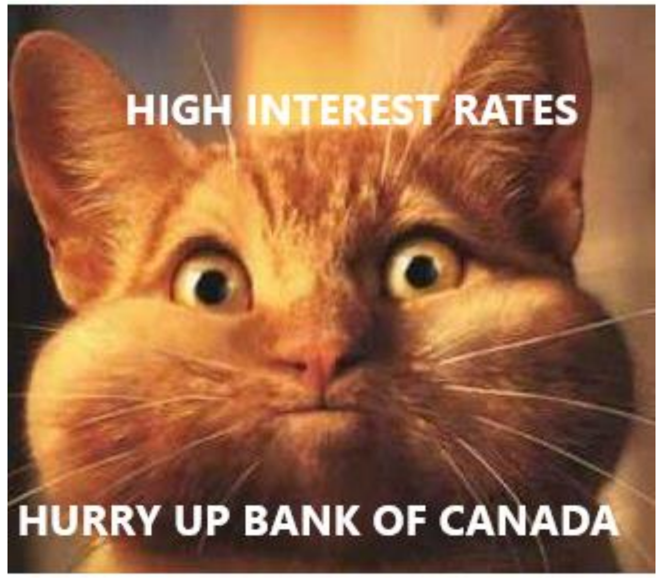


HOLDING OUR BREATH

SOURCE: Image modified by the author

FOLLOWING MANY MONTHS OF ANTICIPATION ABOUT DECLINING INFLATION we are now in the second month of 2024 awaiting the promised decline in interest rates.

IN December 2023, Tiff Macklem, Governor of the Bank of Canada, indicated interest rate cuts would occur in 2024 *(Bloomberg News December 18/23)*.

AND YET in the absence of action by the Bank of Canada, consumers, producers and the financial markets continue to act independently without direction from the Bank of Canada and causing stagflation to continue.

IN THE MEANTIME we are left holding our breaths and moving sideways economically waiting for the promised cut in rates.

We remain very much as we have been since 2022 and, at the risk of sounding like a broken record, much of past newsletter content remains relevant.

While inflation has declined significantly, there are still areas that they consider are still too high and a risk to re-inflation. At the current level of 3.4%, inflation remains above the 2-3% range.

A scenario most likely appealing to the central banks would be:

- **Unemployment increasing**
- **Consumer demand continuing to decline**

This is what it currently looks like:

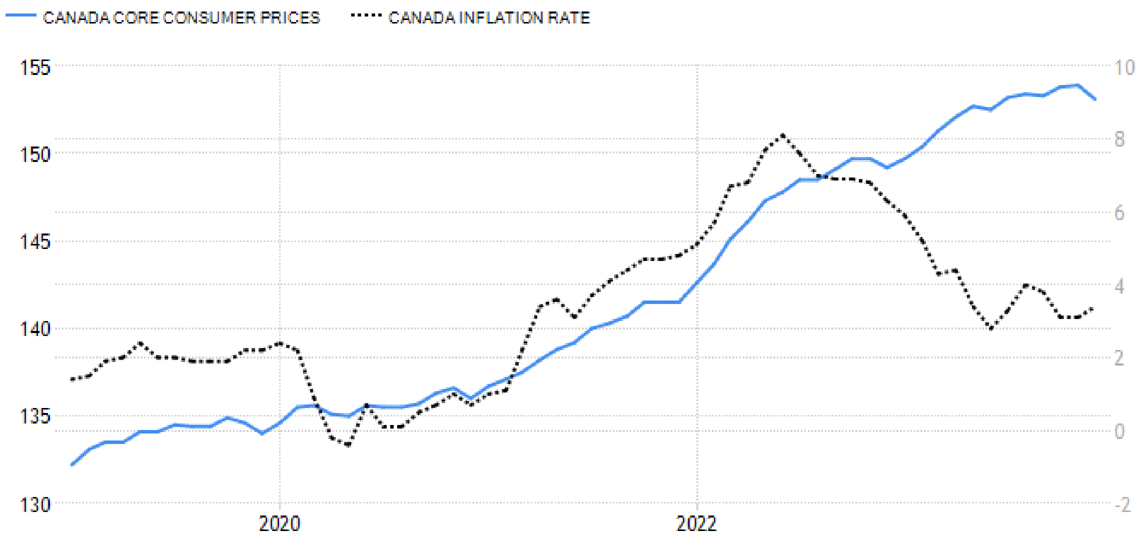
(source of charts tradingeconomics.com)

