GOLD INVESTMENT
PORTFOLIO MANAGER

October 5, 2023

Dear Client,

There has been a lot of uncertainty in the financial markets in the past 2 weeks and we wanted to provide some comments to you.

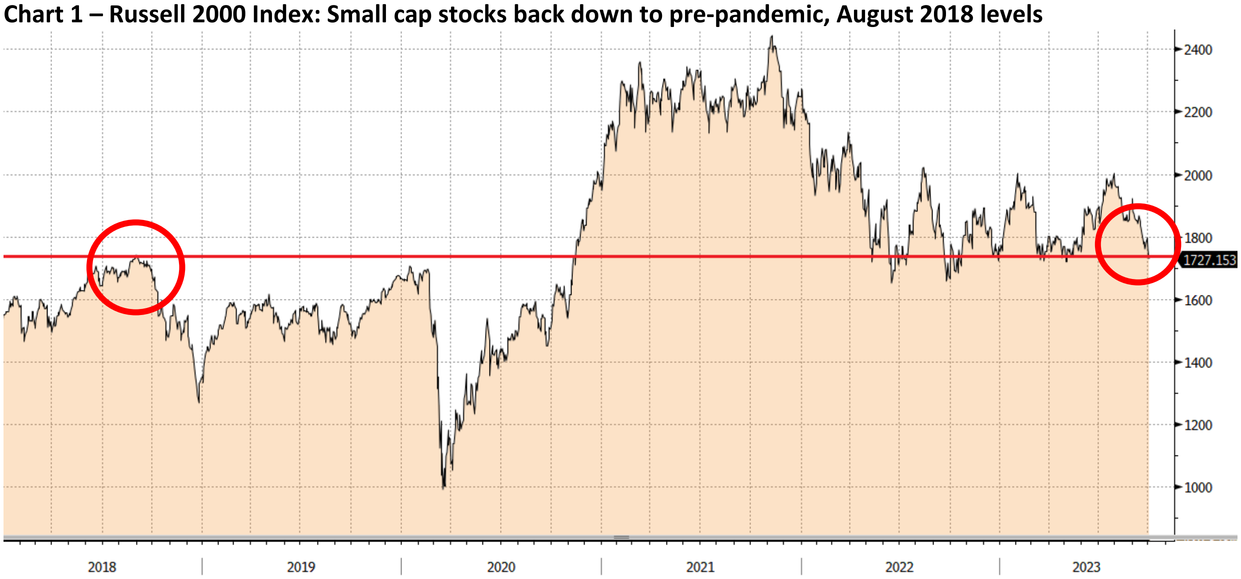
Part 1. Stock and bond market volatility

Stock and bond markets were down at the end of September and early October. There are lots of reasons being cited:

- Interest rates have been going up in the past 18 months.
- Inflation remains a problem.
- Rising interest rates usually cause a recession and there is uncertainty as to whether there will actually be one.
- The U.S. dollar has been rallying and gold has been flat. Usually when the USD rallies, gold goes down.
- Bond yields have spiked aggressively, which is bad for prices of stocks and bonds.

The market has definitely taken a glass half full view at this time. This is in spite of oil going up all year and Canada and the U.S. not having slipped into recession. *Interest rate sensitive sectors (real estate, utilities, financials) and other high-quality names that have held up well have all been attacked.* Lower quality, smaller companies have been hit even harder. The Russell 2000, which is an index of small capitalization U.S. names, is back to pre-2020 levels again, seen here:

Chart 1 – Russell 2000 Index: Small cap stocks back down to pre-pandemic, August 2018 levels

