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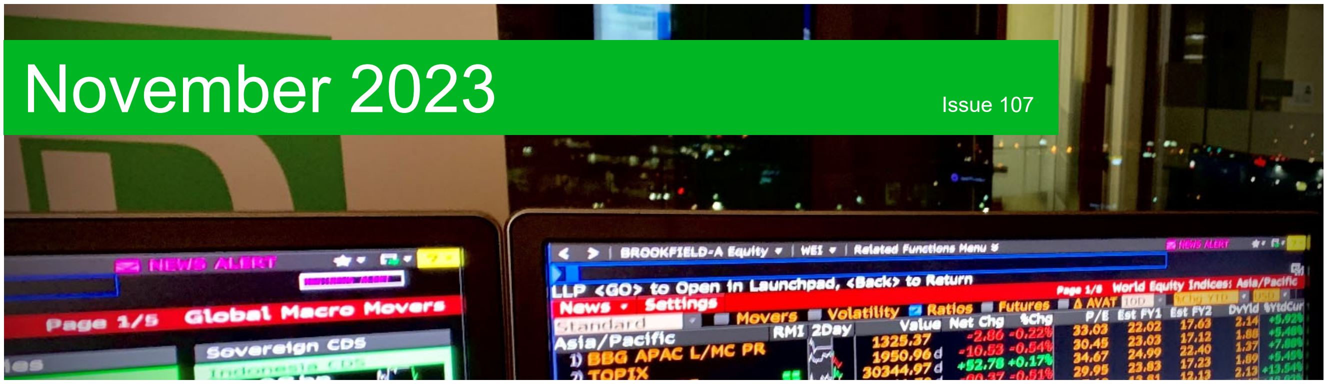

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Economic & Market Update

The Greatest Bond Bear Market of All Time

… were the words of Bank of America investment strategist Michael Hartnett used in early October when describing the last three plus years since July 2020.[1]

Readers of this letter know that I have stated my belief that we are in a Bond Bear Market.[2] By looking at the anemic total returns earned by bond investors over the last decade, we may have been in one since 2012.

That is not the consensus viewpoint. Generally, to most investors the termination of the Bond Bull Market that began in 1981 is a relatively recent event. This summer there seemed to be the realization that bond losses were so great and so sustained that most of the hopes for a resurrection in the four-decade trend of declining interest rates had finally been abandoned (**Chart 1**).

The crash in bond valuations over the last three years has some calling it "The Greatest Bond Bear Market of All Time."

However, the great Bond Bear Markets of the past are often accompanied by much more negative psychology and even a fatalistic view of the future of bonds. We haven't seen that yet.

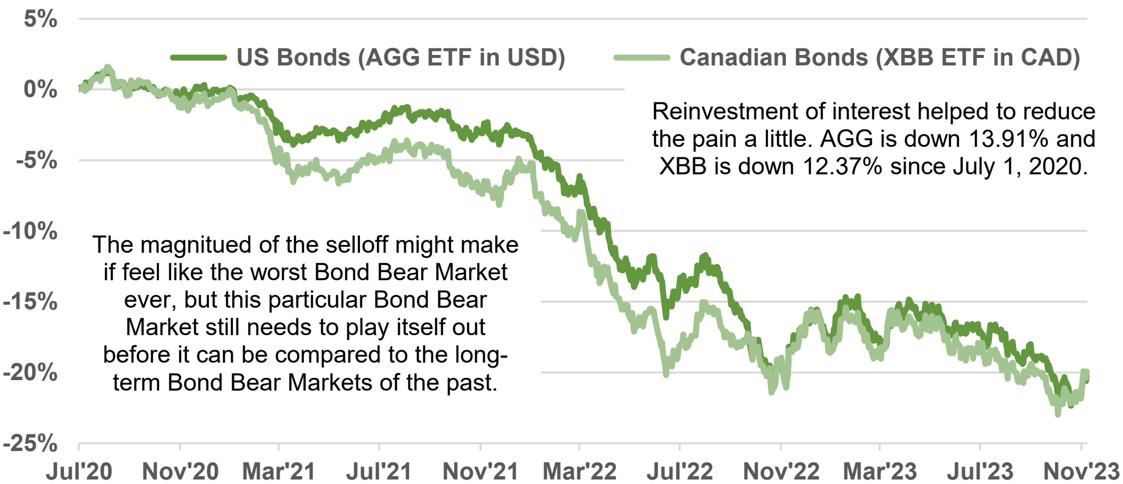
[1] S. Indyk. "Bonds 'in great bear market of all time', Bank of America says." REUTERS, October 6, 2023.
[2] M. Jasayko. "Was the Last Decade a Lost Decade for Bonds?" *The Charter Group Monthly Letter*, Issue 105, September 2023.

