Tradex

QUARTERLY

Yield on
Tradex Investment
Savings Account
2.85%

First quarter 2023

President's Report to Tradex Members

The Canadian equity market again moved higher for the first quarter, with the S&P/TSX Composite Index increasing by 3.7% during the past three months. In the US the S&P 500 Index was up 7% for the quarter, the increase in terms of Canadian dollars was lower for the quarter as the Canadian currency increased from 73.83 cents to 73.89 cents, an increase of 0.1% for the period. As of March 31, the dividend yield of the S&P/TSX was 3.2% and S&P500 1.7% (Buybacks 2.9% Q4, 2022), which indicates a return to stronger relative value in stocks due to the declines in the 10-year government bond yields to 2.9% in Canada and 3.5% for US Treasuries.

The Bank of Canada (BoC) paused its interest rate increases at the March 8th announcement while the US Federal Open Markets Committee increased their rates by 0.25% on March 22nd. Both central banks are continuing their monetary tightening. Expectations are for perhaps only one more 0.25% increase by the Fed at their scheduled meetings this year. The BoC indicated "Global economic growth has been stronger than anticipated… but is expected to weaken as tighter monetary policy continues to feed through those economies." In the United States, recent stress in the banking sector has tightened credit conditions further. The BoC expects CPI inflation to fall quickly to around 3% in the middle of this year and then decline more gradually to the 2% target by the end of 2024.

Management Expense Ratios

Our Funds' MERs generally remained significantly below their peers in 2022, as follows:

- Tradex Equity Fund – 1.02% (median* 2.30%),
- Tradex Bond Fund – 1.06%
  (median* 1.29% Bond / 1.85% Fixed Income Balanced)
- Tradex Global Equity Fund – 2.85%
  (direct cost 1.79% / median* 2.33%).

*Source: Morningstar

Management Reports of Fund Performance and Financial Statements

For members who did not elect to receive a mailed copy, the 2022 reports are available anytime on our website for downloading. If you wish to receive a printed copy, please contact us.

Tradex 63rd Annual General Meeting

If you wish to view the presentations given by our three portfolio managers at the April 26, 2023 Annual General Meeting at the Preston Event Centre, they will appear on our website at www.tradex.ca shortly after the meeting date in the section entitled "Members' News".

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.

Member Survey

Every four years we request input from our members on how Tradex is performing in meeting your requirements and additional services or enhancements you may find beneficial. We wish to thank members who have responded to the survey included with your proxy mailing this spring or the online version which remains available at https://tradex.ca/investors-survey. We will share highlights from the survey on our website in Member News by the summer.

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. We are now able to offer these plans through Fidelity, with more options expected by June. Contact us for details.

Blair Cooper
April 17, 2023

Tradex Equity Fund Limited – Quarterly Review – March 31, 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	3.3	9.3	-8.3	14.9	7.7	8.5	9.2
S&P/TSX Total Return Index (TRI)**	4.6	10.8	-5.2	18.0	8.8	7.9	—
Average Canadian Focused Equity Fund**	5.4	11.8	-2.6	15.5	6.9	7.2	—

*April 1960 **Source: Fundata Canada Inc

During the first quarter, an investment in Tradex Equity Fund Limited increased in value by 3.3%, lagging the Fund's benchmark S&P/TSX Total Return Index. It decreased by 8.3% over the past year. At the March 23rd anniversary of the 2020 bear market bottom the fund had risen 73.4% for the 3-year period.

The first quarter of 2023 began with a welcomed revival in stocks and bonds. The impact of monetary policy tightening, fears of COVID-related turmoil, and an anticipated winter European energy crisis faded in the rear-view as sentiment improved. However, the rally was short-lived as by February the market was feeling the effects of persistent inflation, with stocks down after earnings fell flat. In March, the Bank of Canada indicated that rate hikes were on pause, though the counter-effect of rapid monetary tightening was the dominant story as international banking turmoil sent shocks through the market. The quarter ended with signals pointing towards a middling recession on the horizon, anticipated to arrive in the second half of the year.

Oil prices peaked in the middle of last year, but by the end of the quarter had fallen back to levels last seen near the end of 2021. As a result of softer energy prices, PHN's preference for large-cap producers in the space was a positive contributor, and not owning Cenovus Energy, Vermillion Energy, or Pembina Pipeline bolstered returns. As the market began to price in the possibility of rate cuts later in 2023, overweights to names like Advanced Micro Devices, Open Text, Kinaxis, and Descartes Systems all benefitted performance. A general underweight to gold producers and royalty companies held back performance as gold prices rallied over the period.

