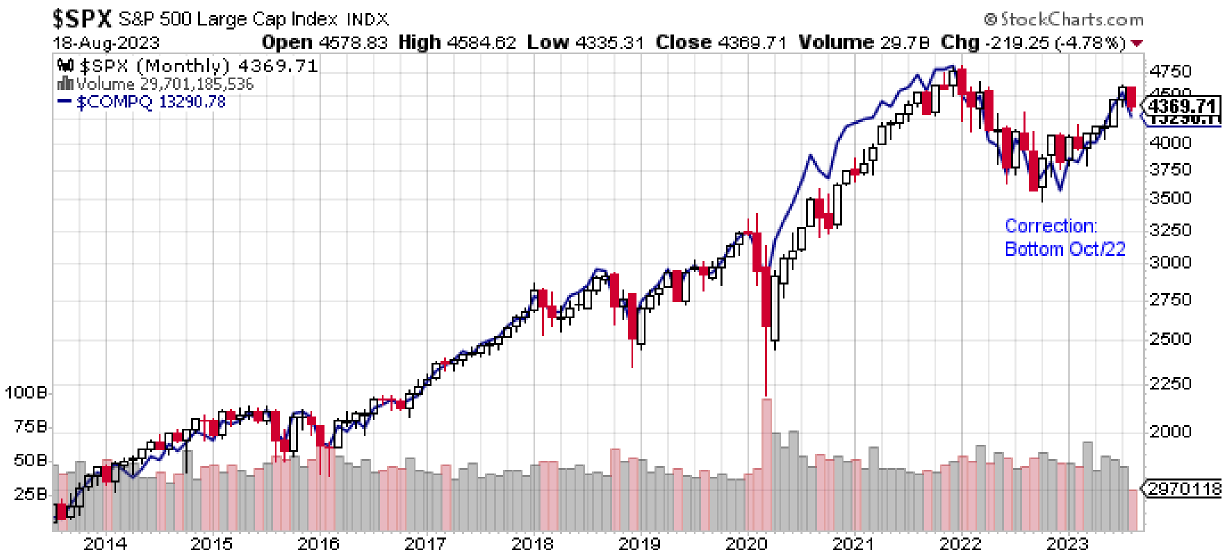
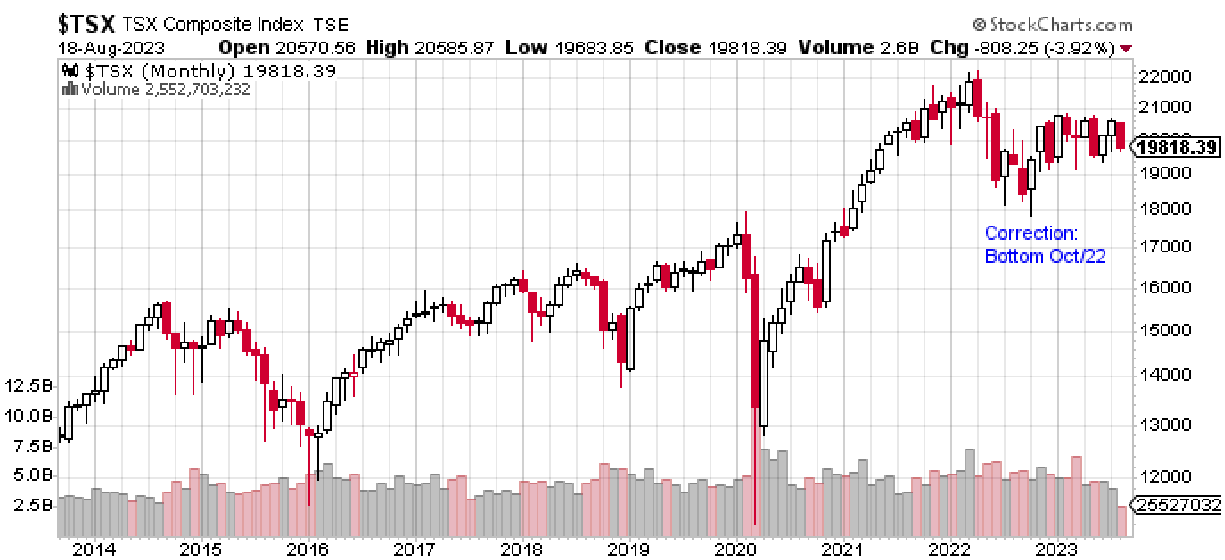
Market Update August 2023

Markets – year to date.



The U.S. markets have recovered remarkably this year, though they have been consolidating since the end of July and have lacked breadth. They have rallied largely on tech/AI related names versus the stocks of the broad index. **The S&P 500 (SPX) is up 13.8% YTD and the Nasdaq (blue) is up 26.98% YTD.**



The Canadian market is the laggard this year. The Canadian market is currently experiencing it's largest discount to the U.S. market in over twenty years. While the values are currently weak the yields attainable from dividend paying stocks are quite favourable. **The TSX is up 2.23% YTD.**

Both Canadian and American markets have been consolidating since the end of July. This is not to surprising given the run up this year in the U.S. (prior to August). While earnings were pretty good for the last quarter, technically, we are about to enter September/October which are not always, but more often, historically, the two worst months of the year in the stock market. Inflation in Canada had fallen substantially from a year ago to 2.8% in June but ticked up again to 3.3% in July.

