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NEWS HIGHLIGHTS

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OUR VIEWS ON ECONOMIC AND OTHER EVENTS AND THEIR EXPECTED IMPACT ON INVESTMENTS

SEPTEMBER 5, 2023

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OWNER OPERATED COMPANIES

GO TO PORTLAND 15 OF 15 ALTERNATIVE FUND[1]

PORTLAND 15 OF 15 ALTERNATIVE FUND[1] COMPANY NEWS

Reliance Industries Ltd. (Reliance) – Mukesh Ambani said he will spend the next five years of his chairmanship of India's most valuable company preparing his children to transform Reliance into a digital and green energy leader. His three children were appointed as non-executive directors, while his wife, Nita, will step down from the board, to devote more of her time to the Reliance Foundation charity where she serves as founding chairperson, the company said in a statement on Monday. During Reliance's annual general meeting, Ambani told shareholders that Nita will still continue to attend all board meetings as a permanent invitee. The board moves are part of 66-year-old Ambani's wider attempts to give a clear future leadership plan for the conglomerate after a messy family power struggle following the death of his father more than a decade ago. Three years ago, Ambani outlined the deepening role of his children, Isha, Akash and Anant in the business, handing over leadership positions to them at Reliance's key energy, retail and digital services businesses. Ambani has since built Reliance into India's largest company by market value and is now attempting to diversify the conglomerate into consumer and technology businesses, as well as renewable energy.

Reliance is in discussions with global and domestic executive head-hunters to find a leader for Jio Financial Services Ltd. (Jio Financial)'s newly created insurance business, according to people familiar with the matter. Executives from Reliance have met several firms in recent weeks to help them map top talent across life, health and general insurance segments, according to the people, who asked not to be identified because the discussions are private. Korn Ferry and Spencer Stuart are among the firms that have held talks with representatives from the petrochemicals-to-consumer conglomerate, the people said. Jio Financial will look to hire a chief executive for the insurance unit before early next year, the people said. Spokespeople for Korn Ferry and Reliance declined to comment. Spencer Stuart didn't immediately respond to a request for comment. The leadership search comes as Mukesh Ambani, Reliance Chairman, said on Monday that Jio Financial would revolutionize insurance in India. Jio Financial was publicly listed last week as Ambani attempts to create a new non-banking finance player that will tap Reliance's wider reach across its digital and retail businesses. K.V. Kamath, Veteran banker , who serves as Jio Financial's non-executive chairman, will closely monitor the executive hires, the people said. Jio Financial is in the process of developing the organizational structure for its insurance business, and the first chief executive would play an important role in shaping it, the people added.

Mukesh Ambani said Reliance will expand into wind power equipment with the help of more established firms to boost the conglomerate's suite of clean energy products. Reliance will partner with global leaders in the renewable technology to offer cost-efficient turbines, Ambani told shareholders Monday at the company's annual general meeting. The firm is building a carbon-fiber plant in Gujarat to reduce raw-material expenses for blades, he said without naming the partners for the wind project. The global energy transition is offering significant opportunities for Reliance, both domestically and on international markets, Ambani said. Reliance Industries Ltd. along with rival Adani Green Energy, has emerged among the leading champions of Prime Minister Narendra Modi's vision for energy independence through a switch to clean energy. Besides wind turbine manufacturing, the oil and gas explorer will also harness its experience of working in deepwater fields to build offshore wind projects, Ambani said. India has the potential to become a key player in global wind supply chain, with an already existing manufacturing base and relatively lower cost of labor, the Global Wind Energy Council said in a report earlier this week. To realize that potential the country needs to have enabling policies to support the domestic growth of wind power industry, help technology innovation and lower cost of raw materials.

Samsung Electronics Co., Ltd. (Samsung) - Samsung reacted positively on reports the company has won the right to supply advanced memory chips to artificial intelligence (AI) leader Nvidia Corporation (Nvidia). Samsung will begin supplying High Bandwidth Memory (HBM3), a newer generation of memory optimized to work with artificial intelligence accelerators, from the fourth quarter, Citigroup Inc. analysts including Peter Lee wrote in a report. Samsung clinched the deal to supply Nvidia with HBM3 when its chips passed the final quality test by the U.S. chip designer, Korea Economic Daily reported on Friday, citing unnamed industry sources. The report said Samsung will start its supply of the key memory chips as early as next month. Nvidia. would benefit from having Samsung as an additional supplier of HBM3. Nvidia, whose shares have rallied threefold this year to a market value of US$1.2 trillion, could see better costs or performance and more stable supply as it expands its options. A Samsung spokesperson declined to comment. Suppliers to Samsung also reacted positively on the news.

