2.4%	-0.3%	11.4%	4.7%
BOLSA (Mexico)	MXN	48,464	-6.2%	8.6%	2.0%	-9.0%
S&P BSE Sensex (India)	INR	60,841	-3.6%	5.9%	14.8%	4.4%
ETFs						
World	USD		-5.4%	9.3%	2.2%	-19.3%
All Country World	USD		-5.3%	9.1%	1.2%	-19.8%
EAFE	USD		-2.2%	17.2%	5.0%	-16.6%
Emerging Markets	USD		-4.1%	8.7%	-5.5%	-22.4%
Europe	USD		-2.4%	19.9%	6.0%	-16.7%

Source: FactSet, Morningstar, Raymond James Ltd as of Dec 31st, 2022

The Canadian stock portfolio was +4.1% overall this quarter and finished +0.7% for the year. Most of our Canadian stocks rebounded nicely during Q4. The positive outliers that helped pull the Canadian portfolio into positive territory for the year were Suncor Energy (SU+42.7%), Definity Financial (DFY+34.7%), Finning Intl (FTT +9.0%), Gibson Energy (GEI +7%), and Nutrien (NTR +5.2%). This quarter, we added to our existing positions of Gibson Energy (GEI) and Definity Financial (DFY). We also sold Algonquin Power (AQN) before their disappointing earnings report which subsequently saw the stock decline by 33%.

Our U.S. stock portfolio was +7.8% in Q4, but that was not enough to pull the annual performance into the black and the U.S. portfolio finished the year down 10.1%. The major U.S. equity markets were down sharply overall, with only one sector (energy) managing to finish positive for the year. Of the 13 U.S. positions, only Abbvie (ABBV +26.1%), Merck (MRK+48.7%), Molson Coors (TAP+11.9%), and Pepsi (PEP+6.3%) finished the year in positive territory. Double-digit declines in our technology holdings (Apple, Google, and Microsoft) and Disney were the main detractors on overall performance. The strength of the U.S. dollar against the Canadian dollar was a positive tailwind (+7.3%) which helped mitigate some of the downside. There were no changes to the U.S. portfolio in the fourth quarter.

The bond portfolio managed a positive return in Q4 (+1.05%), but was down 7.8% overall for the year. The FTSE Canada Bond Universe was +0.1% in Q4 and down 11.7% for the year, while the U.S. Aggregate Bond Universe was +3.1% in Q4 and down 15.3% for the year. Bond markets had one of their worst years in history due to the sharp rise in interest rates. We are now seeing a shift within the bond markets and they are once again attracting money flows. The outlook has improved as we approach the peak of the interest rate cycle. This quarter, we sold the Russell Fixed Income Pool and replaced it with the iShares Core Canadian Bond Universe. This lowered fees and reduced capital gains for taxable portfolios. We switched the RBC Core Plus Bond fund into the RBC Core Bond fund also to reduce capital gains. Lastly, we added to the Pimco Monthly Income fund which now yields 4.9%.

We expect to see further economic slowing in 2023 as higher interest rates are sustained to smother inflation. It takes time for consumers, companies, and economies to adjust to higher rates which ultimately will slow future growth. We will likely see evidence of a recession in Canada, the U.S., and globally. The degree and duration of the recession will be a defining factor for overall market performance in 2023. We are a full year into this bear market now and if history is our guide, we would see at least another few quarters of uncertainty. Markets typically bottom around the same time central banks end their tightening cycles. In Canada, we've likely hit peak interest rates while the U.S. still has room to raise with targets around 5.0% (currently at 4.5%). Valuations are certainly better now than this time last year, but corporate earnings expectations for 2023 are still on the high side and should see downward revisions. Global manufacturing levels have fallen quite sharply lately, this paired with declining energy and housing prices should keep downward pressure on inflation. Labour markets remain tight, but eventually, there will be some slack on the employment front. The consumer still looks to be in good shape although savings rates are now in decline.

There is also the possibility that central banks may manage a "soft landing" within the economy, avoiding a recession while reducing inflation. This possibility along with a successful reopening in China could be an upside surprise for the markets in 2023.

We remain cautious moving forward as the outlook for 2023 is uncertain but we believe the worst for the markets is now behind us. We are taking advantage of higher yields on cash funds, bonds, and stocks. We continue to invest in high quality companies with rising dividend yields as we believe these factors will be rewarded in the current investment environment.