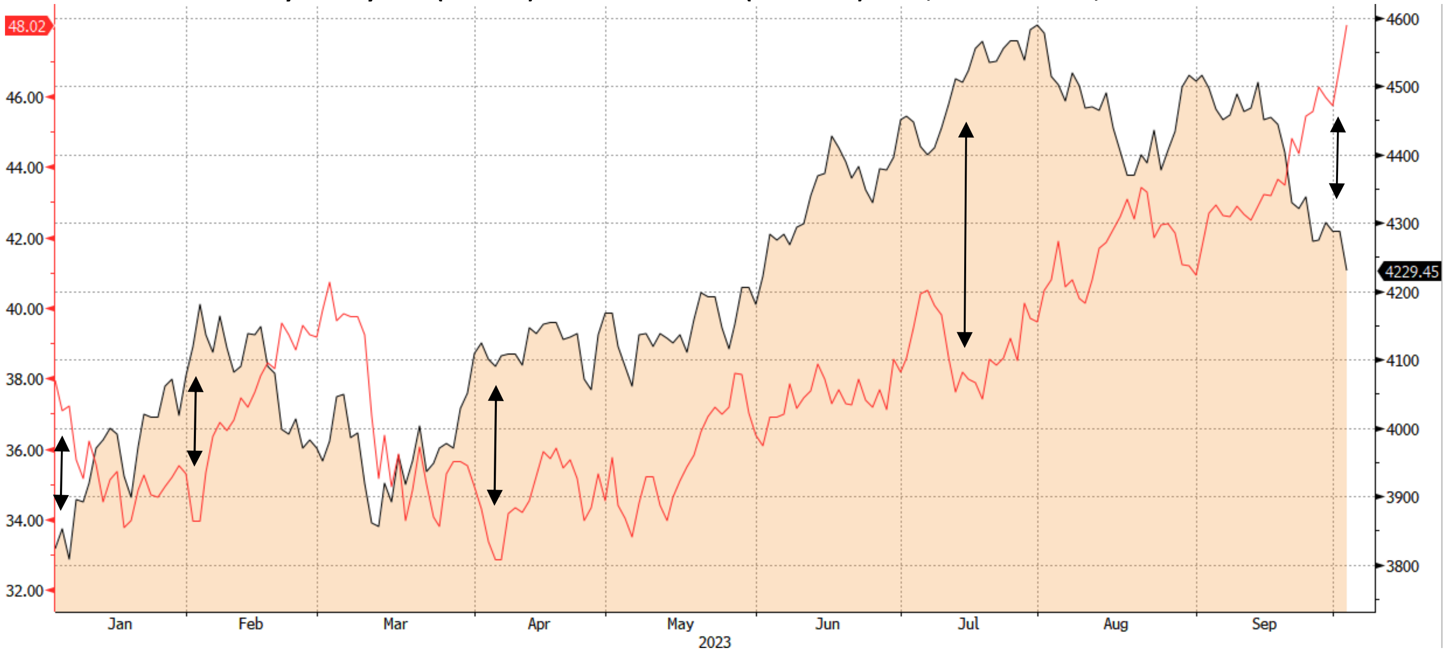


Source: Bloomberg

Part 2. Putting it all together

We see that rising bond yields are correlated with falling stock markets. See the following chart, showing the US 10 Year Treasury bond yield versus the S&P 500 Index for year-to-date 2023. This year we have seen several interest rate hikes that have driven yields up. Periods where yields are increasing tend to show stock market decline or volatility.

Chart 2 – 10 Year Treasury bond yields (red line) vs. S&P 500 Index (black line) Jan 1, 2023 to Oct. 3, 2023



Source: Bloomberg

Rising yields are bad for bond *prices*, so this means bond markets are also falling. Lower quality stocks (Russell 2000) have been more negatively effected than high quality equities (S&P500, S&P TSX).

Since January 1, 2022 to today (October 3, 2023), the 10-year Treasury Bond's yield is up >190% to 4.78%. This is bad news as it means that bond *prices* will have fallen dramatically (bond prices move inversely to interest rates). In the same period, the high-quality names are down 11% (S&P500) and low-quality stocks (Russell 2000) are down 21%. [1]

Part 3. Summary

We urge you to ignore the noise. This may be difficult, but this type of volatility happens at the tail end of rising interest rate cycles. Inflation is gradually coming under control, although it is happening more slowly than central bankers probably like.