Altice USA, Inc. (Altice) - Patrick Drahi is due to meet with investors in London and New York this week to address how his telecommunications company, Altice, will reduce its debt as it wrestles with the fallout from a corruption probe in Portugal. Drahi will hold meetings in London on Wednesday and in New York on Thursday, the company confirmed. The non-deal roadshows come after calls with debt investors in August, when he promised to do whatever it takes to de-lever and strengthen the capital structure of his group. Drahi is seeking to reassure debt investors, some of whom were spooked by the probe, prompting a decline in bonds. In August, Drahi outlined options including selling assets, contributing shareholder equity and buying back some of the bonds at a discount. Altice had hoped to sell its data center portfolio in France this summer, but the process has been extended due to the Portuguese probe, the company said.

Amazon.com, Inc. (Amazon) - Amazon announced new deals with India Post and Indian Railways to boost delivery for small businesses. At its small and medium businesses (SMB) event, Amazon Sambhav in New Delhi, the company also unveiled new efforts to target direct to consumer (D2C) brands and showcased a new generative AI assistant designed to help SMBs. The idea with the generative AI tool is to help guide business customers through the process of both onboarding and then actually using Amazon services. Amazon has bult many vertically-integrated delivery services of its own globally, but in India, the company mainly works with third parties. The postal deal will cover cross-border logistics and shipments for businesses to help them sell internationally while the rail deal will expand Amazon's domestic network in India. The D2C effort is the first time that Amazon is pitching itself as a fulfillment partner to D2C brands that may not be selling Amazon itself, a service the company already provides in countries like the U.S.

After many months of discussion, Amazon and Shopify Inc. (Shopify) have agreed to terms that now allow the Amazon Buy with Prime button to be added as a payment method on Shopify-powered sites (U.S. merchants only in the current release). The payments will be processed by Shopify Payments, suggesting Amazon Buy with Prime will serve as a pass-through mechanism from a payments perspective (i.e., containing and passing along card credentials, address information, etc.). In summary, for Shopify, two benefits of note will be improved conversion and potentially greater Shopify Payments penetration. Shopify will not be sending any fees or revenue share back to Amazon. Thus, the only minor direct monetization loss would be related to the Flexport revenue share (i.e., more fulfillment running through Amazon Fulfillment by Amazon versus Flexport, where Shopify owns an equity stake and is expected to receive a revenue share on business sent to Flexport). Although we believe there will not be any exchange of economics with Amazon (back to Amazon from Shopify), directionally this should incentivize merchants who already have a presence on the Amazon.com profit, people and planet marketplace to make greater use of its fulfillment services for merchant.com orders, which should help to generate incremental Third-Party Seller Services revenue (including Amazon Buy with Prime-related fees) and grow even more quickly into the square footage/capacity it has already built.

Alphabet Inc. (Google) - Google plans to charge large enterprises US$30 per month for each user for the slate of artificial intelligence (AI) enhancements that are being integrated into Gmail and other productivity apps. Duet AI will cost the same as Microsoft's 365 Copilot enhancements which are expected to become available in the first half of 2023, and the two companies have been racing to add generative AI capabilities into their core products. These fees are in addition to what companies are already paying for subscriptions, and Google says customers can join free trials before committing to the subscription. Google has yet to finalize pricing for smaller organizations and individual users. The company said Workspace has 10 million paying customers, up from 9 million in March and 6 million in 2020, and more than a million people have tried the new AI capabilities through a "trusted tester" program.

