DV DIVIDEND VALUE PARTNERS | RAYMOND JAMES®

The Dividend Value Discipline™
3rd Quarter 2023

Quarterly Commentary

Summertime Blues

The third quarter of the year – July through September - is statistically the weakest for stocks in any given year. Bonds usually balance this off, however, by going up. Summer is often very strong for bonds, but with monthly interest rate hikes, they followed stocks lower in Q3:

-3.0% Global bonds (Bloomberg Global Aggregate)
-3.9% Canadian bonds (FTSE Canada Universe)
-3.3% Canadian stocks (S&P/TSX Composite)
-3.6% Global stocks (MSCI EAFE)
-4.8% U.S. stocks (S&P 500)
-5.6% Small stocks (S&P/TSX Small-Cap)
- data from FactSet, Morningstar

Last quarter was characterized by its bullishness on all things artificial intelligence (AI), led by the "Magnificent 7" (Apple, Microsoft, Amazon, Nvidia, Alphabet [Google], Tesla, and Meta [Facebook]). These stocks were responsible for most of the S&P 500's total return year-to-date. Your Dividend Value Portfolio owns 3 of them (Apple, Alphabet, and Microsoft) although we wish we had more.

During the third quarter, the market narrative turned negative due to a growing consensus that interest rates will be "higher for longer." With that comes a higher risk of recession. We had a meeting with a global asset manager that manages over $1 trillion in assets who put placed a 70% probability that the U.S. will have a recession within 12-months. His recession odds for Canada? **99.9%** – if it wasn't in one already. Not the most pleasant news, but we credit them for his candidness.

Frankly, it's hard not to feel that way. Ask a restauranteur or small business owner how things are feeling lately. It's a stark difference from just six months ago. The data will take a few months to filter through the system, so we won't know for sure until after the fact. If that even matters.

We're not experts when it comes to predicting interest rates or recessions – but neither are economists. There's an old joke that "an economist will know tomorrow why the things he or she predicted yesterday didn't happen". Nevertheless, we listen because it's helpful to understand what others are thinking, and how their positioning impacts the market.

Here is our view going forward:

1. The era of free money has come to an end.
    a. Longer-term borrowing costs will remain significantly higher than what we're used to over the past 15 years.
        i. We position for this by focusing on companies that do not rely on outside capital to fund their growth.

2. It will take longer than expected for investors to adjust to higher interest rates.
    a. Much like it took a while to adjust to ultra-low interest rates in the past decade (most were shell-shocked from the financial crisis), we think many investors could be complacent after experiencing good returns over the past decade.
        i. We're not immune to this, but we try not to anchor ourselves to historical performance.

3. Financial discipline will be increasingly rewarded.
    a. Companies that were more conservative than their peers weren't rewarded by the previous bull market. They were left behind by their free-spending and fast-growing competitors.
        i. It is said that in a normal market, what matters is margin, cash flow, and growth. In a bull market, it is growth, growth, and growth. It's looking like we're coming back to normal again.

We believe that owning a diversified portfolio of stable, conservative, and growing companies is the best way to handle the coming challenges.

The Fed's Tightrope Walk

For all the criticisms that central bankers get, it's fair to say that they've got one of the hardest jobs in the world.

Like walking a tightrope, Federal Reserve Chairman Jerome Powell must balance many competing and often opposite forces.

He has to manage inflation while balancing employment, growth, and financial stability. Raise rates too high, and risk recession – or worse. Keep them too low (or cut too early), and you risk repeating the 1970s – when inflation spiked out of control. Juggle everything just right, and you get a soft landing.

Market historians say that there's only been one successful soft landing engineered by the Fed in 60 years: 1994-1995. Chairman Alan Greenspan raised interest rates seven times – from 3% to just over 6% - and did it quickly.

The landing wasn't soft for everyone: the rapid increase in interest rates created ripple effects that caught some investors off guard. Orange County, California went bankrupt when its portfolio lost more than $1 billion in value over just a few months. The U.S. dollar strengthened substantially on the back of the Fed tightening, which ended up contributing to debt crises from Mexico to Thailand to Russia.

