Tradex QUARTERLY

Yield on Tradex Investment Savings Account 2.85%

Second quarter 2023

President's Report to Tradex Members

The Canadian equity market again moved higher for the second quarter, with the S&P/TSX Composite Index increasing by 0.3% during the past three months. In the US, the S&P 500 Index was up 8.3% for the quarter. However, the increase in terms of Canadian dollars was lower as the Canadian currency increased from 73.89 cents to 75.53 cents, an increase of 2.2% for the period. The tech-heavy Nasdaq posting its biggest first-half gain in 40 years as inflation showed signs of cooling. As of June 9th, the S&P 500 entered a new bull market having risen over 20% from the October 2022 low. At the one year anniversary of the commencement of the bear market with a decline over 20% as of June 13th, 2022 the one year return was 16.5% in line with the historic average 17% as presented by PH&N at our AGM. As of June 30th, the dividend yield of the S&P/TSX was 3.2% and S&P 500 1.6% (Buybacks 2.5% Q1, 2023), which indicates a more normalized environment with bond yields having increased and now exceeding with the 10-year government bond yields of 3.3% in Canada and 3.8% for US Treasuries.

The Bank of Canada after pausing its rate increases in March, held its interest rate at the April 12th announcement then returned with another 0.25% increase June 7th to 4.75%. Similarly, the US Federal Open Markets Committee increased their rates by 0.25% on May 3rd then paused their rate increases June 14th at 5 to 5.25%. Both Central Banks are continuing their monetary tightening. Expectations are for perhaps two more 0.25% increases by the Fed at their scheduled meetings this year. The Bank of Canada indicated "Globally, consumer price inflation is coming down, largely reflecting lower energy prices compared to a year ago, but underlying inflation remains stubbornly high. While economic growth around the world is softening in the face of higher interest rates, major central banks are signaling that interest rates may have to rise further to restore price stability". Canada's economy was stronger than expected in the first quarter of 2023 and excess demand in the economy looks to be more persistent than anticipated. CPI inflation ticked up in April to 4.4%, the first increase in 10 months and monetary policy was not sufficiently restrictive to bring supply and demand back into balance and return inflation sustainably to the 2% target. In the United States, The US banking system is sound and resilient. Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks.

Interim Management Reports of Fund Performance and Financial Statements

For members who did not elect to receive a mailed copy, the 2023 reports will be available by late August on our website. If you wish to receive a printed copy, please call or e-mail us.

Electronic Access

Please visit our website to sign up for online daily account access and to commence receiving electronic dealer and/or Tradex funds statements, tax slips and confirmation slips or to receive this newsletter electronically. Please contact our office if you need any assistance.

A thank-you for referring New Clients

All new member referrals currently are eligible for $32 for each of the referring member and new member in recognition of Brien Marshall's 32 years of service as an advisor and head of compliance & operations. Referral Forms are available on our website or from our office.

First Home Savings Account (FHSA)

The new FHSA program allows for an additional $8,000 of tax-deductible contribution per year without RRSP contribution room and allows for withdrawals with no tax for an eligible home purchase (the best of RRSP and TFSA combined). It is for individuals who do not live in a home they own (or they or spouse owned in the past 4 years) and is recommended as an excellent option for assisting grandchildren or children in entering the real estate market eventually. Currently, we are able to offer plans from Fidelity and Desjardins with additional options anticipated as this introductory year progresses. Contact us for details.

Blair Cooper
July 17, 2023

Tradex Equity Fund Limited – Quarterly Review – June 30, 2023

	Total return (%)			Average annual compound return (%)			
	Latest 3 months	Latest 6 months	1 year	3 years	5 years	10 years	Since inception*
Tradex Equity Fund Limited	1.3	4.6	8.1	9.6	6.7	8.8	9.2
S&P/TSX Total Return Index (TRI)**	1.1	5.7	10.4	12.4	7.6	8.4	—
Average Canadian Focused Equity Fund**	2.5	8.0	13.1	11.5	6.6	7.4	—

*April 1960 **Source: Fundata Canada Inc

During the second quarter, an investment in Tradex Equity Fund Limited increased in value by 1.3%, exceeding the Fund's benchmark, the S&P/TSX Total Return Index. It increased by 8.1% over the past year.

