



2023 Q1 Commentary

“Which Way Are We Heading?”

What Happened this Quarter?

A map helps us get from point A to point B. But how useful is a map if we don't know what direction we are heading? Unfortunately, this feels like the current economic environment; there are certain signs and indicators that give us an idea of what might happen, but it's not clear where we will end up.

After a brutal 2022, stock and bond indices rebounded and posted gains during the first quarter of 2023. Although ending positive, it was not a smooth ride with many ups and downs resulting from a few headlines:

- Weaker inflation numbers in North America
- Stronger than expected job numbers out of the U.S.
- The collapse of Silicon Valley Bank, Signature Bank and Credit Suisse

With lingering questions about corporate earnings, central bank policy and a potential recession, the stock market (S&P500) has been directionless and stuck in the same range for the past eight months.

At Westmount, when the markets are uncertain, we tend to stick to our principals and our map:

- **Don't make large portfolio bets:** We tend to make small tilts in the portfolio (increase/decrease exposure) but we do not make large bets.
- **Don't try to time the markets:** We never try to time the market by selling during times of heightened uncertainty.
- **Stay diversified:** We diversify beyond stocks and bonds by offering clients exposure to quality alternative* (private) investments to decrease volatility, improve diversification and increase potential returns.

*Alternative investments are also generally less liquid than more traditional asset classes and are not appropriate for all investors.



What Happened in the Bond Markets?

After one of the worst years in history for bonds, the major indices finished the first quarter back in positive territory.

With attractive current yields, we are positive on bond performance moving forward. However, a potential credit crunch and recession could make it harder for borrowers to pay back debts. This is more so the case with lower quality bonds as they carry a higher risk of default. Therefore, in our portfolios we favour (higher quality) government and investment grade bonds.

In the event of a market crash these holdings have historically generated positive returns and act as a ballast against stock volatility.

FTSE Canada
Universe Bond Index **3.22¹**
Q1 2023

Bloomberg US
Agg Bond Index (USD) **2.96%²**
Q1 2023

Bloomberg Global
Agg Corp Bond Index (CAD) **3.46%³**
Q1 2023

What Happened in the Stock Markets?

Canada, U.S. and International markets finished positive for the first quarter. However, the lack of breadth in the U.S rally is something we will be watching.

Beaten down tech giants roared back to life with Apple, Microsoft, Google, Amazon, Nvidia, Tesla and Meta trading up 31%⁸. Better-than-expected earnings results, effective cost-cutting strategies (layoffs), and enthusiasm for AI helped fuel the rally.

Due to our low-cost market cap weighting methodology, we benefited from this concentrated rally, as Apple, Microsoft and Google remain large weights within our U.S equities.

Canadian Stocks
S&P/TSX Comp. Index **4.56⁴**
Q1 2023

US Stocks
S&P 500 (USD) Index **7.48%⁵**
Q1 2023

US Stocks
NASDAQ 100 (USD) Index **17.05%⁶**
Q1 2023

International Stocks
MSCI EAFE (CAD) Index **8.59%⁷**
Q1 2023

1, 2, 3, 4, 5, 6, 7. Bloomberg L.P., Accessed 18 Apr. 2023., Total Returns for the period of Jan 1, 2023 to Mar 31, 2023. 8 Bloomberg L.P. Westmount Wealth Management. AAPL, MFST, GOOGL, AMZN, NVDA, TSLA, META on a market capitalization weighting as of Jan 1 2023 to Mar 31, 2023





Holding Spotlight: Student Housing

Alignvest Student Housing REIT is a holding within the Westmount Real Asset Fund. This niche sub sector of real estate helps compliment and diversify clients beyond multi-family apartments, industrial warehousing and office buildings.

Why Own Student Housing Real Estate

- Demand for Canadian student beds has grown 12.7% annually over the past decade due to an increase in local post-secondary education enrollment and international student population in Canada.
- However, the supply of beds is not keeping up. New on-campus accommodation has not grown quickly enough given budget constraints and off-Campus student housing beds at can only support ~3% of full-time students¹.
- Student housing has proven to be a strong performing asset class during economic downturns as unemployed individuals return to school.

Fund Highlights²

5,208 Beds	\$832.9M Appraised Value
12 Properties in 6 Markets	54% Loan-to-Value
4.82% ³ Distribution Yield	Tax Efficient Return of Capital ⁴

Fund Returns^{1,2}

YTD	2.7%
1 Year	7.9%
2 Year	10.4%
3 year	9.1%
5 Year	n/a
Since Inception	10.5%

1. Source: Alignvest Student Housing Real Estate Investment Trust Information Sheet – February 2023, Class F Returns are calculated based on DRIP participation
 2. Source: Alignvest Student Housing Real Estate Investment Trust Information Sheet – February 2023, All rates of return are as of March 31st, 2023
 3. Source: Rental income earned by a REIT is partly sheltered through deductions on buildings owned by the REIT. These deductions reduce the REIT’s taxable income but not the funds available to be distributed. The return of capital distribution is the amount that exceeds the REIT’s taxable income. Your Westmount Wealth Advisor can answer questions you may have about distributions any time. Source: Income classified as ROC is not taxable in the year it is received, instead it reduces your adjusted cost base and defers the payment of tax until sale. For more information, please contact your advisor.

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The Bottom Line

The most turbulent periods for the markets are generally concurrent with a recession. As such, most investors are fearful during times the economy slows. However, if we step back and look at the performance of a balanced portfolio¹ during the last seven recessions², we see the average return was only slightly negative. Nothing to celebrate, but far from the ruin many fear.

A highly diversified portfolio of bonds, stocks and alternative investments should smooth out the volatility of a portfolio during a recession, allowing the investor to ride out the storm, remain invested, and reach their financial goals.

We may not know where the economy is heading, but at Westmount, we will stick to our map.

U.S Recessions (NBER)	Balanced Portfolio Return
1973 Q4 – 1975 Q1	-7%
1980 Q1 – 1980 Q3	9%
1981 Q3 – 1982 Q4	15%
1990 Q3 – 1991 Q1	6%
2001 Q1 – 2001 Q4	-5%
2007 Q4 – 2009 Q2	-16%
2007 Q4 – 2009 Q2	-9%
Average	-1%

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1. 60% MSCI World (in CAD) 40% ICE Bofa Broad Canada Universe. (FTSE 91 day index for the 1973-1975 recession)

2. Average calculated as arithmetic average of recession returns of Balanced Portfolio 60% MSCI World (in CAD) 40% ICE Bofa Broad Canada Universe.

U.S. Recession dates accessed on 18 Apr 2023, through NBER, <https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions>.

Calculations completed by National Bank Quarterly Flip Blook Spring 2023, March 31, 2023.

This information has been prepared by Lorenzo Pederzani & Matthew Evans who are Portfolio Managers for Westmount Wealth Management. The information contained in this commentary comes from sources we believe reliable, but we cannot guarantee its accuracy or reliability. The opinions expressed are based on an analysis and interpretation dating from the date of publication and are subject to change without notice. Furthermore, they do not constitute an offer or solicitation to buy or sell any of the securities mentioned. The information contained herein may not apply to all types of investors.

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