Wickham Investment Counsel Inc.

Quarterly Review **Sept 2023**

The Silent Tax

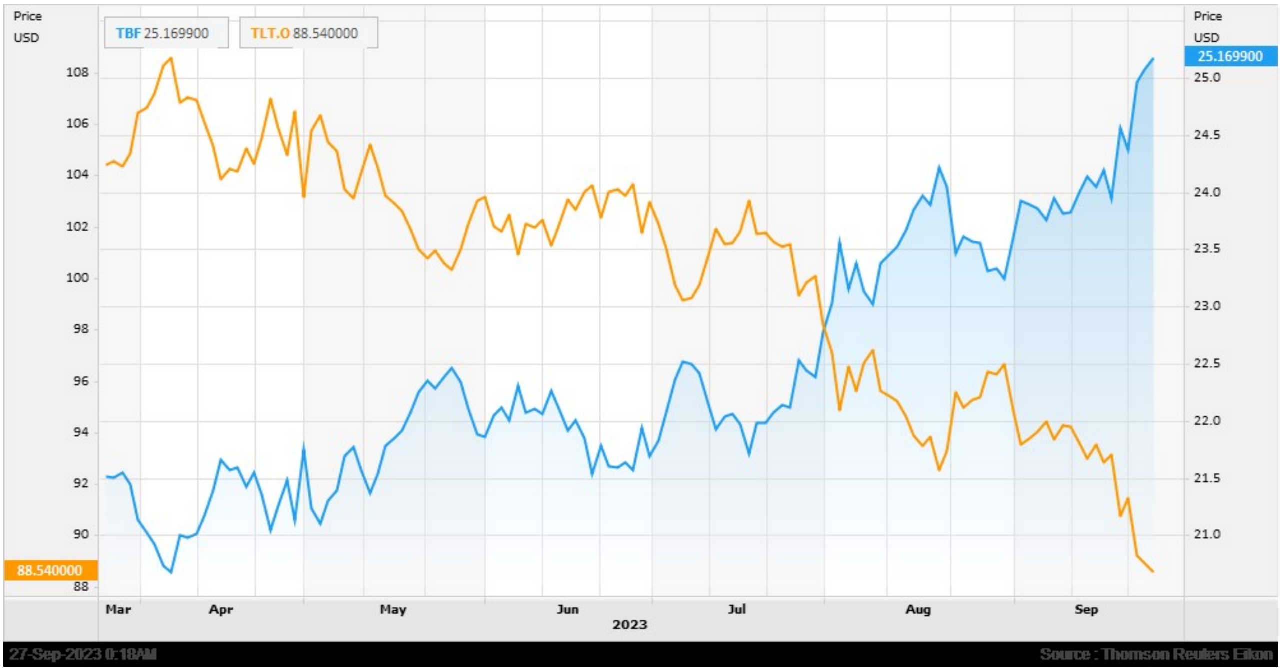
During the COVID crisis, governments needed to help the huge numbers of people in immediate dire need as businesses shut down and to cover necessities. To facilitate this massive income redistribution, imposing higher taxes during a crisis would not have been popular or feasible. Instead, the preferred option was to effectively print money as governments took on debt, central banks expanded their balance sheets, and new money was created to fund redistribution. Growth in the money supply was more than 30% and government deficits soared. The result has been textbook inflation with more money, chasing a limited supply of goods and services. Costs go up for those earning incomes to pay for support for those in need. Rather than higher tax bills, increased costs across the economy are in the form of higher consumer prices. That is why service sector wages and middle-class incomes are trying to catch up in the face of mounting prices. People ask, why are prices so high? Inflation is part of the price that is being paid for the redistribution that had to be done. A silent tax due to inflation is still a tax.

Last year marked the first time in at least 45 years that both stocks and bonds posted negative returns in a calendar year. Battling the resultant high inflation, central banks raised rates aggressively. In the United States, the Federal Reserve raised rates 11 times in a year and a half. Similarly, the Bank of Canada has pushed the overnight rate from 0.25% to 5%. Policy is now solidly in restrictive territory and economic growth has begun to stall. Central Banks control short rates but longer-term rates are based on investor expectations about inflation, future monetary policy and economic growth.

The attached table shows that longer rates are still rising and prices falling. In fact, it appears likely that bonds will be a losing investment for the third year in a row. TLT is iShares 20+ Year US Treasury Bond ETF, which has steadily declined throughout 2023. The reverse, TBF, which is ProShares Short 20+ Year US Treasury, mirrors the opposite effect and tracks higher. The yield on the 10-year US Treasury as another example, has increased from 1.52% in December 2022 to 4.61% on September 30, 2023. Some are calling for 5% in the near term. We are seeing the higher level and rate of inflation playing out in the financial markets. Yields on Banks, telecommunications, utilities and real estate investment trusts all extended with prices down, and mortgage rates are a major headwind to the housing market.

With rates up to levels last seen during the 2007-08 Great Recession, in today's complex markets, controversy rages as to if Central Banks are finished hiking rates. If they are approaching a turning point, history teaches us that there will be an opportune time to allocate to long term bonds and equities, and that cash like alternatives will decay rapidly. Stabilizing or declining borrowing costs will provide a boost to the economy and corporate profits, hopefully in 2024.

ProShare Short 20+ Year Treasury ETF (TBF) vs iShares 20+ Treasury Bond ETF (TLT)



	Dec 31, 2016	Dec 31, 2017	Dec 31, 2018	Dec 31, 2019	Dec 31, 2020	Dec 31, 2021	Dec 31, 2022	Sep 30, 2023	% Change Dec-Sep
Stock Market Indices									
S&P/TSX Comp.	15,288	16,209	14,323	17,063	17,433	21,223	19,385	19,544	0.82%
Dow Jones Ind.	19,763	24,719	23,328	28,538	30,607	36,338	33,147	33,508	1.09%
S&P 500	2,239	2,674	2,507	3,231	3,756	4,766	3,840	4,288	11.67%
Nasdaq Comp.	5,383	6,903	6,635	8,973	12,888	15,645	10,466	13,219	26.30%
Commodities									
Gold - US$	1,252	1,309	1,281	1,523	1,895	1,829	1,826	1,866	2.19%
Crude Oil WTI - US$	53.72	60.42	45.41	61.06	48.52	75.21	80.26	90.79	13.12%
Natural Gas - US$	3.74	2.95	2.94	2.19	2.54	3.73	4.68	2.93	-37.41%
Currencies									
€ in Cdn $	1.42	1.50	1.56	1.46	1.56	1.44	1.45	1.43	-1.38%
£ in Cdn $	1.66	1.69	1.74	1.72	1.74	1.71	1.63	1.65	1.53%
US$ in Cdn $	1.34	1.26	1.37	1.30	1.27	1.26	1.36	1.36	-0.17%
Interest Rates									
Cdn Prime rate	2.70	3.20	3.95	3.95	2.45	2.45	6.45	7.20	11.63%
US Prime rate	3.50	4.50	5.50	4.75	3.25	3.25	7.50	8.50	13.33%
Cdn 10 Yr bond	1.72	2.04	1.95	1.64	0.70	1.45	3.30	4.02	21.82%
US 10 Yr bond	2.44	2.40	2.69	1.92	0.93	1.52	3.88	4.61	18.81%

Source: The Globe & Mail