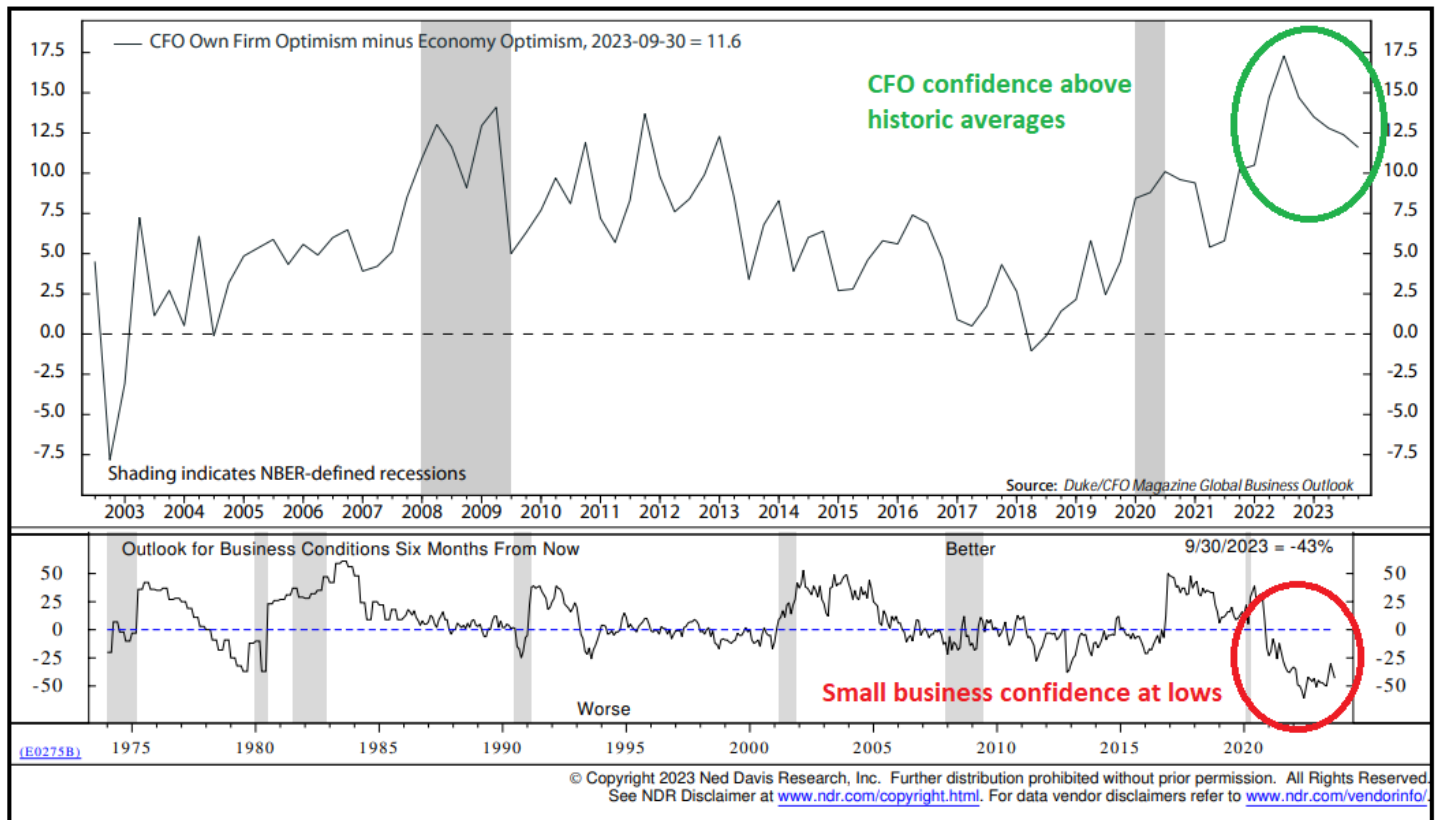
<u>The lesson</u>? Most of the damage was relatively contained. The economy slowed down but didn't break. The Fed is utilizing a similar playbook now as it was then. Some sectors will get hit harder than others, but not all at once.

You’re Okay, but I’m Not.

This economic cycle has been particularly unique. See-sawing data has bewildered pundits and experts alike. Real GDP has been remarkably resilient, at +4.9% in Q3. Yet, whether it is inflation, higher rates, deficits, domestic politics, or geopolitics, there is a sense of dread about the broader economic outlook.

Contrast the sentiments of CFOs and small business owners. Over two-thirds of CFOs remain optimistic about their firms over the next 12-months, above even usually optimistic levels. Small business owners? Only 5% say it’s a good time to expand their business over the next 12-months, a historically low number.

The outlook for general business conditions was a dreadful -43 in September, after hitting a record -61 in June 2022. Think about that — worse than the oil shock of 1973-74, the double-dip recessions of the early 1980s, the great financial crisis, and the pandemic!



What can we read from this? When everyone is preparing for the worst, people tend to be cautious and avoid excessive speculation. This, in turn, makes economic growth more stable, and even the “experts” find it challenging to predict the outcomes confidently.

A Year-End Rally?

With all of this negative talk, is there any good news?

Yes. History supports the case for a year-end rally.