Interest rate sensitive sectors in Canada like telecommunications, Utilities and Real Estate REITs are trading lower in anticipation that our central bank may raise rates again in September.

Is now the time to add fixed rate interest bearing securities?

The case for GICs (deposits).

- The yields sound attractive compared to a year ago, BUT whenever you buy interest bearing securities you pay tax at your top marginal tax rate.
- Interest draws the highest tax consequences where dividends draw the lowest tax.
- You have zero chance of capital appreciation.

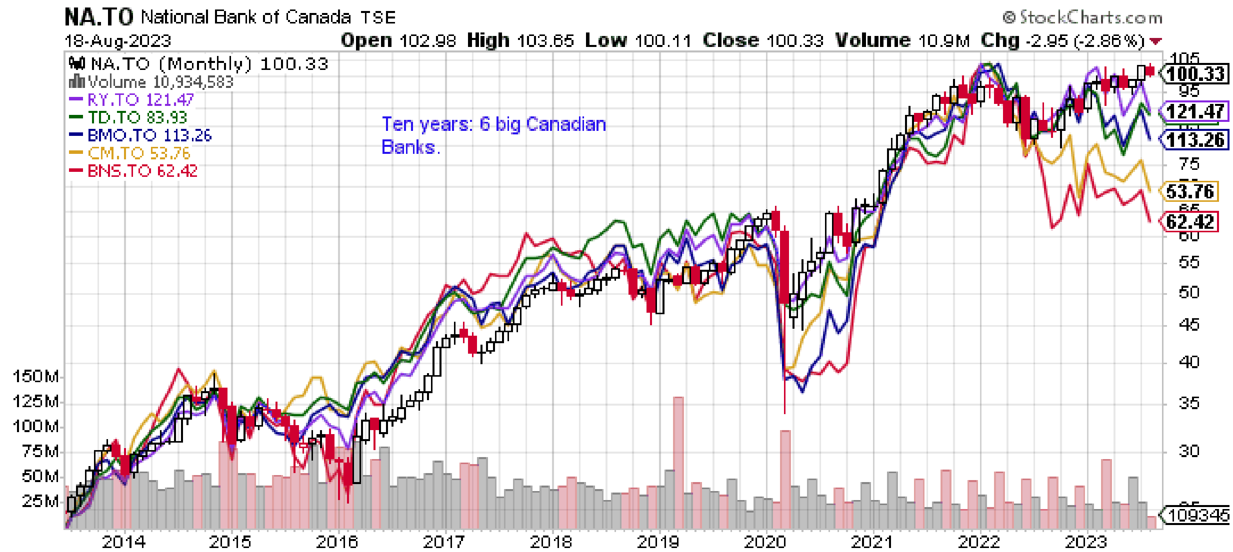
The case for bonds.

- Like deposits, interest attracts tax at your top marginal tax rate.
- As interest rates rise in the market, bond prices typically fall so that their yields are more attractive. The reverse happens as interest rates fall.
- There is potential for capital appreciation when interest rates fall.
- Either way, while bonds tend to fluctuate in value between issue and maturity dates, they always mature at the same price they were issued – par value $100.

The case for dividends.

- Dividends are taxed at a much lower rate than interest for all investors.
- The yields available today are significant – some shares paying above 6%.
- The Government allows you to claim a dividend tax credit when you own Canadian dividend paying corporations in a non-registered account. For instance, a dividend of 6% would have an approximate pre-tax interest equivalent yield of 8.4% because of the dividend tax credit. (You would need a GIC at 8.4% to get the same after-tax income from a 6% dividend.)
- Dividend growing companies tend to increase their dividends over time.
- You have the potential for capital growth owning the dividend paying stock.
- **Ten years ago, National Bank (NA) was trading at about $39/share. At writing, it trades at about $100.33/share. The stock growth equates to 156% over that period or an average 15.6% per annum. But that is just the growth of the stock. National like most banks pays a dividend and like most, it has continually raised the dividend. Today it pays $4.08 in dividends/share which equates to 4.06% on the current price of the stock. Had you bought National ten years ago at $39, that growing dividend yield today, would equate to ($4.08/$39) 10.46%. In summary, the above example represents a 15% average growth in the stock over the last ten years, plus a current dividend yield today of 10.46%.**

Here is a chart of how the big six Canadian banks have performed over the last ten years.



*Historical performance is no guarantee of future performance.

I think the value side of the market is here in Canada right now from the perspective of yields and current pricing.

Best wishes for the remainder of the summer.

I have prepared this commentary to give you my thoughts on various investment alternatives and considerations which may be relevant to your portfolio. This commentary reflects my opinions alone, and may not reflect the views of National Bank Financial Group. In expressing these opinions, I bring my best judgment and professional experience from the perspective of someone who surveys a broad range of investments. Therefore, this report should be viewed as a reflection of my informed opinions rather than analyses produced by the Research Department of National Bank Financial.

Best,

National Bank Financial

Rob Hunter
Senior Wealth Advisor

Sources: Stockcharts.com, Technical Speculator, Reuters, Bloomberg