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July 11, 2023

Dear Investor,

No landing at all is the call as the wealthiest, and most powerful country on the planet continues to drive forward by growing Gross Domestic Product (GDP) each quarter. Market participants have been waiting for the rising interest rate environment to shrink GDP for two consecutive quarters, which would signify a recession. Still, the American economy continues to chug along with strong consumer sentiment. This positive sentiment is the result of buil-up of capital reserves generated during the pandemic. With all the North American equity markets rising in the first half of 2023, this has contributed to the wealth effect, which makes consumers feel wealthier than they were just six months ago. Adding further resilience to the economy, along with an extremely tight labour market, has produced a dynamic where job seekers have negotiating power over wages. For those already employed, many are seeking added benefits and possibilities with new employers. All of this combined results in an incredibly resilient economy.

"Never bet against America"

Warren Buffett

We applaud Jerome Powell and the Federal Reserve as they orchestrated one of the smoothest reductions in inflation ever. Just six months ago, we experienced soaring inflation of 6.4% in January 2023 but just 4.0% in May 2023. Inflation is still above the targeted FED rate of 2%, however, tracking well toward that desired range by the end of 2023. Not many would have thought that raising the Federal Funds Interest rate from 0.25% to 5% would allow the American economy to keep expanding, although, this is what is happening. This bodes well for the second half of 2023 and reinforces our bullish positioning on the market leaders within the S&P 500 and TSX 60. Together, these indices are home to the most sophisticated management teams on the planet that understand how to make capitalism work in their favour. A prime example of exemplary leadership comes from JPMorgan CEO, Jamie Dimon, who in 2020 said,

"I think Treasurys at these rates, I wouldn't touch them with a 10-foot pole." Dec 8, 2020

Jamie Dimon

Jamie reasoned that although he could lock in a higher interest rate from all the deposits he was sitting on, Jamie knew that rising interest rates were on the way and he would incur massive paper losses as bond prices began to fall in that rising rate environment. Just ask Bank of America, which is sitting on $109 billion in paper losses from their bond exposure. Ouch! Now that the federal funds rate is 5%, Jaime Dimon and his JPMorgan team can buy the safest, most liquid securities from the Federal Reserve, lock in that 5% coupon, and pay out to their most liquid depositor clients just 0.02%. JPMorgan has an average Net Interest Income spread of 2.40%, generating approximately $84 billion in 2023 for JPMorgan and its investors.

The market does a wonderful job of making most investors, wrong most of the time. A polarizing equity market has investors watching the Nasdaq soar 39.4% in the first half of 2023 and just 7 stocks in the S&P 500 contributing around 70% of the 16.9% of the gain's YTD. Very few winners have accounted for most investor gains of 2023, and some investors have missed out on gains in the portfolio all together. Not many people predicted this significant bounce back from the tech focused Nasdaq in a rising interest rate environment, which has investors experiencing a large dose of fear of missing out. Typically, long duration assets, such as growth and speculative stocks, will perform poorly in a rising interest rate environment as the cost of capital goes up, since investors prefer cashflows today rather than in the distant future. However, that is not what is happening in the market, with the Nasdaq ripping higher for most of 2023. I suspect that two things are most likely happening: First, professionally managed money has a hard time allocating to companies that are trading at 26 times revenue, such as Nvidia and hence have missed out on a large part of the gains in the S&P 500 as Nvidia is up 200% YTD. Second, most professionally managed money will be trailing their respective indices as it is challenging for Investment Advisors to allocate capital to companies that are trading at such high valuations.

As value investors, we must resist the urge to change philosophies and follow the crowd where the recent gains have been made. Sticking to one's strategy of producing absolute returns in all market environments is quite the challenge but certainly required when remembering the old saying that what goes up must come down. The godfather of value investing, Benjamin Graham, would be cautious with the recent run of extremely positive performance from such a narrow breadth of market participants, that are trading at lofty valuations.

The Standard Wealth portfolio has seen names such as Blackstone and DigitalBridge as the top portfolio performers YTD. The detractors of performance are oil-specific exposures from companies such as Phillips 66 and Pembina Pipeline. The U.S. Energy Information Agency is forecasting the second half of 2023 to be in a supply deficit until industry investment picks up. Total active drilling rigs in the USA have fallen for the ninth week in a row, down to 674, the lowest rig count since April 2022. With the global inventories expected to decline for the rest of 2023, this should put gradual upward pressure on oil prices.

With the short-term trajectory of the equity markets uncertain, we have a 20% target allocation to Liquid Alternative ETFs within the Standard Wealth portfolio to help reduce volatility for investors and create a smoother return profile.

As of June 30, 2023, the Standard Wealth strategy has a dividend yield of 3.5%, with a current portfolio price to earnings ratio of 11.9. In addition, the strategy has a trailing twelve-month return of 7.6%.

Best of luck to investors as we continue to closely monitor the Standard Wealth portfolio during these interesting times.

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Fred Mannix

Fund Performance

TTM Return -7.1%, Dividend Yield of 3.2% and P/E of 12.4

Standard Wealth Returns (from Feb 29, 2020)		
2020 (Feb 29 - Dec 31)	16.1%	annualized
2021	41.2%	annualized
2022	-9.6%	annualized
1 Yr (TTM)	-7.1%	holding pd
3 Yr	22.8%	annualized
5 Yr	n/a	annualized
Since Inception Feb 29, 2020	14.6%	annualized
S&P 500 Index	13.1%	annualized

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