First Republic Bank was the largest detractor from performance. In March the collapse of Silicon Valley Bank (SVB) caused a sudden loss of depositor and investor confidence, which triggered a sharp decline in First Republic's stock price. US discount broker Charles Schwab was also hit by the ripple effects of SVB and was likewise among the quarter's largest detractors from performance. Phillips, Hager & North (PH&N) added Safran, a global aerospace equipment manufacturer; LVMH Moet Hennessy; Louis Vuitton (LVMH); Visa; Eurofins Scientific; and American Water Works. They exited positions in Ørsted and Neste.

As at March 31, 2023 the Fund's 10 largest holdings were as follows:

Royal Bank of Canada	4.0%	UnitedHealth Group Inc.	2.1%
TD Bank	3.3%	T-Mobile US Inc.	2.0%
Microsoft Corp	2.9%	Bank of Montreal	1.9%
Canadian Natural Resources Ltd	2.2%	Canadian Pacific Railway Ltd	1.9%
Enbridge Inc.	2.1%	Canadian National Railway Co	1.9%

Several themes and trends have emerged that PH&N think could influence financial markets for many years. The US dollar has started to weaken; international equities have been outperforming US stocks; cyclical sectors have been leading; small and mid-cap stocks have moved ahead of large caps; and value stocks have been winning against growth stocks. Last year's bear market in stocks addressed excessive valuations, boosting return potential according to PH&N's models. Given that stock market valuations have been reset and now appear consistent with the current and expected level of interest rates and inflation, PH&N think the bigger risk to markets has to do with corporate profits.

Tradex Bond Fund – Quarterly Review – March 31, 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	2.7	3.4	-4.7	4.0	1.5	2.6	5.3
FTSE TMX Canada Universe Bond	3.2	3.3	-2.0	-1.7	0.9	1.9	—
Average Canadian Bond Fund**	2.9	3.3	-3.2	-1.5	0.2	1.0	—

*December 1989 **Source: Fundata Canada Inc

An investment in the Tradex Bond Fund increased in value by 2.7% during the first quarter, lagging the benchmark Canadian bond index. The fund has decreased by 4.7% over the past year while the index lost 2%. At the March 23rd anniversary of the 2020 bear market bottom the fund had risen 17.4% for the 3-year period.

The theme for most of the quarter was the notion that last year's aggressive interest rate increases – combined with another 25 basis points from the Bank of Canada (the BoC) and 50 basis points from the US Federal Reserve (the Fed) in the early months of 2023 – had yet to induce much in the way of a negative reaction. Labour markets proved resilient and there were no obvious signs of financial stress despite the big jump in interest rates. The 10-year yield dropped by more than the two-year yield, reflecting growing recession concerns and an end to the policy rate hike cycle. The yield curve remained inverted near historically wide levels as the quarter drew to a close, often seen as a medium-term recessionary warning signal. Market-based inflationary expectations eased as well.

In Canada, longer-dated bonds outperformed while corporate bond spreads widened modestly hence the fund's shorter duration was not beneficial. Provincial bond spreads were mostly unchanged. The bond market rose following the deep negative returns last year. Preferred shares had a small positive return in the quarter. The impact of higher dividend levels, fewer preferred shares outstanding from being called away, less issuance as LRCN/institutional preferred shares and other corporate hybrids are issued instead, and cash being redeployed in remaining issues leads FGP to be optimistic for resilient returns in the Canadian preferred share market over the medium term.

Yields across all Government of Canada bonds decreased 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
2 year	**0.15%***	0.95%	4.06%	3.74%
3 year	**0.18%***	1.02%	3.82%	3.51%
5 year	**0.30%****	1.25%	3.41%	3.02%
10 year	**0.43%****	1.42%	3.30%	2.90%
30 year	**0.71%*****	1.68%	3.28%	3.02%

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, 40% of the Fund's portfolio value was in government bonds, 32% in corporate bonds, 12% in preferred shares, and 15% in common shares, REITs and Income Trusts. The yield on the Fund's overall portfolio was 4.6% as at March 31st, as shown in the following table, while the yield on the FTSE TMX Canada Universe index was 3.9%.