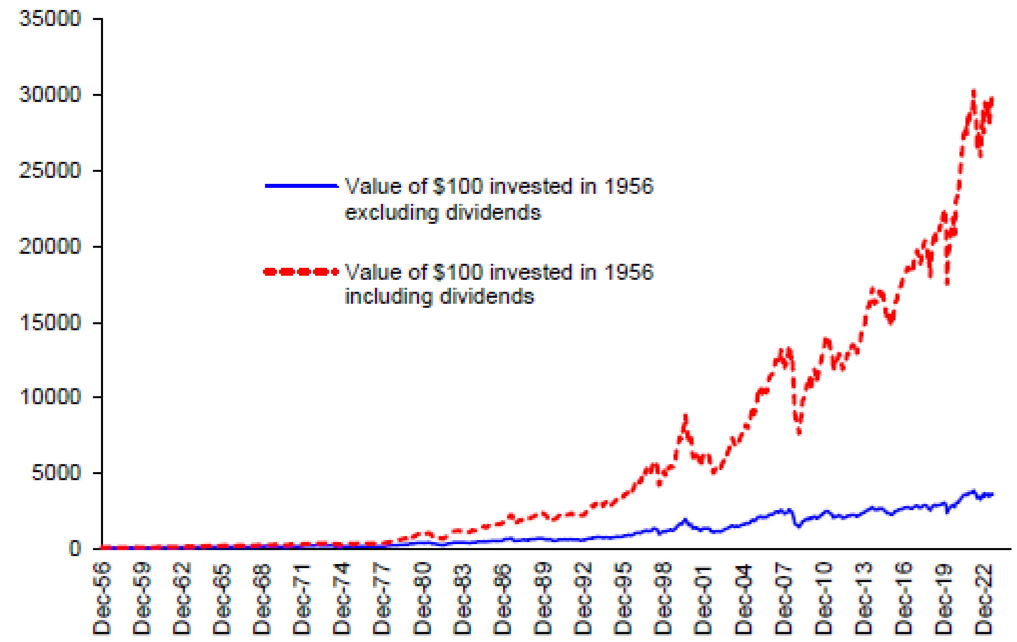
The market is looking for direction and has decided to pull money from stocks and bonds and place it into money market instruments and GICs now that yields have risen. As a result, this *rush to safety* is now taking on a speculative character which is what we call a *crowded trade*. An *uncrowded trade* is where we want to be, and that's in the stock market. The stock market is on sale because some investors are panicking. However, astute investors will keep an even keel and temperament, and buy high quality, dividend paying equities now - while they are out of favour.

Dividends matter. Whenever any dividends or interest payments show up in your account, we invest the money if it is not needed. We keep winding the spring by adding to your existing holdings that we believe have the most value or best potential growth. Income really matters.

As Chart 3 on the next page shows, $100 in the Canadian stock market (S&P TSX) since 1956 would have a price return of ~$3,600 to today. If we include dividends the TSX total return is ~$29,000 – **an 8-fold higher return.**

[1] Source: Yahoo Finance

Chart 3 – Dividends Matter, $100 in S&P TSX:



Source: Scotiabank Daily Edge, U.S. Infrastructure, October 2, 2023

We have been through these types of volatile periods before, and we will again in the future. To take advantage of the situation, we are adding to our favorite names during this volatile period. We like large household name companies with reliable dividend increases and payment schedules. These companies are offering high yields after the recent price decline, and we see this as a valuable buying opportunity.

"There's only one reason a share goes to a bargain price: Because other people are selling. There is no other reason. To get a bargain price, you've got to look for where the public is most frightened and pessimistic."

-- Sir John Templeton

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Thank you for entrusting us with your investments. As always, we welcome your questions and comments. You can contact GIM by telephone: 1.888.436.9955, fax: 1.866.541.7947 or email: invest@gold-im.com

Yours truly,

GOLD INVESTMENT MANAGEMENT LTD.

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