Berkshire Hathaway Inc. – Berkshire Hathaway Energy (BHE) announced it has completed the purchase of Dominion Energy, Inc. (Dominion Energy)'s 50% limited partnership stake in the Cove Point liquefied natural gas (LNG), LP business, resulting in a total ownership interest of 75%. The ownership interest is held within BHE Gas Transmission and Storage (GT&S), LLC, a BHE business unit. A subsidiary of BHE GT&S is the general partner and operator of the Cove Point natural gas pipeline and its liquefied natural gas terminal located in Lusby, Maryland. A subsidiary of Brookfield Infrastructure Partners L.P. holds the remaining 25% limited partnership interest in Cove Point LNG, LP. On July 10, 2023, BHE announced that it had reached an agreement to acquire Dominion Energy's limited partnership interest in Cove Point LNG, LP, for cash consideration of US$3.3 billion. Following satisfaction of all conditions, the transaction closed September 1, 2023. Paul Ruppert, president of BHE GT&S, said: "We are pleased for this opportunity to own a greater stake in the Cove Point LNG business. BHE GT&S will continue its excellent operating and commercial performance at Cove Point, which plays an important role in Berkshire Hathaway Energy's delivery of clean, low-cost and sustainable energy solutions to customers and communities."

Danaher Corporation (Danaher) – Danaher has entered into a definitive agreement to acquire Abcam PLC (Abcam), a supplier of life science research tools. Danaher will buy all of the outstanding shares of Abcam for US$24.00 per share. The transaction, which is worth about $5.7 billion, is expected to close in mid-2024. The companies said the boards of Abcam and Danaher unanimously approved the transaction. Danaher expects to fund the acquisition using cash on hand and proceeds from the issuance of commercial paper. Headquartered in Cambridge, UK, Abcam markets antibodies, reagents, biomarkers and assays for drug discovery, research and diagnostics. Abcam is expected to operate as a standalone operating company and brand within Danaher's Life Sciences segment, furthering Danaher's strategy to help map complex diseases and accelerate the drug discovery process. After announcing the review of strategic alternatives late last June, including a potential sale, Abcam said it engaged with over 30 other potential counterparties including more than 20 potential strategic acquirers before closing the deal with Danaher. Rainer M. Blair, Danaher's president and chief executive officer (CEO) said: "We couldn't be more excited to have Abcam join Danaher. Abcam's long track record of innovation, outstanding product quality and breadth of antibody portfolio positions them as a key partner for the scientific community. We look forward to welcoming Abcam's innovative and talented team to Danaher as we continue to help our customers solve some of the world's biggest healthcare challenges."

DIVIDEND PAYERS

GO TO PORTLAND GLOBAL ALTERNATIVE FUND[1]

GO TO PORTLAND GLOBAL ARISTOCRATS PLUS FUND[1]

GO TO PORTLAND GLOBAL BALANCED FUND[1]

Bank of Montreal reported the third quarter of 2023 adjusted earnings per share (EPS) of CA$2.78 versus consensus $3.14. The miss was explained by higher expenses (-12 cents) and provisions for credit losses (PCLs) (-8 cents), offset by higher revenues (+6 cents) and a low tax rate (+5 cents). Consolidated pre-tax, pre-provision (PTPP) of $3.1 billon. Canadian property and casualty (P&C) adjusted PTPP growth was 10% year over year. PCLs of $269 millon compared to a PCL of $228 millon last quarter. Net interest margin (NIM) was up 7 basis points quarter over quarter. Segment loan growth was 7% year over year (+1% quarter over quarter), led by cards up 19% year over year (+7% quarter over quarter). Mortgage growth was 8% year over year (+2% quarter over quarter) and commercial was up 7% year over year (flat quarter over quarter). U.S. P&C reports 22% year over year adjusted PTPP growth (USD basis) with Bank of the West acquisition. $153 million of PCLs versus PCLs of $51 million during the second quarter of 2023. NIM was down 16 basis points quarter over quarter. Average loans were down 1% quarter over quarter, with average deposits down 3% quarter over quarter (commercial deposits down 5% quarter over quarter). Capital Markets adjusted net income up 18% year over year (PTPP up 17% year over year) and Wealth adjusted net income down 7% year over year. This figure included a 16% decline year over year in Traditional Wealth earnings and a growth in Insurance earnings of 34% year over year. Core Equity Tier 1 capital ratio of 12.3%, up 10 basis points from 12.2% last quarter. The increase was driven by internal capital generation (20 basis points), dividend reinvestment plan (DRIP) (10 basis points), Risk Weighted Assets (+5 basis points) offset by acquisition/tax items (-24 basis points) and other items (-3 basis points). Total PCL of $492 million versus consensus forecast of a PCL of $373 million. 30 basis points PCL ratio (versus 10 basis points at the third quarter of 2022 and 20 basis points at the second quarter of 2023).

