

Dear friends,

The summer respite was brief. By September, the bear was back in the stock market. The S&P 500's decline of nearly 10% that month brought the indices back to their mid-June lows. Due to the strong U.S. dollar, the S&P 500 is down 17.7% for the year when converted in C\$ (or -25%US\$). The Canadian stock market fared better at -13.1%, shored up by the energy sector, the only one with a gain (15.6% in 2022). This contributed to our good performance again this year. In October, economic indicators, along with inflation and the "R" word, continued to haunt many, and stock market indices fell, like a gust of wind, below their June lows. Despite the uncertainties and the timid rally in equities, there is hope and action among central bankers! With inflation at record levels, all major central banks, except Japan, have raised their policy rates.

While central banks are responsible for setting the short-term, overnight interest rate, long-term rates are determined by supply and demand and take into account new bond issues, for example. Remember that, if interest rates rise, old bonds lose their value because they pay lower interest coupons than new issues in the bond market. This effect is temporary, however, if we hold our bonds to maturity. In turn, this leads to inviting buying opportunities for the first time in many years, as illustrated by the yields to maturity in the following fixed income table.

| Corporate bonds           | Maturity   | Yield* |
|---------------------------|------------|--------|
| FIRST CAPITAL REIT        | 2023-10-30 | 6.339  |
| HSBC HOLDINGS PLC         | 2023-12-05 | 5.668  |
| PEMBINA PIPELINE CORP (C) | 2024-01-22 | 5.535  |
| TORONTO-DOMINION BANK     | 2024-03-08 | 5.387  |
| ROGERS COMM. INC (C)      | 2024-03-13 | 5.490  |
| BANK OF AMERICA CORP (LM) | 2024-04-25 | 5.317  |
| APPLE INC (C)             | 2024-08-19 | 4.842  |
| TOYOTA CREDIT CANADA INC  | 2024-10-23 | 5.237  |
| BANK OF NOVA SCOTIA       | 2025-01-10 | 5.407  |
| TELUS CORPORATION (C)     | 2025-01-17 | 5.435  |
| RIOCAN REIT (C)           | 2025-02-12 | 5.936  |
| MANULIFE BANK OF CANADA   | 2025-06-25 | 5.392  |
| SAPUTO INC (C)            | 2025-08-14 | 5.593  |
| EQUITABLE BANK            | 2025-11-26 | 5.926  |

Canadian Investment Grade bonds and debentures (BBB and + ratings).

Source : National Bank Financial, Fidelity Clearing Canada or LBS.

\* Yield to maturity, annualized. Data as of October 21, 2022.

Notes: (C) callable, (LM) longer actual maturity

Data believed to be reliable and provided for informational purposes only.

|                                 | Closing<br>30-Sep-22 | Change** |        |
|---------------------------------|----------------------|----------|--------|
|                                 |                      | Quarter  | 2022   |
| <b>Stock Indices (% in C\$)</b> |                      |          |        |
| S&P/TSX                         | 18,444               | -2.2%    | -13.1% |
| S&P 500                         | 3,586                | 1.8%     | -17.7% |
| MSCI EAFE*                      | 1,661                | -3.3%    | -22.2% |
| <b>Currencies</b>               |                      |          |        |
| CAN\$ (US\$/C\$)                | 0.7232               | -6.9%    | -8.6%  |
| Euro (US\$/EUR)                 | 0.9801               | -6.5%    | -13.8% |
| <b>Commodities (US\$)</b>       |                      |          |        |
| Oil (WTI)                       | \$ 79.94             | -25.7%   | 6.3%   |
| Gold                            | \$ 1,674             | -7.4%    | -8.1%  |
| <b>Volatility Index</b>         |                      |          |        |
| VIX                             | 31.62                | +2.91    | +14.40 |

\* MSCI Europe, Australasia and Far East (US\$)

\*\* Changes are expressed in C\$ for Stock Indices.

In our view, we are not experiencing a return to the 1970s. Inflation is high, but the job market remains strong. While we must face the fact that the "R" word will have to be uttered, we should not confuse "Recession" (there it is!) with "Economic Depression"! Unless the Fed pulls the proverbial rabbit out of a hat, the question is more when rather than if a recession will happen. The current surge in prices is caused more by a lack of supply (shortages, war in Ukraine, idling factories in China, etc.) than by strong demand for goods and services. Canada remains well positioned, with many resources and products in demand. We believe that a rally in equities is possible by Christmas and that the Canadian stock market will do well. Banks, which suffered from rising rates, are back to attractive valuation levels. In summary, keep in mind that stock market lows occur about six months before the start of recessions, and that brings golden opportunities.