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Dear Investor,

Time for a pause from Jerome Powell and the Federal Reserve with the most important number on the planet, the United States Federal Funds Rate, being left unchanged at the latest Federal Reserve meeting on September 19, 2023.

"Interest rates are to the prices of all assets like gravity is to the function of the earth"

Warren Buffett

Central Banks worldwide have seen interest rate hikes work according to plan in bringing down inflation with limited fallout from general economic activity. The American consumer has continued to spend, which contributed to America's economic expansion of 2.1% in Q2 of 2023. The labour market is still very tight with the unemployment rate of only 3.8%, even though technology and financial companies have announced job cuts for white collar workers. A worrying sign from the consumer is the 3.63% default rate on $1 trillion of debt from credit cards. According to Goldman Sachs, the default rate is anticipated to rise to 4.93% in 2024, which will impact credit card companies as margins compress, however, this hugely profitable business will continue to earn high profits at the expense of the consumer.

Much to the delight of technology investors, the NASDAQ finished Q3 with a positive YTD performance of 35.4%, powered forward by the Bloomberg Magnificent 7 (NVDA, META, TSLA, AMZN, GOOG/L, MSFT, AAPL), which collectively are up 84% YTD. Unfortunately, for the retail and managed money that didn't own these select winners, they have missed out on a strong performance run, as these companies account for 30% of the S&P 500.

As Q3 drew to a close, investors rotated out of equities and into money market funds, where they can earn approximately 5% in cash ETFs at the risk-free rate provided by the American government. The IRS and CRA should not be the driving force behind investment decisions, but investors will be less than thrilled with their after-tax returns as interest income is taxed at the highest marginal rate.

Private credit strategies have been a favourite allocation for investors as fund-raising in 2023 is on track to exceed $200 billion for the fourth consecutive year. This market has grown from $500 billion in 2012 to over $1.5 trillion today, with $434 in dry powder looking for opportunities. It is easy to see why capital has been flocking to this strategy as Blackstone's founder and Chairman, Steve Schwarzman, spoke to the profits to be made in this asset class.

"If you can earn 12 percent, maybe 13 percent on a really good day in senior secured bank debt, what else do you want to do in life?" He continued, "If you are living in a no-growth economy and somebody can give you 12, 13 percent with almost no prospect of loss, that's about the best thing you can do."

Steve Schwarzman

By pointing out the attractiveness of returns available to private credit in the current market environment, Steve shows the ease private credit funds have at raising new capital. However, the quality of the underlying loans will have to be scrutinized by investors as businesses seeking this capital have good reasons traditional sources, such as bank are not financing them. Steve and his team at Blackstone enjoy enormous scale advantages and access to the highest quality people to help them in their due diligence process when allocating within the private credit market. These tools at his disposal should help investors as Blackstone de-risk their investments as much as possible while maximizing returns for their shareholders. This is one of the reasons we own Blackstone stock within Standard Wealth. Smaller players in the private credit space may lack the scale, talent, and capital to properly evaluate private credit opportunities, and therefore, investors should be cautious with who they allocate capital in this growing asset class. Rating agency S&P reinforced this concept of caution that loans to the riskiest of borrowers may become impaired, given that they foresee default rates rising as aggressive rate hikes take their toll on companies facing looming debt maturities. Default rates are expected to hit 4.5% in the United States by June 2024 from 3.5% in July 2023, which should put investors on notice of private credit funds, where high returns are promised as long as everyone keeps paying the interest and principal back to investors. If and when those payments stop, watch out below!

What does Q4 and the end of the year have in store for investors? It is tough to predict the short-term gyrations of the market, and we do not try to as we close out a confusing year for investors, with long duration equities rallying as interest rates have been increasing.

"We haven't the faintest idea what the stock market is going to do when it opens on Monday. We have not been good at timing. We've been reasonably good at figuring our when we were getting enough for our money"

Warren Buffett

With $5.58 trillion parked in short term money market funds and 60% of professional money trailing the S&P 500 (according to S&P Dow Jones Indices (SPIVA)), fear of missing out and performance chasing could be a real catalyst for the market to grind higher. Most investment

advisors and portfolio managers we spoke with at Accelerate held higher amounts of cash in 2022, which looked prudent and clever when year end statements came out to their clients. Holding cash provided a positive return in 2022 when both stocks and bonds, which were highly correlated, produced double-digit losses in the portfolio. Sticking with what had worked, investment advisors and portfolio managers continued to hold higher amounts of cash for 2023, causing a drag on results with the S&P 500 up 13% through three quarters of the year. I suspect that professionally managed money will be anxious to put money to work in the equity markets, hoping to close the gap in their underperformance against their respective benchmarks.

The flip side is that you may see equity markets decline due to a flood of new bond issuance from the government hitting the market to pay for large and continued deficits, diverting capital away from equity investments. With the US government debt hitting $33 trillion and a possible government shutdown continuously being discussed, the credit-worthiness of the safest and most liquid securities on the planet are being called into question, leading to market uncertainty and a risk-off narrative. Uncertainty surrounding the US government's ability to pay its debts will raise treasury yields being offered and lower investors' appetite to allocate to riskier assets. Combining the fact that China has been net sellers of US treasuries, we have seen the 10-year treasury yield trend higher in what is on track for three consecutive years of devastating losses for bond investors. Bonds have produced negative returns to investor portfolios for the last three years as the S&P 500 Bond Index has returned -4.66% annualized per year in that time frame. On an inflation adjusted and after-tax basis, the return is even worse.

Continuing on Warren Buffett's theme of not trying to time the market, Standard Wealth investors are always fully invested and have participated with the market trend moving higher this year. Our equity portfolio is allocated to market leading companies with management teams that continue to reward shareholders through dividends and buybacks. With our value-based investing philosophy, Standard Wealth investors should be keen to own the consistently profitable credit card companies that boast an average profit margin of 27%, however, we have trouble buying companies at 30 times earnings per share. Instead, we focus our fundamental analysis on companies with more attractive valuations and provide a margin on safety that would make legendary investor Benjamin Graham proud. We have increased allocations to the Accelerate Absolute Return Hedge Fund ETF as it was one of the few strategies that produced positive results in March of 2020 and produced positive results of 15.3% in 2022. Although we do not think a March 2020 drawdown event is likely, we are prepared if it were to happen through the use of liquid alternative ETFs that can do well in a market decline. The HDGE ETF strategy can also perform well in a strong market as this fund produced positive performance in 2021, when it was up 30%. We have trimmed our equity position in Phillips 66, which we feel is prudent with the exceptional performance this year and new refining capacity coming online from Nigeria and Mexico, which could shrink crack spreads and margins going forward.

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Standard Wealth has produced positive results 15.4% YTD. If you have not yet allocated to Standard Wealth and your portfolio is not seeing the returns you expect, we would welcome a conversation to explore if Standard Wealth can help your family stay wealthy.

As of September 30, 2023, the Standard Wealth strategy has a dividend yield of 3.2%, with a current portfolio price to earnings ratio of 11.2. In addition, the strategy has a trailing twelve-month return of 23.9%.

We wish all investors a strong finish to the end of the year.

Fred Mannix

Fund Performance

Standard Wealth Returns*	
2020*	16.1%
2021	41.2%
2022	-9.6%
YTD	15.4%
1 Yr	23.9%
3 Yr	23.1%
5 Yr	n/a
Since Inception	15.4%
S&P 500 Index CAD	12.2%
S&P TSX 60 Index	8.9%
S&P 500 / TSX 60 Blended Index	10.8%

* Inception Date: Feb 29, 2020
- all returns are annualized

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