At some point we may get a sustained decline in rates. But, *that* would be independent of the Bull Market sentiment that drove the previous era.

Back to the current predicament in the bond markets. Echoing Michael Hartnett was Ben Carlson, a preeminent financial writer and advisor, who wrote a blog post on October 13th titled "The Worst Bond Bear Market in History."[3] He referenced Hartnett and provided a little more data backing up the claim. However, again, this is assuming that the current Bond Bear Market is a relatively recent phenomenon, starting with the precipitous losses of later 2020, and not something that stretches back to 2012 like I have postulated.

Chart 1:

Bond Investor Experience Since July 2020



Source: Bloomberg Finance L.P. as of November 7, 2023

From my prospective, it might be more useful to categorize the last 3-plus years as the "most severe bond market selloff ever", and only a component of a potentially much longer secular (very long-term) Bond Bear Market. In light of that, the secular Bond Bear Market that extended from 1945 to 1981 is still, in my opinion the "Greatest Bond Bear Market of All Time." It was long, grinding, dispiriting, and industry-changing. Bonds became known as "certificates of confiscation" as inflation was so severe that bondholders often earned negative real rates of return. The investment management industry came under legal fire as plaintiffs argued that it was a breach of fiduciary duty to hold bonds exclusively, even for very conservative clients. Trust departments that would buy bonds for clients and lock them in drawers until maturity, now had to navigate the stock market in search of returns that at least had some fighting chance to keep up with inflation. And, towards the end of

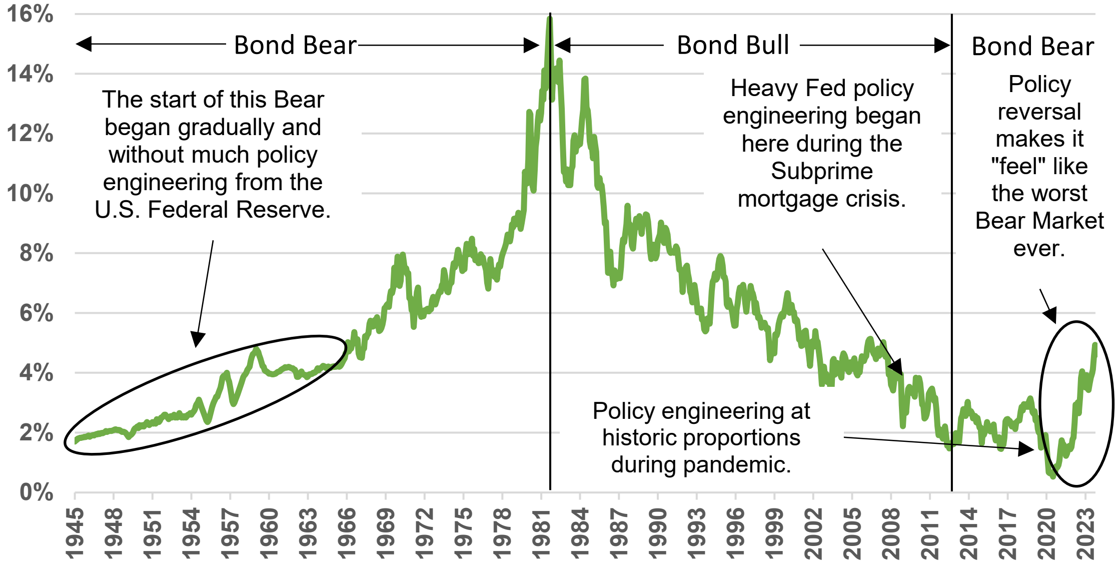
The selloff of the past three years has been historic, but just may be a chapter in a longer Bond Bear Market.

[3] B. Carlson. "The Worst Bond Bear Market in History." AWealthOfCommonSense.com, October 13, 2023.

the decades-long misery, it felt like there was no light at the end of the tunnel. When it became apparent that the era was over, investors were surprised and even shocked. Virtually nobody was expecting it. Very few seemed to be able to muster the kind of optimism at that point that we can still observe in many of today's bond investors.