There have been 14 recorded instances (over 100 years) where a strong start in the beginning of the year (measured as +10% from January to July), and a Q3 pullback (a negative August), has resulted in a positive finish to the year.

In fact, it has happened 100% of the time, with an average return of +9.9%.

S&P 500 Index Performance September - December When January - July >10% & August <0%

Year	12/31 - 7/31 (%)	7/31/- 8/31 (%)	8/31 - 12/31 (%)
1938	17.5	-2.7	9.5
1954	24.5	-3.4	20.6
1955	21.0	-0.8	5.3
1964	10.9	-1.6	3.6
1967	18.0	-1.2	3.0
1975	29.5	-2.1	3.8
1976	14.7	-0.5	4.4
1985	14.2	-1.2	12.0
1988	10.1	-3.9	6.2
1995	22.4	0.0	9.6
1997	28.8	-5.7	7.9
1998	15.5	-14.6	28.4
2013	18.2	-3.1	13.2
2019	18.9	-1.8	10.4
2023	19.5	-1.8	??
Mean	18.9	-3.0	9.9
Median	18.1	-2.0	8.7
% Positive	100.0	0.0	100.0
All Periods Mean	5.2	0.7	1.9

2023 case not included in summary statistics.
Source: S&P Dow Jones Indices

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Given the performance of September (about -5%) and October so far, it will take some heavy lifting for us to get there – but with pessimism at a high (we hit "extreme fear" twice in October), it wouldn't be the first time the market faked out everyone.

Seasoned investors know that bad news doesn't last forever, and that bull markets climb a wall of worry. We remain focused on the important fundamentals that underpin our portfolio.

Steady growth, stable income, and a solid balance sheet. Some things never go out of style.

The Dividend Value Discipline Portfolio

The Dividend Value model portfolio returned -0.9% for the third quarter of 2023, and +4.0% for the year-to-date (net of fees). At the end of September, the rolling average returns for the model portfolio are: 1 year +7.2%, 3 year +6.9%, and 5 year +4.1%.

Canada's S&P/TSX index was ahead of most developed markets in the third quarter, but this was a hollow victory. Our domestic index was still down -3.3%. Last quarter we said that it seemed a bit too soon to expect consistently strong markets, and unfortunately that call has been correct so far. While employment is still full and earnings are growing, there is fraying at the edge.

The Canadian side of the portfolio was negative this quarter (-1.8%) and the year-to-date performance is also slightly negative (-1.4%). The main laggards in this quarter were the interest-sensitive names. Sometimes referred to as "RUST," these are the **R**eal estate, **U**tilities, consumer **S**taples, and **T**elecom sectors. Brookfield Infrastructure, Fortis, Telus, and TC Energy were all weak for the quarter. A resurgence in energy prices in late summer helped Suncor, and it was up 21% for the quarter. This helped us stay ahead of the benchmark TSX (-3.3%) by about 1.5%.

During the quarter, we added a small position in Mullen Group, a transportation company that has been growing earnings at double-digits over the past decade. We liked its valuation and leadership and believe its transition from mainly an oilfield service company into a trucking and logistics company should reward it with a higher valuation.

Our U.S. stocks in the portfolio returned -2.1% in Q3, as some of the big contributors last quarter gave up some gains. Apple, Merck, and Disney were the main stragglers this quarter, while AbbVie and Alphabet helped buoy the return. We also benefitted from a stronger U.S. dollar. Overall, our U.S. portfolio outperformed the S&P 500 (-4.8% for the quarter).

We added to our Nintendo position as we see increasing franchise and media monetization of its intellectual property. Additionally, we intend to benefit from typical gains associated with a new hardware launch, as Nintendo's current generation Switch is more than six years into its lifecycle.

