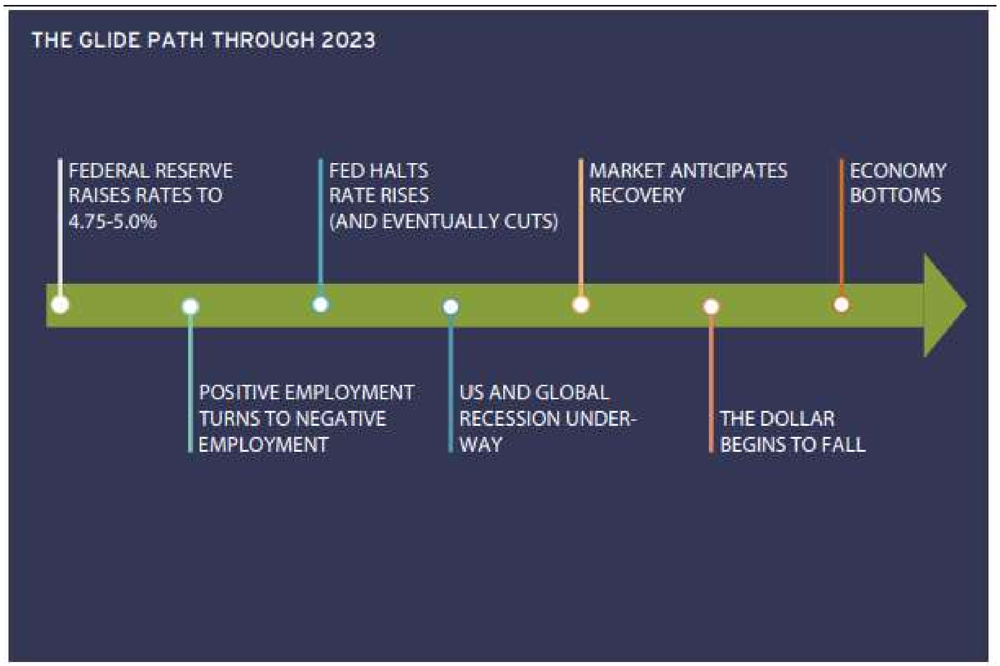
Good afternoon investors,

In our fast-paced lives filled with instant gratification and information at our fingertips, it can be difficult to drive in the "slow lane". We believe many investors are getting increasingly impatient with the economy and the perceived pace at which inflation is receding. We are nearing the backend of 2023 and we are not much further ahead in the recovery (referencing the graph below, it's questionable if we are even in Phase 3 yet). This slow progression to recovery should not be alarming, however. Historically, a recession follows *one year* after the yield curve inverts -- but this is not gospel. An inverted yield curve has preceded every U.S. recession over the past 50 years. Sadly, an inverted yield curve cannot time a recession accurately or consistently. Critics rather focus on what the inversion is telling us about inflation, mainly that inflation will be lower in the future. You may find it interesting that the U.S. yield curve officially inverted back in April 2022. Meaning that a recession could still be 12 months away.



Source: CGWI Office of the Chief Investment Strategist, as of October 11, 2022. All forecasts are expressions of opinion, are subject to change without notice, and are not intended to be a guarantee of future events. Indices are unmanaged. An investor cannot invest directly in an index.

Regardless of the recession or soft-landing narrative, the consensus is that the bulk of the rate hikes are behind us now. Any future rate hikes will be used to ensure inflation does not flare up any further and derail all this progress. It's clear that fighting inflation is top priority and the Federal Reserve appears to be achieving their goal. Although they may not reach their 2% target next year, we think it will be close. As you can see below, the inflation trend has improved a great deal.

Inflation measures	% change annualized 1-month	3-month	6-month	12-month
CPI	2.0	1.9	2.6	3.2
Core CPI	1.9	3.1	4.1	4.7
CPI excluding gas	2.0	2.6	3.0	4.1
Median CPI	2.3	3.8	4.8	6.1
Trimmed-mean CPI	2.6	2.7	3.4	4.8
PCE deflator	2.0	2.5	3.3	3.0
Core PCE	2.0	3.4	4.1	4.1
Median PCE	3.5	3.9	4.8	5.0
Trimmed-mean PCE	2.5	3.4	4.1	4.2
PPI	3.6	-0.2	-0.5	0.8
CPI components				
Goods	-0.9	-0.6	0.5	-0.6
Services ex shelter	2.2	1.1	0.8	3.3
Shelter	5.4	5.6	6.4	7.7
Food	2.9	2.2	2.0	4.9
Gasoline	2.1	-16.7	-10.0	-19.9
Motor vehicles	-5.9	2.3	2.7	-0.5

