November 8, 2023

Insights – November 2023

The purpose of monthly newsletters is to recap and keep our readers current on the previous month's events. However, just like newspapers, by the time one reads this, it is basically yesterday's news.

Reason being, it is difficult to write about timely events when in today's day and age things change as quickly as they do. Take for example the poor stock market performance results from the previous month. Writing about how the S&P TSX turned negative on the year and how the NASDAQ entered official correction territory after dropping more than 10% from its previous high is now outdated as the first two days of the current month more than wiped out all of October's losses.

The NASDAQ fell into correction territory after pulling back more than 10% from recent highs, only to rally over 5% in two days. The S&P/TSX Composite went negative for the year but has rallied approximately 5% in the first two days of the month pushing it back into positive territory this year—albeit just barely in the green as I write.

Why did the markets sell off only to rally as much as they did? Could it be comments from Federal Reserve Chair Jerome Powell hinting rate hikes may be over? Or could it be repositioning by money managers?

October 31 is the fiscal year end for mutual funds in the United States. Plenty of money managers were under water and would have triggered capital losses. As mutual funds typically cannot hold large sums of cash, they would have started redeploying November 1. The triggering of capital losses during October could be part of the reason for the pullback, and the rally could possibly be attributed to the repurchase of securities in November.

Regardless of what caused the selloff, the jump in stocks that followed in such a short period of time only reinforces our view that timing the market is a fool's game and prudent investors should focus on owning quality investments for the long run.

Bond Yields

We have repositioned our model portfolios to take advantage of what we feel to be attractive bond yields, only to watch them rise even higher month after month. A rise in bond yield is negative for bonds themselves. In fact, Canada treasury yields climbed as much as 20% across different durations since the beginning of the year.

Rising yields also make financial products such as mortgages much more expensive. Ask anyone renewing their mortgage this year, and I am sure they will share (or not) how much higher the mortgage payment is. In my opinion, higher bond yields are assisting central bankers in slowing down economies and bringing down inflation. Actually, higher bond yields are doing the job central bankers set out to do.

With yields at the level they are at and higher Bank of Canada rates not yet fully impacting the economy, I think an extended pause in rates is prudent from our central bank. Should the overnight rate increase any further, the economy would in my opinion hit a wall.

Investors may be feeling the same, as bond yields have made a U-turn and dropped this month. A drop in bond yields is positive for bonds. As a result, our bond allocation is doing what we had hoped for—provide income, stability and now gains.

Although, I continue to expect the Bank of Canada rate to remain where it is for now, we also feel bond yields will provide an attractive income source for retirees. Our view is holding laddered bond portfolios extending out 5 years. As an investor seeking income, you would want to lock in rates before they start to fall.

<u>Commodities</u>

Further adding to deflationary pressures are commodity prices. The consumer would not know it by the price of groceries, gasoline or heating costs. But in reality, commodity prices have dropped year to date and will eventually make their way into prices we pay at the cashier.

Commodities

	Level	1 Mo	3 Mo	6 Mo	YTD	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	10 Yr
Commodities											
Energy											
Crude Oil - WTI (US$/bbl)	$81.02	-10.8%	-1.0%	5.5%	0.9%	-6.4%	-1.5%	31.3%	10.6%	4.4%	-1.7%
Brent Crude (US$/bbl)	$87.41	-8.3%	2.2%	9.9%	1.7%	-7.8%	1.8%	32.6%	9.8%	3.0%	-2.2%
Natural Gas (US$/MMBtu)	$3.58	22.1%	35.7%	48.3%	-20.1%	-43.7%	-18.8%	2.1%	7.9%	1.9%	0.0%
Heating Oil (US$/gal)	$2.99	-11.0%	0.0%	25.7%	-11.0%	-28.6%	9.5%	40.4%	12.3%	5.7%	0.1%
Gasoline (US$/gal)	$2.22	-8.9%	-24.1%	-13.8%	-9.6%	-20.9%	-5.0%	28.4%	8.0%	4.7%	-1.7%
Coal (US$/ton)	$136.08	6.3%	22.6%	-3.0%	-28.8%	-37.2%	-23.3%	34.2%	23.2%	7.1%	5.4%
Metals											
Gold (US$/oz.)	$1,994	7.9%	1.2%	-0.2%	9.2%	21.6%	5.7%	2.0%	7.1%	10.4%	4.2%
Silver (US$/oz.)	$22.95	2.2%	-8.1%	-8.2%	-4.5%	20.0%	-2.1%	-1.0%	6.2%	10.0%	0.5%
Aluminum AA (US$/lb.)	$1.02	-4.1%	-1.4%	-4.4%	-5.3%	1.3%	-9.0%	6.8%	6.4%	2.9%	1.9%
Copper (US$/lb.)	$3.62	-1.9%	-8.2%	-5.6%	-3.1%	8.9%	-7.6%	6.5%	8.8%	6.2%	1.1%
Nickel (US$/lb.)	$8.09	-3.0%	-18.7%	-25.1%	-39.7%	-16.9%	-3.4%	6.2%	2.2%	9.5%	2.2%
Zinc (US$/lb.)	$1.08	-8.3%	-5.3%	-8.2%	-18.3%	-9.9%	-15.2%	-1.3%	-0.5%	-0.5%	2.2%
Soft											
Wheat (US$/bushel)	$5.56	2.7%	-16.4%	-10.2%	-29.8%	-37.0%	-15.2%	-2.4%	2.3%	2.1%	-1.8%
Corn (US$/bushel)	$4.79	0.4%	-5.0%	-24.7%	-29.4%	-30.8%	-8.2%	6.3%	5.3%	5.7%	1.1%
Sugar (US$/lb.)	$0.27	3.1%	12.4%	0.4%	35.2%	50.8%	18.6%	23.6%	21.4%	15.5%	4.0%

