November 8, 2023

Insights – December 2023

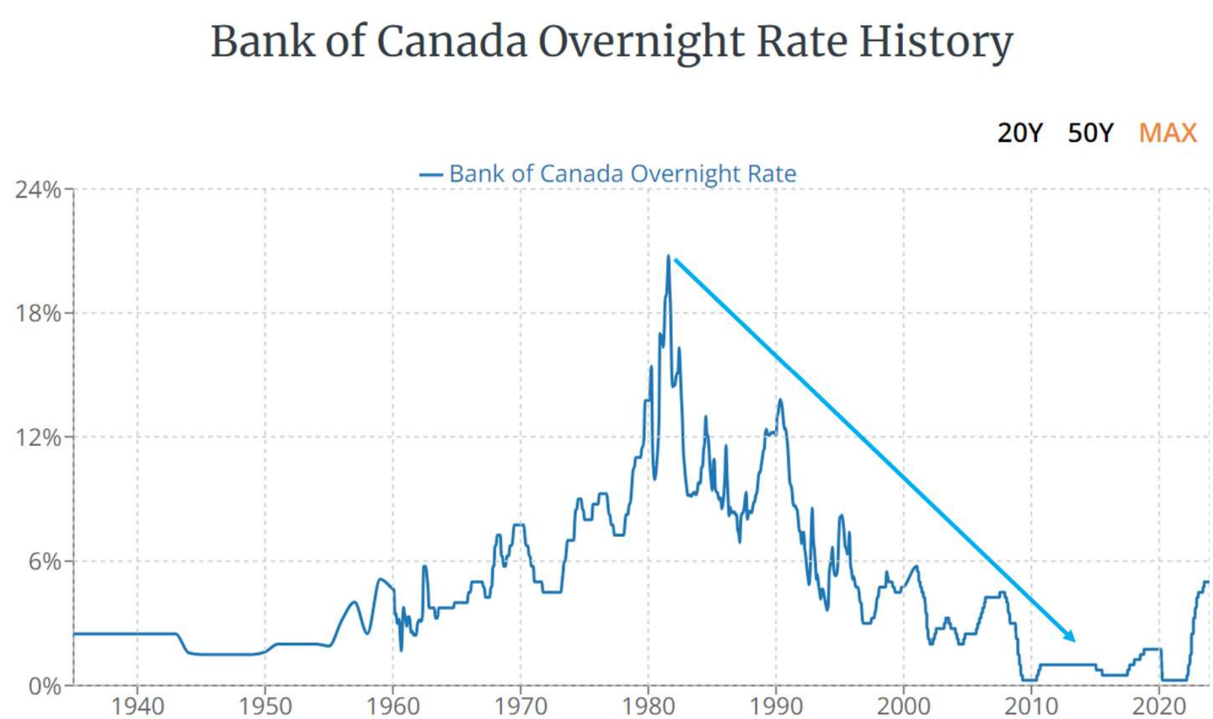
De-facto Bailout

The next 18 months could see over three million Canadian households face mortgage renewals[1]. While the number of renewals may not seem overwhelming, it's the change in interest rate to which those mortgages will renew at that is overwhelming.

For those of us who have been around long enough to remember or lived through the interest rate spike in the 1970's and 1980's – you will surely know the pain that was felt and the impact to the housing market. For the younger generation reading this letter, I would encourage you to talk to a more senior family member or friend as they could be a great source of knowledge.

The chart below illustrates where we have been and where we are. As the chart shows, we have been in a declining rate environment since the early 80's. Rates briefly spiked in the early 90's but have steadily been declining ever since. Declining so low they were practically zero during the financial crisis and again during the COVID pandemic.

In other words, if you are in your 20's, 30's and even 40's you have never been in a rising rate environment. Especially one of the magnitude we have just been through.