The Dividend Tracker

Fundamentally, we believe that owning strong, stable companies with a track record of consistently growing their dividends is the best way to grow your money. For this reason, we track the number of dividend increases received in our portfolio every quarter and for the year-to-date. In the fourth quarter, nine Dividend Value stocks increased their dividends. Three Dividend Value stocks increased their dividends for the second time this year. In total, for 2022, there were 26 dividend increases across all companies. No dividend cuts were announced this quarter for stocks in your portfolio.

Q4 Dividend Changes (Quarterly)			
Bank of Montreal	Increased from $1.39 to $1.43 (2nd increase in 2022)	***Abbvie, Inc.**	Increased from $1.41 to $1.48
Canadian Apartment REIT	Additional special dividend of $0.36 (total 30% above 2021)	***CVS Health**	Increased from $0.55 to $0.605
Suncor Energy	Increased from $0.47 to $0.52 (2nd increase in 2022)	***Merck & Co**	Increased from $0.69 to $0.73
TD Bank	Increased from $0.89 to $0.96	**Telus Corp.**	Increased from $0.34 to $0.35 (2nd increase in 2022)
		***VIG Dividend ETF**	Increased from $0.72 to $0.87

*in USD

Quarterly Performance

Mandate	3-mos	1-yr	3-yr	5-yr	10-yr
Dividend Value Portfolio	3.0%	-5.7%	3.0%	4.0%	6.3%
Dividend Value Benchmark	4.7%	-8.3%	3.4%	3.2%	5.0%
S&P/TSX Composite Total Return	6.0%	-5.8%	7.5%	6.9%	7.7%
DJ Canada Select Value	5.7%	-1.2%	6.1%	3.3%	4.4%
iShares Canadian Dividend Aristocrats	6.0%	-3.7%	5.8%	6.5%	7.5%
FTSE-TMX Universe Bond	0.1%	-11.7%	-2.2%	0.3%	1.6%

The above performance data is current as of Dec 31, 2022. Not all portfolios will be alike, given different starting dates, slightly different securities owned, or the timing of funds added or removed. Please see the individual client statements that are being included separately for specific account performance. The Dividend Value Benchmark is the Morningstar Canadian Equity Balanced mandate.

DVD Quarterly Transactions

The following securities were bought this quarter:
RBC Core Bond Portfolio
iShares Canadian Bond Universe ETF (XBB)

The following securities were sold this quarter:
Russell Fixed Income Pool
RBC Core Plus Bond Fund
Algonquin Power (AQN)

The following securities were topped-up this quarter:
Definity Financial (DFY)
Gibson Energy (GEI)
Pimco Monthly Income Fund

The following securities were trimmed this quarter:

Sincerely, the Dividend Value Partners

Paul Siluch	Lisa Hill	Peter Mazzoni	Sharon Mitchell	Lincoln Jiang
Senior VP, PM	Senior VP, PM	Financial Advisor	Financial Advisor	Financial Advisor
Raymond James Ltd.	Raymond James Ltd.	Raymond James Ltd.	Raymond James Ltd.	Raymond James Ltd.

This Quarterly Market Comment has been prepared by Paul Siluch, Lisa Hill, Peter Mazzoni, Sharon Mitchell, and Lincoln Jiang and expresses the opinions of the authors and not necessarily those of Raymond James Ltd. (RJL). Statistics and factual data and other information are from sources RJL believes to be reliable but their accuracy cannot be guaranteed. The performance outlined in the report is net of fees. The client account performance may vary from the model portfolio due to several factors, including the timing of contributions and dates invested in model. The performance reported is that of the account that represents the model, not a composite. Performance calculation for the models may be different than the index used as a reference point. It is for information purposes only and is not to be construed as an offer or solicitation for the sale or purchase of securities. This Quarterly Market Comment is intended for distribution only in those jurisdictions where RJL and the author are registered. Securities-related products and services are offered through Raymond James Ltd., member-Canadian Investor Protection Fund.

Company Name	Disclosure
Algonquin Power & Utilities Corp.	Raymond James Ltd. has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company. Raymond James Ltd. has provided investment banking services within the last 12 months with respect to the subject company.
Definity Financial Corporation	Raymond James Ltd. has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company. Raymond James Ltd. has provided investment banking services within the last 12 months with respect to the subject company.
Brookfield Infrastructure Corp.	Raymond James Ltd. has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company. Raymond James Ltd. has provided investment banking services within the last 12 months with respect to the subject company.