Source: FactSet, Morningstar, Raymond James Ltd. All return numbers greater than one year are annualized. Performance as of October 31, 2023.

Company Comment – Activision Blizzard

If you or anyone you know is into gaming, then Activision Blizzard should be a household name. Activision Blizzard's gaming franchises include Call of Duty, World of Warcraft, Candy Crush, Diablo, Overwatch, and many others.

In January 2022, Microsoft announced the $69 billion acquisition of video game publisher Activision Blizzard. The deal attracted significant regulatory pushback from the FTC in the U.S., the European Commission, and the U.K.'s Competition and Markets Authority.

Last month, on October 13, Microsoft closed the deal after a lengthy regulatory review. Microsoft expects the deal to be immediately accretive to the company's earnings.

We had bought shares for clients in our Moderate and Growth mandate in mid-June for an average purchase price of $77. The takeover price was $95.

Our thesis for investing in Activision Blizzard was based on our view that this was a great company and industry leader. Even if the takeover did not go through, we would be happy owning the company at the price we paid. And if the takeover did go through, investors stood to make over 20% in less than one year.

Company Comment – WELL Health Technologies Corp.

Within our Growth model portfolio, we are shareholders of WELL Health Technologies Corp. (WELL-TSX). It is one of our more aggressive holdings, and for that reason, it has a target weighting of 3% and is only held in the Growth mandate.

As stated on its investor relations page, WELL exists to empower healthcare providers with best-in-class digital healthcare tools and services that lead to productivity enhancements and improved patient healthcare outcomes. In short, WELL is digitizing and tech-enabling healthcare providers for the benefit of patients.

Founder, Chair and CEO Hamed Shahbazi states healthcare providers are benefiting from using WELL's productivity tools and operating platforms to reclaim their time and improve focus on their patients.

On October 18, WELL announced the launch of WELL AI Decision Support service—data-driven algorithms designed to improve early disease diagnosis and preventative care-in coordination with its strategic partner, HEALWELL AI.

This strategic partnership provides WELL with another powerful piece of software in its SaaS & Technology lineup. It should assist in further physician recruitment and places it firmly in the AI space. WELL likely has Canada's largest proprietary patient dataset and is well capitalized – making the partnership just as valuable to HEALWELL.

We see WELL growing organically, by acquisition, and through strategic partnerships like the one above. It currently trades around $4.25 with a forward P/E of 15.76 and has a market cap of $977 million. While $977 million may seem like a lot, it is classified as a small cap. We also believe it is a potential takeover candidate.

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 October 31, 2023

Gross performance results as of October 31, 2023 for our discretionary model portfolios are as follows:

	Performance Summary (%) as of October 31, 2023							
Portfolio Mandate	3 months	6 months	9 months	Year-to-date	2022	2021	2020	2019
Marnoa Strategic Allocation	-4.65	-2.05	-0.90	2.32	-12.70	12.38	18.01	15.78
Marnoa Conservative	-1.60	-1.83	-0.42	2.36	-12.05	10.86	9.90	19.86
Marnoa Moderate	0.47	1.31	3.83	7.45	-13.55	12.92	20.79	25.52
Marnoa Growth	0.44	3.64	7.81	12.61	-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 October 31, 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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