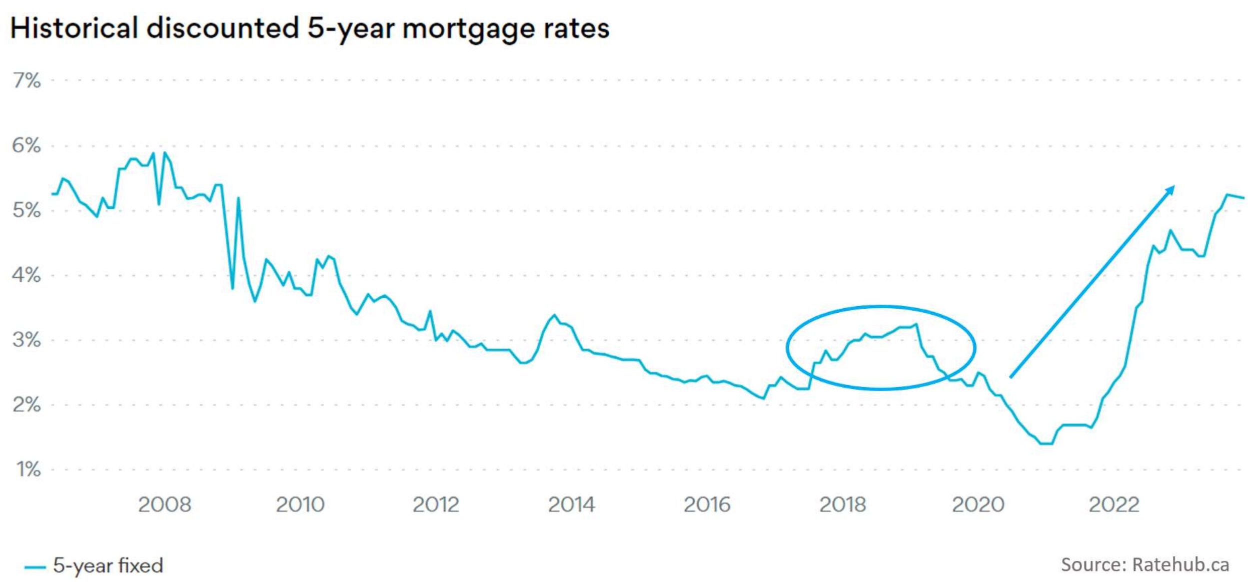


[1] A report released by Royal LePage Chart above source: wowa.ca

Chances are that the younger generations actually believe rates only go down. Spoiler alert! – rates can actually go up. Again, I would encourage the younger generation to speak to a wise old soul who may share real life experiences of what it was like to go through high inflation and rising rates.

Now, I do not expect history to repeat itself. And I believe the Central Bank of Canada does not want to repeat the same mistake the Bank made when it raised rates, cut them only to have to increase again within a short period of time. I also believe the federal government wants to avoid the housing correction and mortgage defaults experienced during those periods.

Hence, the "de-facto bailout." It's not really a bailout but this past November, Canada's Finance Minister, Chrystia Freeland, announced that she expects banks will follow a new series of rules and guidelines designed to protect Canadian homeowners, millions that are coming up for renegotiation at potentially higher rates. (She basically told them not to allow Canadians to lose their homes).



Homeowners that took out a mortgage during the bidding frenzy in 2019 and 2000 may be sitting with a fixed five-year rate of approximately 3% if not lower. Today a five-year fixed rate is hovering around 5% to 6%. Looking at the potential crises that could unfold over the next couple years, it does not take a genius to figure out mortgage payments are set to skyrocket, putting millions of households in financial disarray.

While these new rules are not officially law, in its 2023 Fall Economic Statement, the federal government announced the Canadian Mortgage Charter. What is this new Charter? It's basically a document spelling out what the government's expectations are for banks and how they will assist "vulnerable borrowers."

Six items expected of the banks are:

The Canadian Mortgage Charter

Canadians can expect:

1. Allowing temporary extensions of the amortization period for mortgage holders at risk;
2. Waiving fees and costs that would have otherwise been charged for relief measures;
3. Not requiring insured mortgage holders to requalify under the insured minimum qualifying rate when switching lenders at mortgage renewal;
4. Contacting homeowners four to six months in advance of their mortgage renewal to inform them of their renewal options;
5. Giving homeowners at risk the ability to make lump sum payments to avoid negative amortization or sell their principal residence without any prepayment penalties; and,
6. Not charging interest on interest in the event that mortgage relief measures result in a temporary period of negative amortization.