After a challenging 2022, global equity markets finished the first half of 2023 on a strong note. However, the vast majority of the market's overall gain were driven by only seven US stocks (Microsoft, Alphabet, Amazon, Nvidia, Apple, Tesla, and Meta). In Canada, investors continue to focus on macroeconomic factors in the second quarter, including inflation and interest rates. A historic surge in immigration has supported consumption and overall economic growth while playing a crucial role in stabilizing housing. This helped prompt the Bank of Canada (BoC) to hike its target rate in June after being on a conditional pause for most of the year. Economists continue to factor in a high probability of a recession due to tighter fiscal policy, although equity markets appear to be reflecting a lower chance the economy will slow significantly.

Not owning Barrick Gold was the largest contributor to relative Canadian performance during the quarter and not owning Saputo was a meaningful contributor. A slight overweight to Shopify bolstered returns during the period, while not owning Fairfax Financial was a slight drag in Q2.

Amongst foreign holdings, Taiwan Semi-conductor, Nvidia, Amazon, Microsoft, and Alphabet were among this quarter's largest contributors to returns. Beyond the recent enthusiasm surrounding AI and its potential use cases for both individuals and enterprises, these companies also possess a number of other attractive investment characteristics, including strong competitive advantages and high barriers to entry businesses. However, these positive contributions were largely offset by not owning the other 3. Positions that experienced short-term setbacks, included MarketAxess, Anheuser-Busch InBev (ABI), and Estée Lauder detracting from relative performance. Phillips, Hager & North (PHN) exited Danaher, Incyte, Charles Schwab and Nidec while investing into Thermo Fisher, HCA Healthcare, Salesforce, Netflix and Micron.

As at June 30, 2023 the Fund's 10 largest holdings were as follows:

Royal Bank of Canada	3.9%	Enbridge Inc	2.0%
TD Bank	3.4%	Canadian Pacific Kansas City Ltd	2.0%
Microsoft Corp	3.0%	UnitedHealth Group Inc	2.0%
Shopify	2.3%	Bank of Montreal	1.9%
Canadian Natural Resources Ltd	2.0%	Canadian National Railway Co	1.9%

In PHN's view, the stock-market rebound since late 2022 was propelled by easing investor concerns regarding inflation and about the sustainability of economic growth. The rally was initially broad-based across regions but returns in recent months have been concentrated in a narrow set of US mega-cap technology stocks. They would prefer to see expanding breadth alongside a rising stock-market index to confirm a healthy, durable, bull market. The threat now is the sustainability of corporate profits which have been struggling and will be vulnerable if the economy falls into recession. The global economy is slowing as higher borrowing costs and tighter financial conditions weigh on activity. At this late stage in the business cycle, short-term interest rates are likely nearing their peak, bonds are more appealing than they've been in a long time, and equity markets could be vulnerable to correction should a recession materialize.

Tradex Bond Fund – Quarterly Review – June 30, 2023

	Total return (%)			Average annual compound return (%)			
	Latest 3 months	Latest 6 months	1 year	3 years	5 years	10 years	Since inception*
Tradex Bond Fund	-0.5	2.2	1.4	1.6	1.4	2.7	5.2
FTSE TMX Canada Universe Bond	-0.7	2.5	3.2	-3.8	0.7	2.1	—
Average Canadian Bond Fund**	-0.6	2.3	2.6	-3.8	0.0	1.2	—

*December 1989 **Source: Fundata Canada Inc

An investment in the Tradex Bond Fund decreased in value by 0.5% during the second quarter marginally outperforming the benchmark Canadian bond index. The fund has increased by 1.4% over the past year.

The quarter saw continued volatility across the entire Canadian interest rate spectrum – particularly the front end of the yield curve – as the two-year and five-year yields jumped dramatically in response to central bank policy. 10-year and 30-year rates also increased but at a slower pace, inverting the yield curve to a level not seen since 1990. Market-based inflation expectations increased modestly as well but, overall, remained relatively contained considering the current level of inflation. Corporate credit spreads narrowed during the quarter while provincial spreads were mostly unchanged. FGP indicate that the headline inflation rate has managed to stay above market expectations for the better part of two years, while core inflation has also proven stubborn. Canadian and US economic growth have surprised positively, supported by record amounts of household savings accumulated during the pandemic and a tight labour market.