Equities

	Currency	Level	1 Mo	3 Mo	6 Mo	YTD
Canada						
S&P/TSX Comp	CAD	19,541	-3.7%	-3.0%	-2.8%	0.8%
S&P/TSX Comp TR	CAD	77,738	-3.3%	-2.2%	-1.1%	3.4%
S&P/TSX 60 Comp	CAD	1,173	-3.6%	-3.4%	-2.8%	0.3%
S&P/TSX Small Cap	CAD	667	-5.6%	-1.5%	-6.6%	-3.0%
United States						
S&P 500 Comp	USD	4,288	-4.9%	-3.6%	4.3%	11.7%
S&P 500 Comp TR	USD	9,247	-4.8%	-3.3%	5.2%	13.1%
Dow Jones Ind Avg	USD	33,508	-3.5%	-2.6%	0.7%	1.1%
NASDAQ Comp	USD	13,219	-5.8%	-4.1%	8.2%	26.3%
S&P 600 Small Cap	USD	1,151	-6.2%	-5.4%	-2.6%	-0.5%
International						
Euro Stoxx 50	EUR	4,175	-2.8%	-5.1%	-3.3%	10.0%
FTSE 100 (UK)	GBP	7,608	2.3%	1.0%	-0.3%	2.1%
CAC 40 (France)	EUR	7,135	-2.5%	-3.6%	-2.6%	10.2%
DAX (Germany)	EUR	15,387	-3.5%	-4.7%	-1.6%	10.5%
IBEX 35 (Spain)	EUR	9,428	-0.8%	-1.7%	2.1%	14.6%
CSI 300 (China)	CNY	3,690	-2.0%	-4.0%	-8.9%	-4.7%
HANG SENG (Hong Kong)	HKD	17,810	-3.1%	-5.9%	-12.7%	-10.0%
NIKKEI 225 (Japan)	JPY	31,858	-2.3%	-4.0%	13.6%	22.1%
TOPIX (Tokyo)	JPY	2,323	-0.4%	1.5%	16.0%	22.8%
KOSPI (S. Korea)	KRW	2,465	-3.6%	-3.9%	-0.5%	10.2%
S&P/ASX 200 (Australia)	AUD	7,049	-3.5%	-2.1%	-1.8%	0.1%
BOVESPA (Brazil)	BRL	116,565	0.7%	-1.3%	14.4%	6.2%
BOLSA (Mexico)	MXN	50,875	-4.0%	-5.0%	-5.6%	5.0%
S&P BSE Sensex (India)	INR	65,828	1.5%	1.7%	11.6%	8.2%
ETFs						
World	USD		-4.4%	-3.5%	2.1%	10.0%
All Country World	USD		-4.3%	-3.7%	1.3%	8.8%
EAFE	USD		-3.6%	-4.9%	-3.6%	5.0%
Emerging Markets	USD		-3.1%	-4.1%	-3.8%	0.1%
Europe	USD		-4.2%	-5.6%	-4.6%	5.4%

Source: FactSet, Morningstar, Raymond James Ltd.

Bond markets were hit hard this quarter. The FTSE Canada Bond Universe was -3.9% overall while global bonds were -3.0%. What looked like a recovery in Q1 of this year has retreated to further lows in most bond indices. Several factors have contributed to this rout: governments are continuing to run larger and larger deficits (more bonds to be issued), central banks are tightening (more bonds sold from their balance sheet), and foreign governments are selling U.S. treasuries. This has resulted in the U.S. 10-year bond yield hitting 5%, a level not seen in 15 years. We've fortunately been underweight fixed income for the past year and a half (and overweight cash), but are seeing attractive options going forward.

It's been a challenging quarter for investors, and October has been more of the same. Yet, we take solace in the following three things:

1. Earnings growth is returning – the S&P 500 is expected to grow earnings 2% over last year.

2. Seasonal trends look favourable – we're entering the strongest two months of the year, with markets averaging +1.5% and +1.2% in November and December respectively.

3. Pessimism is elevated, and the market is visibly anxious – this cautious sentiment leaves us more optimistic that markets can move higher.

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 third quarter, four Dividend Value stocks increased their dividends, and there are 16 for the year-to-date. No dividend cuts were announced this quarter for stocks in your portfolio.

Q3 Dividend Changes (Quarterly)			
Fortis Inc.	Increased from $0.565 to $0.59	***JPMorgan & Chase**	Increased from $1.00 to $1.05
***Microsoft Co.**	Increased from $0.68 to $0.75	***Visa Inc.**	Increased from $0.45 to $0.52

*in USD

Quarterly Performance

Mandate	3-mos	1-yr	3-yr	5-yr	10-yr
Dividend Value Portfolio	-0.9%	7.2%	6.9%	4.0%	6.0%
Dividend Value Benchmark	-2.7%	7.0%	5.2%	3.8%	4.6%
S&P/TSX Composite Total Return	-2.2%	9.5%	9.9%	7.3%	7.5%
DJ Canada Select Value	-1.6%	3.9%	12.8%	3.3%	3.7%
iShares Canadian Dividend Aristocrats	-4.3%	5.1%	9.9%	5.9%	6.1%
FTSE-TMX Universe Bond	-3.9%	-1.4%	-5.1%	0.1%	1.6%

The above performance data is current as of Sept 30th, 2023. 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.

DVD Quarterly Transactions

The following securities were bought this quarter:
Mullen Group (MTL)

The following securities were sold this quarter:

The following securities were topped-up this quarter:
Nintendo Co (NTDOY)

The following securities were trimmed this quarter:

Sincerely, the Dividend Value Partners

Paul Siluch	Lisa Hill	Peter Mazzoni	Sharon Mitchell	Lincoln Jiang
Financial Advisor	Financial Advisor	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**
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.