Chart 2:

10-year U.S. Treasury Bond Yield: Rising Yields are Negative for Bonds



Source: Bloomberg Finance L.P. and Goldman Sachs Global ECS Research as of November 7, 2023

Although the last few years have severely punished investors who have maintained exposure to longer-term bonds, we are hardly seeing the psychological torment of the 1945-1981 era. In fact, over the past month, there has been some doubling-down. There is an argument that rates have risen enough and that a recession is on the horizon. But that was the consensus position at the start of this year.[4] Anything can happen I suppose. Bear Market rallies do happen. But most of the factors that led the bond market down its current path are still in place and will need to be confronted again.[5]

We may have to wait a few years before declaring the current bond market as "The Greatest Bond Bear Market of All Time."

When the bond investors of today begin to exhibit more of the despair, frustration, and capitulation of the bond investors during the later innings of the 1945-1981 Bond Bear Market, *then*, at that point, it might be time to pass the crown of "The Greatest Bond Bear Market of All Time" to the current era.

[4] Many were calling for 2023 to be the "Year of the Bond."
[5] The factors, written about in previous editions of this letter, include an acceleration in deficit spending (on defense, the green transition, reshoring, subsidies, entitlements), a tightened labour market and wage gains, and supply-side contributors to inflation (supply chain logistics, material costs, food costs, higher interest costs).

Model Portfolio Update[6]

The Charter Group Balanced Portfolio
(A Pension-Style Portfolio)

	Target Allocation %	Change
Equities:		
Canadian Equities	12.0	None
U.S. Equities	38.0	None
International Equities	8.0	None
Fixed Income:		
Canadian Bonds	22.0	None
U.S. Bonds	6.0	None
Alternative Investments:		
Gold	8.0	None
Silver	1.0	None
Commodities & Agriculture	3.0	None
Cash	2.0	None

The asset allocations and the specific securities holdings in the model portfolios remained unchanged in October.

No changes to the model portfolios in October.

The big positive contributor during the month was gold, which was not too surprising with the geopolitical turmoil in the Middle East (investors seeking a relative safe haven). It is also our best performing asset class (of the classes that we use in the model portfolios) over the past year, which might have something to do with investor concerns regarding debt, deficits, and inflation.

Gold was the top performer, likely driven by developments in the Mideast.

Stocks internationally as well as in Canada and the U.S. struggled to breakeven for the month despite getting a lift from falling bond yields. The recent hope was that the U.S. Federal Reserve would find room to cut rates next year with the economy softening. Normally, a weakening economy would drag down stocks, but when investors are looking hard for silver linings, it's easier to become fixated on one factor, like falling yields, and miss the bigger picture (my view is that the last two weeks of falling yields does not

Rates and yields fell towards the end of the month, which helped stocks, but not enough to get them back to breakeven for the month.

[6] The asset allocation represents the current *target* asset allocation of the Balanced Model Portfolio as of November 7, 2023. The asset allocations of individual clients invested in this Portfolio may differ because of the relative performance of the asset classes since the last rebalancing and because of differences in the timing of deposits and withdrawals. The Balanced Model Portfolio is part of a sequence of five portfolios ranging from conservative to aggressive: Conservative, Balanced Income, Balanced, Balanced Growth, and Growth.

indicate a new trend as many of the aspects that were lifting yields & rates are still present and are mostly unrelated to near-term economic growth).

Barring any surprises, it looks like most concerns have been pushed into next year.

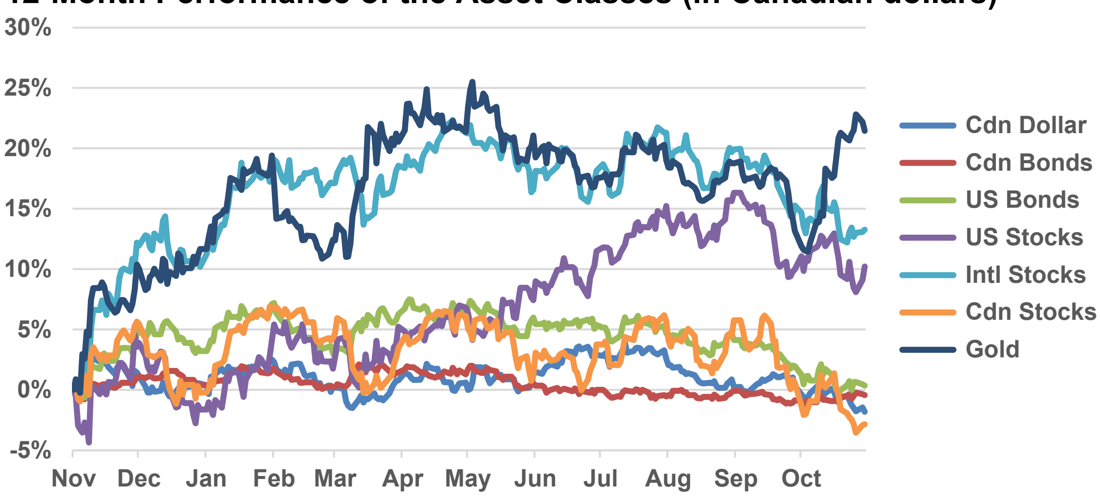
Looking forward, it is worth noting that we have entered a seasonal stretch that is often good for stocks. Barring any big economic or geopolitical surprises between now and the end of the year, most of the challenging things that investors will have to deal with have likely been pushed into 2024.