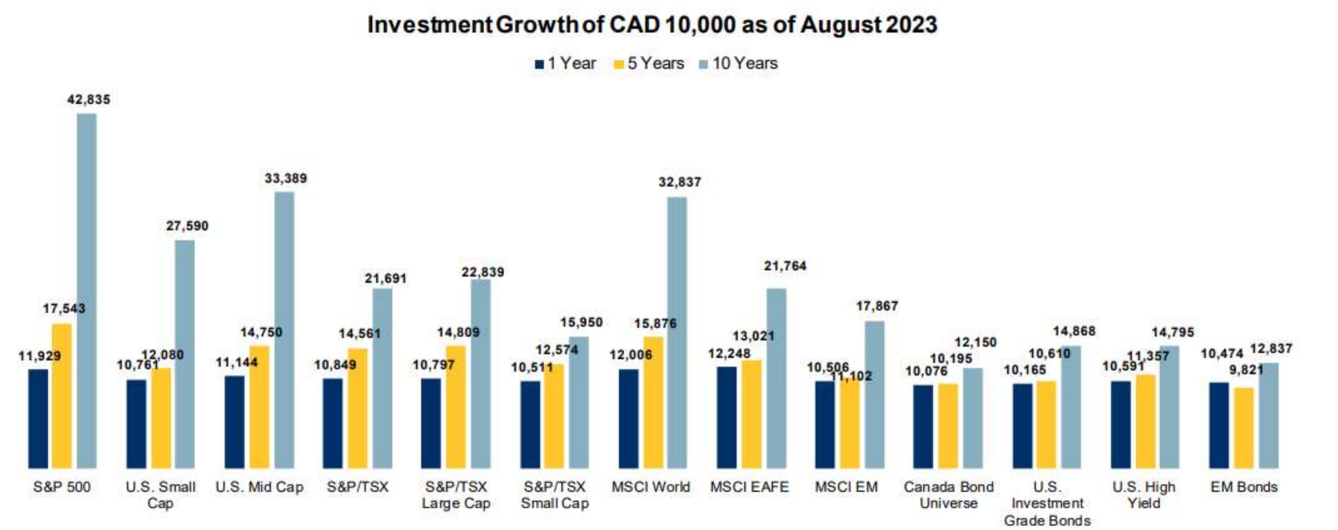
Note: As of Jun 2023 for PCE measures, July 2023 for CPI and PPI measures. Source: BEA, BLS, Federal Reserve Bank of Cleveland, Federal Reserve Bank of Dallas, Macrobond, RBC GAM

Inflation remains a key factor in monetary policy and, we believe, is still perceived as higher than normal and widespread throughout the economy. This may be because inflation is concentrated in a few sectors that hit consumers the hardest. Food, shelter, and energy inflation remain stubborn and take much more time to normalize. Together all three represent just over 50% of the Consumer Price Index (CPI). So even if inflation is not so widespread, it may feel this way due to the importance that food, shelter, and energy play in our everyday life.

Our view is that interest rates remain higher for longer. The old regime of ultra-low interest rate policy is likely not to return. We aren't saying interest rates could not come down from current levels. They will eventually – just not likely to the historically low levels we saw during COVID. With 'higher for longer' we believe a few short-term themes will play out that we are positioning for:

1- Borrowers suffer and savers win
   - Scrutinize real estate, utilities and highly leveraged businesses with more rigor
2- Energy and commodity security
   - Supply demand imbalance continues, and presents longer runway for opportunities
3- Inflationary forces are systemic
   - Bonds offer great risk/reward characteristics relative to other asset classes

It's undeniable that the economy and capital markets have undergone significant changes over the past three years. We've experienced unprecedented stimulus from central banks and government to keep the economy afloat. This resulted in inflation levels rising to levels not seen in 40 years and subsequently extremely aggressive monetary tightening over the past 18 months. With the pendulum swinging wildly in both directions it can be difficult as an investor. It highlights the ebbs and flows in the short term, but returns tend to smooth out over the longer term. That is what makes the graph below interesting on a couple different levels.



Source: RBC GAM, Data as of August 31, 2023. S&P 500: S&P 500 Total Return Index; U.S. Small Cap: Russell 2000 TR Index; U.S. Mid Cap: Russell Mid Cap TR Index; S&P/TSX: S&P/TSX Total Return Index; S&P/TSX Large Cap: S&P/TSX 60 TR Index. S&P/TSX Small Cap: S&P/TSX SmallCap TR Index; MSCI World: MSCI World Net of Taxes TR Index; MSCI EAFE: MSCI EAFE Net of Taxes TR Index; MSCI EM: MSCI Emerging Markets Net of Taxes TR Index; Canada Bond Universe: FTSE Canada Bond Universe TR Index; U.S. Investment Grade Bonds: Bloomberg U.S. Aggregate Bond Index TR Index; U.S. High Yield: ICE BofA US High Yield BB-B TR (CAD hedged) Index; EM Bonds; JP Morgan EMBI Global Diversified (CAD hedged) Index. Rates of return less than one year are simple rates of return. An investment cannot be made directly into an index. The graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results.