	Government Bonds	*Corporate Bonds*	*Preferred Shares*	*Common Shares, Trusts, REITs*	*Weighted average total*
*Yield**	*3.7%*	*5.2%*	*6.2%*	*4.7%*	*4.6%*

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

Foyston, Gordon & Payne (FGP) continue to believe that equity markets offer better short- to mid-term prospects relative to bonds. They continue to believe strong global growth and the persistence of inflation, combined with less policy tightening now, could still set the stage for higher rates in the months ahead. If a recession were to occur, FGP think it likely would not be until much later this year, and it would be relatively mild.

Tradex Global Equity Fund – Quarterly Review – March 31, 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	5.8	13.6	-6.6	13.7	4.7	10.0	6.2
Dow Jones Global Total Return Index**	7.0	16.2	0.4	13.7	7.8	11.3	—
Average Canadian Global Equity Fund**	6.1	15.1	-1.3	12.3	6.0	8.4	—

*May 1999 **Source: Fundata Canada Inc

During the first quarter of 2023, the value of each unit in the Tradex Global Equity Fund increased by 5.8% but has declined 6.6% in the past 12 months. At the March 23rd anniversary of the 2020 bear market bottom, the fund had risen 75.2% for the 3-year period.

Global equities posted solid gains during the first quarter of 2023 despite enduring a banking crisis intra-period. The quarter began with stocks extending their fourth quarter rally as headline inflation readings came in softer than expected and this fueled hopes that the peak of the Fed and ECB interest rate rises may occur sooner than expected. These hopes were beginning to be dashed in February and into March as economic data showed resiliency but were reinvigorated when news of troubles at Silicon Valley Bank broke, which quickly morphed into its closure to stem the tide of deposit withdrawals. Other banks were immediately affected, including Credit Suisse in Switzerland that ultimately led to it being taken over by UBS. The quarter ended again with the prospect of the peaking of interest rates stimulating markets and sentiment. Investors posited that tighter bank lending standards might hamper credit growth, thus slowing economies, reducing inflation and necessitating no more interest rate increases. The probability of a policy mistake, that either entrenches inflation further or tips the global economy into recession, has arguably increased.

Given this backdrop, the financial stocks were particularly weak, but energy companies were weakest, reflecting the weaker economic outlook and the milder winter in the US and Europe. The best performing parts of the market were those that underperformed in 2022, led by mega caps such as Apple, Microsoft and Nvidia. From a country perspective, European markets were the leaders aided by a strengthening Euro but also by broad gains, particularly among industrial, consumer discretionary and technology stocks that helped France's CAC Index rise 15.0% and Germany's DAX Index gain 13.8%. The narrow base of gains in mega caps saw the US's S&P 500 Index rise in line with the global benchmark at 7.4%, while higher exposure to financials and energy stocks saw the UK's FTSE 100 Index gain 5.6% and weakness in the yen hampered Japan's Topix Index appreciation to just 5.6%. Other developed Asian markets also underperformed with Hong Kong, Australia and Singapore gaining just 2.8%, 2.1% and 1.5% respectively. Finally, Emerging Markets underperformed returning just 3.9% for the quarter.

Trading activity over the quarter was reasonably light as discounts on closed-end funds remain wide. At the margin, City of London Investment Management (CLIM) increased exposure to Japan while reducing the US allocation. They continue to believe there is significant value within portfolio holdings.

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

Brien Marshall 32 years at Tradex $32 New Member Incentive

In recognition of Brien Marshall's 32 years of service as an advisor and head of compliance & operations at Tradex, all new member referrals are eligible for $32 for each the referring and new member.

- Simply complete and send this form to us by mail, fax, email or have the new Member bring it to the introductory meeting with Tradex.
- Please note that minimum investments apply ($100 monthly through pre-authorized deductions from a bank account or $1,000 through a lump sum investment for Tradex funds.)

Existing Member:

Name ______________________________

Please select one of the following:

- ○ Credit my Tradex account with $32
- ○ Send me a $32 cheque to my home
- ○ Alternatively, credit the entire $64 to the new Member's account at Tradex

____
Existing Member's Signature

New Member:

Name ______________________________

Address ______________________________

Phone # ______________________________

Email ______________________________

____
New Member's Signature

Please note: Government regulations require that this offer not be applicable to certain types of accounts.