The Bank of Nova Scotia reported the third quarter of 2023 core cash EPS of CA$1.73 versus consensus of $1.74. The beat was tied mainly to a lower tax rate (+7 cents), offset by higher PCLs (-2 cents). PTPP is $3.5 billion. Canadian P&C adjusted PTPP growth of 2% year over year. NIMs were up 5 basis points quarter over quarter. PCL ratio of 27 basis points was up 7 basis points quarter over quarter. Average loan growth was 3% year over year (flat quarter over quarter), with an increase in commercial loans (+13% year over year, +3% quarter over quarter) offset by a decline in mortgage loans (down 1% year over year and down 1% quarter over quarter). Cards balances were up 16% year over year (up 5% quarter over quarter). International Banking adjusted PTPP up 11% year over year (constant foreign exchange). PCL ratio of 118 basis points was up 15 basis points quarter over quarter. NIMs decreased 2 basis points quarter over quarter to 4.10%. Loan growth of 5% year over year (flat quarter over quarter) was driven by mortgages up 10% year over year (+2% quarter over quarter), commercial up 3% year over year (down 1% quarter over quarter). Card balances were up 9% year over year and flat quarter over quarter. Capital Markets adjusted PTPP up 18% year over year and Global Wealth earnings down 3% year over year (PTPP down 4% year over year). Asset under management was up 4% year over year and asset under administration was up 9% year over year, primarily driven by market appreciation. Core Equity tier 1 capital ratio of 12.7%. Common Equity Tier (CET) ratio was up 40 basis points versus the second quarter of 2023 and was driven by organic capital generation (+18 basis points), Risk Weighted Asset inflation (+19 basis points), share issuances through DRIP (+11 basis points), offset by 10 basis points from regulatory deductions. Total PCLs is $819 million versus consensus of $773 million.

Canadian Imperial Bank of Commerce reported the third quarter of 2023 core cash EPS of CA$1.52 versus consensus $1.68. The miss was tied to higher loan losses (-29 cents), offset by PTPP outperformance (+7 cents) and taxes (+1 cents). Consolidated PTPP of $2.6 billion. Canadian P&C PTPP up 11% year over year. PCLs of $478 million compared to adj. PCLs of $173 million recorded in the second quarter of 2023. NIM was up by 10basis points quarter over quarter. Loans were up 4% year over year (+1% quarter over quarter) led by commercial growth of 6% year over year (flat quarter over quarter). Credit card balances were up 14% year over year (+7% quarter over quarter). U.S. Commercial Banking and Wealth Management's adj. PTPP was 12% year over year (USD basis). PCLs of $191 million were higher than PCL of $183 million recorded last quarter. NIM up 5 basis points quarter over quarter. Loans were up 7% year over year (+1% quarter over quarter) and deposits declined 6% year over year (down 4% quarter over quarter). Capital Markets earnings were up 11% year over year (PTPP up 13% year over year). Core Equity Tier 1 capital ratio of 12.2% was up 30basis points from 11.9% last quarter. The components of Core Equity Tier 1 movement from the second quarter of 2023 were internal capital generation (+17 basis points) and DRIP (+11 basis points) offset by Risk Weighted Assets and other items (-2 basis points). PCL is $736 million versus consensus PCL of $444 million. Total PCL ratio is 54 basis points (versus 17 basis points at the third quarter of 2022 and 34 basis points in the second quarter of 2023).

National Bank of Canada reported core cash EPS of CA$2.21 in the third quarter in fiscal year 2023, which came in below consensus estimate of $2.37. The bank reported core return on equity of 15.3% this quarter, which was down 220basis points over the quarter. The Core Equity Tier 1 ratio of 13.5% was up 20 basis points sequentially. As expected, National Bank of Canada left its quarterly dividend unchanged at $1.02 per share, up 11% year over year. The results were driven by lower-than-expected revenue (-$0.28 per share, with beat on NII offset by lower other income results), which more than offset lower expenses and PCLs (+$0.08 per share and +$0.01 per share, respectively). On a segmented basis, earnings from Financial Markets drove the miss (-$0.22 per share), as all of the other operating segments were relatively in-line.