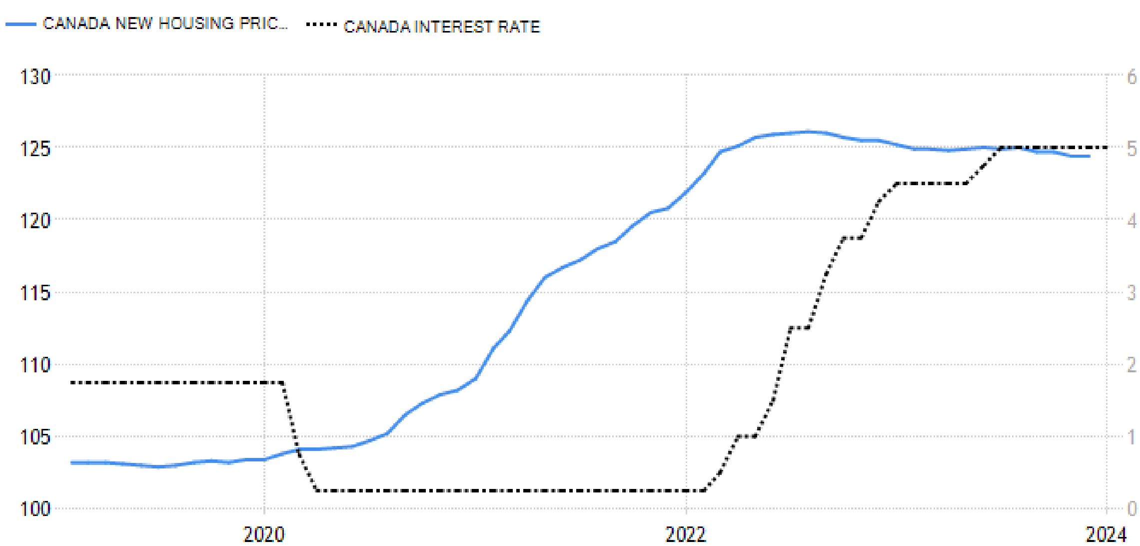
Canadian
Unemployment **Consumer**
Spending

Not exactly what they're looking for.

HOWEVER, a closer look is necessary as the consumer continues to spend more for basic goods such as food, fuel and housing rather than on discretionary spending despite the fact that inflation has declined.

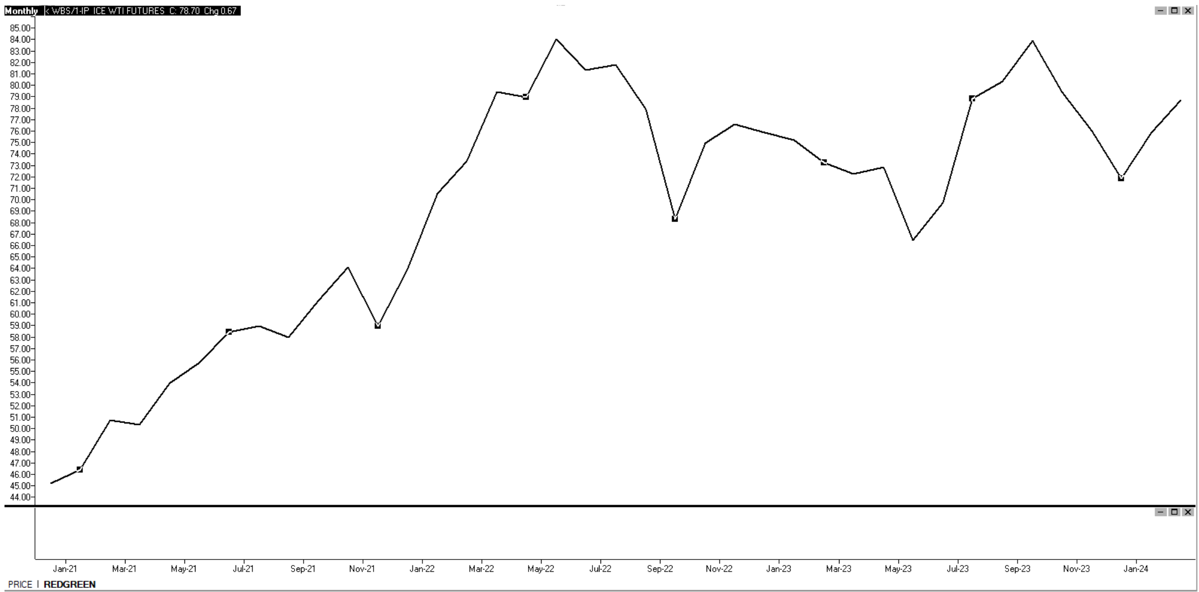
Core Consumer Prices
Housing Price Index





THE COST OF FOOD AND FUEL REMAIN well above pre-Covid levels.

Oil price since January 2021
Rate of Food Inflation



Source: Thomson Reuters

Source: Tradingeconomics.com

THEREFORE, THE COST OF CORE GOODS TO THE CONSUMER remain key drivers to breaking the stagflation cycle and a reduction in interest rates.

GIVEN THE POSSIBILITY OF EXTENDED HIGHER INTEREST RATES we repeat our recommended investment management approach during this stagflation period:

- **While we can consider a gradual re-balancing of the defensive component, the investment strategy should continue to include a focus on income, distributions and dividend generation as another form of return.**
- **Given interest rates will likely remain in the high range we should continue to take advantage of near term higher interest rates from investments to help meet monthly requirements and contribute to income growth.**
- **Maintain liquidity to have the immediate capital to take advantage of the new opportunities as they occur.**
- **Continue to hold only the highest quality core industrial names because of their critical contribution to economic renewal when inflation abates and recovery resumes.**
- **Do not try to second guess the markets; speculative opportunity only really occurs when economic conditions are at a high pitch.**

IMPORTANTLY, CONTINUE TO FOCUS NOT ON WHAT IT MAY BE WORTH AT THIS TIME BUT HOW MUCH IT CAN PAY YOU IN THE MEANTIME. CAPITAL VALUE WILL OCCUR AS STAGFLATION WINDS DOWN.

Regards

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