Items 3 and 6 are actually new. Item 3 states lenders have been asked not to require mortgage holders to re-qualify if switching lenders. The increased amortizations, while not new, definitely provide borrowers with flexibility in payments and potentially avoiding defaulting on their mortgage. Increased amortizations also provide banks with increased interest revenue and not having to deal with foreclosures. Hence, the de-facto bailout. Mortgage holders are bailed out as are banks. In the end, the banks come out ahead.

Google's Gemini AI

While artificial intelligence or AI is not new, it has definitely been the rage since ChatGPT came on the scene last year. Companies automatically threw out the word AI at every opportunity to take advantage of the recent investor interest. It wasn't uncommon for a company's share price to jump on the slightest mention of AI in conference calls.

The recent launch of Google's Gemini AI technology, however, is on the newer side. And the excitement around it after the video below was released added $90 billion to Alphabet's (Google parent) market capitalization within one day.

As Josh Brown, CEO of Ritholtz Wealth Management recently wrote in his newsletter, "What distinguishes it from Bard and ChatGPT and everything else that's come before is its *multi-modality.* Meaning, it's the first Artificial Generative Intelligence (AGI) to be simultaneously trained on text, images, audio, and video. Prior large language models have been either visual or textual, but Gemini is natively multi-modal."

Click **here** for a video demonstrating Gemini's capabilities.

Alphabet, or Google as it's better known to some, has been a core holding and part of our "collection of excellent businesses" for a very long time in our growth mandate model portfolio.

In addition to it continuously developing new products, it has one of the widest and largest reaches of any company we follow. Below are some important statistics, again taken from Josh Brown.

Joshua Brown • You
CEO at Ritholtz Wealth Management
3d • Edited •

Today Alphabet launched Gemini, its most advanced AI technology yet, and the stock went Tekashi: a 5.3% jump, adding $87 billion in market cap on the news.

Google has 9 products with over 1 billion users, including

Google Search - 3.6 billion+
Android - 3 billion+
Chrome - 2.65 billion+
Gmail - 1.8 billion+
Google Drive - 1 billion+
Google Maps - 1 billion+
Google Play Store - 2.5 billion+
YouTube - 2.1 billion+
Google Photo - 1 billion+

Then there's Calendar, Meet, Translate, Cloud, Docs, Sheets - all of which have 100,000,000+ users each.

There was never going to be an AI revolution that Alphabet wasn't going to feature heavily in. In my opinion, they will be bringing this technology to more users than anyone else.

The stock sells for 20 times forward 12 months' earnings with a fortress balance sheet of $120 billion in cash, $30 billion in debt.

With facts like these, we continue to view Alphabet as a quality company and intend to hold for the long term.

As always, please do not hesitate to reach out, should you have any questions or wish to discuss any matter in further detail.

Yours truly,

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Performance as of November 30, 2023

Gross performance results as of November 30, 2023 for our discretionary model portfolios are as follows:

Performance Summary (%) as of November 30, 2023								
Portfolio Mandate	3 months	6 months	9 months	Year-to-date	2022	2021	2020	2019
Marnoa Strategic Allocation	1.17	4.65	5.89	7.57	-12.70	12.38	18.01	15.78
Marnoa Conservative	1.27	1.40	2.12	4.54	-12.05	10.86	9.90	19.86
Marnoa Moderate	2.22	5.32	7.05	10.30	-13.55	12.92	20.79	25.52
Marnoa Growth	2.46	7.42	12.48	16.63	-17.26	15.00	29.74	28.70

The returns above are gross of fees. Individual performance may vary based on cash flows and fees. Performance figures for periods greater than 1-year are annualized. The performance data quoted represents past performance. Past performance is no guarantee of future results.

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The returns presented are gross of fees. Individual performance may vary based on cash flows and fees. Performance figures for periods greater than 1-year are annualized. The performance data quoted represents past performance. Past performance is no guarantee of future results. The above performance data is current as of November 30, 2023.

Inception date is January 1, 2019 for Marnoa Strategic Allocation, Marnoa Conservative, Marnoa Moderate, and Marnoa Growth.

Generally, mandates with higher returns entail higher levels of risk. Investors should consult with their advisor prior to making an investment decision to help ensure their investments are suitable for their particular situation.

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