Looking beyond interest rates, Canadian credit performed strongly during the quarter, with corporate, provincial, and municipal credit all outperforming their federal peers. Foyston, Gordon & Payne (FGP) allocations to these key return-generating sectors, most notably an overweight position in corporate credit and strong security selection, drove the positive contribution to relative performance for the portfolio during the second quarter. FGP remain optimistic for resilient returns in the Canadian preferred share market over the medium term.

Yields across all Government of Canada bonds increased during the quarter as seen in the following table:

Term to Maturity	Record Lows	Yield Dec. 31/21	Yield Dec. 30/22	Yield Mar. 31/23	Yield June 30/23
2 year	**0.15%***	0.95%	4.06%	3.74%	4.58%
3 year	**0.18%***	1.02%	3.82%	3.51%	4.21%
5 year	**0.30%****	1.25%	3.41%	3.02%	3.68%
10 year	**0.43%****	1.42%	3.30%	2.90%	3.26%
30 year	**0.71%*****	1.68%	3.28%	3.02%	3.09%

***Record (50 years or more) low rates:** *Feb. 1/21, **Aug. 4/20, ***Mar. 9/20*

The Fund continued to be diversified across income-generating asset classes. At quarter-end, 39% of the Fund's portfolio value was in government bonds, 31% in corporate bonds, 13% in preferred shares, and 16% in common shares, REITs and Income Trusts. The yield on the Fund's overall portfolio was 4.9% as at June 30th, as shown in the following table, while the yield on the FTSE TMX Canada Universe index was 4.7%.

	Government Bonds	*Corporate Bonds*	*Preferred Shares*	*Common Shares, Trusts, REITs*	*Weighted average total*
*Yield**	*4.0%*	*5.6%*	*6.9%*	*4.7%*	*4.9%*

*The gross estimated annual yield for 1 year is calculated before fees & taxes

It is generally expected that the BoC and the Fed will continue their tightening campaigns, which will slow economic activity and increase the risk of a recession. If there is a recession, FGP are prepared. Recessions are typically short-lived in nature and have presented opportunities to buy shares in good companies at attractive prices. The stock market has historically dropped before a recession is officially recognized and has typically gone up before an economic recovery is established. FGP indicate equities have been among the best wealth-creating asset classes over the long term, but volatility is a necessary trade-off for these higher returns. It is therefore critical to maintain a long-term view during more challenging market time periods.

Tradex Global Equity Fund – Quarterly Review – June 30, 2023

	Total return (%)			Average annual compound return (%)			
	Latest 3 months	Latest 6 months	1 year	3 years	5 years	10 years	Since inception*
Tradex Global Equity Fund	3.2	9.2	18.3	8.1	4.7	10.0	6.3
Dow Jones Global Total Return Index**	3.7	11.0	19.6	9.9	8.0	11.4	—
Average Canadian Global Equity Fund**	3.0	9.3	15.9	8.4	6.3	8.4	—

*May 1999 **Source: Fundata Canada Inc

During the second quarter of 2023, the value of each unit in the Tradex Global Equity Fund increased by 3.2% but has returned 18.3% in the past 12 months.

Global equities gained during the second quarter of 2023, led by the US, as inflation continued to cool and the Federal Reserve took a pause in June after its expected 25 bps rate hike in May, though two more hikes are still projected before the tightening cycle peaks. In addition, the debt ceiling negotiations that dominated the narrative mid-quarter were ultimately resolved with a bipartisan deal prior to the deadline, dispelling fears of a crisis that might paralyze the world's largest economy. Rate hikes continued in Europe, as the ECB raised interest rates twice during the quarter as core inflation crept up slightly, and GDP data indicated the Eurozone had experienced a mild recession during the winter. The Bank of England also raised rates twice, including a 50 bps move in June despite stating in March that ongoing hikes would be in 25 bps increments. The Bank of Japan made no changes to their policy during their first two meetings under new governor, Kazuo Ueda, as the macroeconomic picture there remains optimistic.