It demonstrates that **time**, *not timing* the market is a better strategy for long-term investors. Using something (time) which is within your control to determine better outcomes. Everyone has a finite time horizon aligned with their goal. Most goals worth striving for, take many years to accomplish. Thus, it's prudent to start early.

A not so obvious observation is, what has worked in the past, may not work in the future. Specifically, let's look at the outliers, mainly the S&P 500 and U.S. small & mid cap indices. It's safe to say that these three sectors have meaningful concentrations in U.S. technology companies. Owning Apple, Microsoft and Tesla over the past decade has compounded wealth indeed. You have to ask yourself, will the past 10 years repeat itself again? We are not so sure. Cycles typically come every decade and the stage is set differently now. Higher rates will challenge businesses, thus changing the landscape of investing. Demographics have changed. Securing energy and commodities is becoming more prevalient. Active management and fundamental analysis of balance sheets will become of importance once again. We believe this and have positioned with this philosophy in mind. We appear to be early adopters, but we haven't experienced displeasing outcomes as a result. We believe that earning the highest possible return *every year,* is a poor metric to strive for. It can lead to outperformance the odd year. But the excessive risk and outlay of vast resources can lead to catastrophic losses as well. The net result is average returns over the long run. Instead, earn stronger returns for as many years as possible. Avoiding the extremes will provide the most pleasing results and help ensure you reach your objectives.

We will leave you with a story we heard during an investor conference we attended in September. The speaker showed a photo and asked the audience to identify who it was. No one could, so he stated their name -- Rick Guerin. Still, not one person knew who the individual was. It turns out Rick Guerin was one of Warren Buffett's and Charlie Munger's original business partners.

Rick was a very bright individual helping Warren and Charlie buy undervalued companies in the 1960s – including Berkshire Hathaway. However, in 1973-74, the market experienced severe losses and investors felt the pinch. Rick felt the pinch more than most as he borrowed money to make his original investments. Eventually the market was down nearly -70% and he was forced to sell due to margin calls. It was at this point he had to make a difficult decision to sell his stocks to remain solvent. Rick decided to sell his shares of Berkshire back to Warren to pay off his debt. Rick, Warren, and Charlie were savvy investors, very smart and had extensive knowledge of buying and selling businesses. The key difference between Warren and Charlie was that they were not in a hurry to become rich. They knew that, with enough time, they could acquire great businesses and hold them until the market realized what they were actually worth.

Success for them was being patient and repeating their principles of investing many times over. It's well known that Warren and Charlie took a slower approach and compounded their wealth tremendously and avoided excessive risk. Rick, however, was in a hurry to get rich. Rick used leverage which set him back tremendously relative to Warren and Charlie. Borrowing to buy stocks could multiply gains in a bull market, but as Rick learned, could nearly wipe you out in a bear market. Rick continued investing throughout his lifetime and was remarkably successful. He could be considered one of the greatest investors no one has ever heard of.

This story is interesting for a couple reasons. Usually, you don't hear about professional failures, but they obviously happen. Certain situations and economic backdrops will punish investors and can take years to recover. High risk investing can certainly work but is not suitable for everyone -- even willing participants. It's important to carefully examine your risk profile. Specifically, *willingness and ability* to carry risk. You could be willing, but not able, to assume a certain level of risk. Subsequently, you could be able to take on certain risks, but not be willing to do so.

I'm sure that you have heard that investing is a marathon, not a sprint. The goal for an investor shouldn't be earning the highest rate of return possible in any given year. Rather, we believe an investor should seek to sustain the best rate of return for the longest periods of time possible. Invest early, set realistic expectations for your portfolio, along with an appropriate time horizon. Let the exponent in the compounding equation do the heavy lifting for you!

The fall is shaping up to be a busy time of year and we are grateful for your continued trust and support. It may be tempting to abandon your long-term strategy with all the recession rhetoric. We are maintaining a neutral strategic asset allocation across our model portfolios. We have increased the quality within the portfolio and are keeping a keen eye to take advantage of depressed valuations as the market situation evolves. Please call the office should you have any questions or concerns.

Best regards,

Northlake Wealth Management

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