The last couple of months are good in terms of the historical seasonality for stocks and bonds.

Once we get into 2024, we will be able to ascertain just how realistic the probabilities of rates cuts are. Interest rate futures contracts pricing[7] as well as the Federal Reserve Board's "dot plot"[8] are both implying rate cuts next year. However, that has tended to be the forecast for over a year now, necessitating revisions as the date of expected cuts near. In addition to a recession, I think a number of other things would have to unfold for cuts to happen. Generally, hoping for a scenario where a whole bunch of factors need to line up is often not the best wager one can make. But, those are worries for next year. Until then, fingers crossed for a Santa Claus rally!

Below is the 12-month performance of the asset classes that we have used in the construction of The Charter Group's model portfolios. (**Chart 3**).[9]

Chart 3:
12-Month Performance of the Asset Classes (in Canadian dollars)



Source: Bloomberg Finance L.P. for the interval from November 1, 2022 to October 31, 2023

[7] Source: Bloomberg Finance L.P. as of November 7, 2023.
[8] The Federal Reserve Dot Plot is a graph that shows where the 19 individuals on the Federal Open Market Committee think the Fed Funds Rate will be at various points in the future.
[9] Source: Bloomberg Finance L.P. – The Canadian dollar rate is the CAD/USD cross rate which is the amount of Canadian dollars per one U.S. dollar; Canadian bonds are represented by the current 3-year Government of Canada Bond; US bonds are represented by Barclays US Aggregate Bond Index; U.S. stocks are represented by the S&P 500 Index; International stocks are represented by the MSCI EAFE Index; Canadian stocks are represented by the S&P/TSX 60 Composite Index; Gold is represented by the Gold to US Dollar spot price.

Top Investment Issues[10]

Issue	Importance	Potential Impact
1. Global Geopolitics	Significant	Negative
2. Canadian Federal Industrial Policy	Moderate	Negative
5. Inflation (Portfolio Impact)	Moderate	Positive
3. China's Economic Growth	Moderate	Negative
4. Canadian Dollar Decline	Moderate	Positive
7. Short-term U.S. Interest Rates	Medium	Negative
6. U.S. Fiscal Spending Stimulus	Medium	Positive
8. Long-term U.S. Interest Rates	Medium	Negative
9. Global Trade Wars	Medium	Negative
10. Canada's Economic Growth	Light	Positive

[10] This is a list of the issues that we currently deem to be the ten most important with respect to the potential impact on our model portfolios over the next 12 months. This is only a ranking of importance and potential impact and *not* an explicit forecast. The list is to illustrate where our attention is focused at the present time. If you would like an in-depth discussion as to the potential magnitude and direction of the issues potentially affecting the model portfolios, I encourage you to email me at mark.jasayko@td.com or call me directly on my mobile at 778-995-8872.

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The Charter Group is a wealth management team that specializes in discretionary investment management. For an annual fee, we manage model portfolios for private clients and institutions. All investment and asset allocation decisions for our model portfolios are made in our Langley, B.C. office. We do not outsource any of the decision-making for our model portfolios – there are no outside actively-managed products or funds. We strive to bring the best practices and the calibre of investment management normally seen in global financial centres directly to the Fraser Valley and are accountable for the results.

Accountability is further enhanced by the fact that we commit our own investable wealth to the same model portfolios in which our clients are invested.

The information contained herein is current as of November 7, 2023.

The information contained herein has been provided by Mark Jasayko, Senior Portfolio Manager and Senior Investment Advisor, TD Wealth Private Investment Advice, and is for information purposes only. The information has been drawn from sources believed to be reliable. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any investment. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual's objectives and risk tolerance.

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Thank you from The Charter Group at TD Wealth

Thank you to our clients and community for voting The Charter Group, your favorite for Investment Management and Financial Planning in Langley for the fourth year in a row.

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