Gains in Developed Markets were largely fueled by IT names, after upbeat sales guidance from chipmaker Nvidia and optimism surrounding artificial intelligence (AI) led to an upward re-rating in technology stocks. Nvidia's 49% gain boosted the semiconductor sector, with Broadcom rising 33%, Advanced Micro Devices up 14% and Netherlands-based NXP Semiconductors up 8%. Communication services firms benefited from the AI boom, with Alphabet and Meta Platforms rising while utilities and energy companies lagged. From a country perspective, the S&P gained 6.4% in Canadian dollars, France's CAC Index rose 1.8% and Germany's DAX Index gained 1.5%. The UK's FTSE 100 Index gained 0.3% while increasing foreign inflows buoyed Japan's Topix Index to a 2.9% rise over the quarter. Asian Developed markets underperformed with Australia lower by 1.4%, Singapore down 3.4% and Hong Kong dropping 7.9%. China's sluggish recovery weighed Emerging Markets down resulting in a 1.3% fall over the quarter, despite a 19.9% rise in Brazil following better-than-expected Q1 GDP data.

Trading activity over the quarter was relatively light. City of London Investment Management (CLIM) increased exposure to Europe, Global financials and US small caps while trimming tech exposure into strength. Discounts remain wide and CLIM continue to believe there is significant value within the portfolio.

Tradex®.ca since 1960 depuis 1960
mutual funds for the public service
fonds mutuels pour fonctionnaires

Tradex Management Inc.
340 Albert Street, Unit 1604
Ottawa, Ontario K1R 7Y6
Tel: 613-233-3394 • 800-567-3863 • Fax: 613-233-8191 • 877-492-3863
e-mail: info@tradex.ca • Web site: www.tradex.ca

SWITCH, SIMPLIFY AND SAVE

Tradex offers Members access to a broad range of products and services to meet your financial needs. By centralizing your needs through Tradex you can simplify your financial picture and often achieve significant savings (recent portfolio transfers saved 17% to 38%, with an average savings of 30%).

Holding All of your Mutual Funds through Tradex

Tradex is a licensed mutual fund dealer in Ontario, Quebec and British Columbia offering these members the opportunity to purchase and hold through Tradex most of the over 5,000 mutual funds available to Canadian investors, including funds offered by Beutel Goodman, the major banks, Capital, Dynamic, Fidelity, Franklin Templeton and NEI (to name just a few).

The benefits of dealing through Tradex are:

- Tradex saves you money! When you purchase mutual funds through Tradex there are no sales commissions, deferred sales charges, account set-up fees or transaction fees. This includes those mutual funds where you would normally pay a sales commission or deferred sales charge if they were purchased elsewhere.
- If you currently own mutual funds purchased elsewhere (at a bank, broker, discount broker or mutual fund dealer) you can transfer them into an account at Tradex at no cost (we'll pay the transfer fees on your behalf). For fee-based accounts, compare Tradex service fees max 0.7% versus the typical 1.00-1.4% at other dealers.
- There are no annual TFSA, RRSP or RRIF fees as we pay the annual administrative fees for eligible self-directed plans. Self-directed accounts can hold mutual funds, ETFs and GICs.
- We'll give you great service and expert advice just like the service we provide for the Tradex Funds. Also, you'll receive a quarterly consolidated fund statement along with having full on-line access to view all of your accounts through our online access.
- Since there are no commissions or deferred sales charges, you have complete flexibility when you want to sell your units or move your money from one investment to another.
- Our portfolio reviews and recommendations are tailored to your specific needs, based upon your existing holdings, risk tolerance and individual preferences.
- Our salaried advisers provide straight-forward unbiased advice, ensuring that your investments are properly allocated between registered and taxable accounts to maximize after-tax returns.
- Where appropriate, we will recommend using specially developed corporate class and other structures to reduce your tax burden.
- We recommend buying and holding mutual funds that have a combination of low management expense ratios and proven long-term performance.
- Frequently you can save twice, first by Tradex offering access to lower cost versions of funds available through other dealers and second by the potential for increased rebates into your Tradex funds holdings as more members consolidate their holdings under our dealer.

For more information please call us at 613-233-3394 or 1-800-567-3863 or e-mail info@tradex.ca.