

Portfolios in August sort of matched the cold August weather here in Ottawa. But that should not come as a big surprise since July was a great month, and many of the big money players probably went on vacation in August.

In my opinion though, the main culprit behind the slight negative returns in August was an increase in interest rates. I have been hoping for an end to the cycle of increasing interest rates, but that has not happened yet. Central banks seem to be fixated on the tight labour market, while ignoring many signs that the economy is slowing down. When rates eventually stabilize, and then begin to decrease, I expect the markets to do well.

Many pessimists who strongly believe in the 'higher for longer' scenario for interest rates would disagree with my positive medium-term outlook. They typically believe we will experience a significant recession, which in turn they believe would be bad for the stock market, while possibly good for fixed income.

In the meantime, and in the very short-term, I recognize that September and October are typically volatile months. So I do not think this is a good time to increase exposure to risk assets. But I do think there are many attractive opportunities for those whose time horizon is at least one year. For instance, while big cap U.S. tech stocks have had a good year so far, it is interesting that many lower risk investments such as utilities & health care stocks, and long-term government bonds are trading near their year lows. I would not be surprised to see some profit taking in those big tech winners, and a rotation to some of the lower risk investments that have underperformed so far in 2023.

Regardless of whether such a shift occurs, being properly diversified remains a key to long-term investment success for most of us.

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