LIFE SCIENCES

GO TO PORTLAND LIFE SCIENCES ALTERNATIVE FUND[1]

Amgen, Inc. (Amgen) – The U.S. Federal Trade Federal Trade Commission (FTC) has allowed Amgen to continue its US$27.8 billion acquisition of Horizon Therapeutics, while preventing the drugmaker from using anticompetitive tactics to extend the market dominance of two Horizon drugs. The agreement, announced on Sep 1, ends months of uncertainty over the deal since the FTC in May filed a lawsuit over concerns that Amgen would leverage its drugs to secure favorable insurance coverage terms for Horizon's thyroid eye disease treatment Tepezza and gout drug Krystexxa. Under the FTC settlement, Amgen is prohibited from bundling any of its products with Tepezza or Krystexxa, and from using any product rebate or contract term to exclude or disadvantage products that would compete with those drugs. It also prevents Amgen from buying any competitors to the two Horizon drugs without the FTC's permission.

Guardant Health Inc. (Guardant) – Guardant announced the Japanese Ministry of Health, Labour and Welfare (MHLW) has approved the Guardant360 CDx liquid biopsy test as a companion diagnostic to select patients with unresectable (inoperable) advanced or recurrent non-small cell lung cancer (NSCLC) with HER2 (ERBB2) mutations that has progressed after chemotherapy for treatment with ENHERTU (trastuzumab deruxtecan). ENHERTU is a specifically engineered HER2-directed antibody drug conjugate developed by Daiichi Sankyo. In March 2022, the MHLW approved the Guardant360 CDx test for comprehensive genomic profiling in patients with advanced solid tumors, and in July 2023, the test received national reimbursement approval in Japan. The MHLW also previously approved the test as a companion diagnostic to identify patients with microsatellite instability-high (MSI-High) solid tumors who may benefit from Keytruda (pembrolizumab), patients with MSI-High advanced colorectal cancer who may benefit from Opdivo (nivolumab), and patients with metastatic NSCLC who may benefit from treatment with LUMAKRAS (sotorasib).

NUCLEAR ENERGY

BWX Technologies Inc. (BWXT) – BWXT announced a contract to process thousands of kilograms of government-owned scrap material containing enriched uranium that is unusable in its present form to produce more than two metric tons of feedstock that can be used for fuel to demonstrate advanced reactors and help decarbonize the U.S. power grid. BWXT Nuclear Operations Group, Inc. will conduct this project at the company's unique facilities located near Lynchburg, Virginia. The final form of the processed material will be High Assay Low Enriched Uranium, more commonly known as HALEU. The initial award will total US$47 million, with a total contract value of up to $116.5 million, subject to annual congressional appropriations. The contract adds to BWXT's ongoing work with the National Nuclear Security Administration to build the company's HALEU production capabilities in support of converting high performance research reactors from highly enriched uranium to HALEU. The company has disclosed the following project and contract details; BWXT will produce over two metric tons of HALEU over the next five years, with several hundred kilograms expected to be available as early as 2024; to support this program, BWXT plans to hire approximately 20 new operators, engineers and safety personnel at its Lynchburg-area facility; the final product of the program will be HALEU feedstock in an oxide form at an enrichment level of 19.75%; the scrap material to be provided by the National Nuclear Security Administration is currently in a variety of forms and enrichment levels, and it has been collected by the government from a number of different sources, primarily at the Y-12 National Security Complex.

Cameco Corp. (Cameco) – Cameco provided a market update regarding challenges at the Cigar Lake mine and Key Lake mill that are expected to impact the company's 2023 production forecast. At the Cigar Lake mine, Cameco now expects to produce up to 16.3 million pounds of uranium concentrate (U3O8) (100% basis) in 2023, a reduction from the previous forecast of 18 million pounds U3O8 (100% basis). The Cigar Lake operation is owned 54.547% by Cameco, 40.453% by Orano Canada (Orano) and 5% by Tepco Resources, Inc. (Canada). Production from the McArthur River/Key Lake operations for 2023 is anticipated to be 14 million pounds U3O8 (100% basis), down from the previous forecast of 15 million pounds U3O8 (100% basis). The McArthur River mine is owned 69.805% by Cameco and 30.195% by Orano. As previously reported, mining activities at the Cigar Lake operation were initiated from a new zone in the orebody (west pod) in the second quarter of this year, which impacted productivity. As mining activities continued in the west pond during the third quarter, equipment reliability issues emerged which further affected performance. The mine is scheduled to enter a planned annual maintenance shutdown that will run through most of September. At the Key Lake mill, ramp up activities remain ongoing. However, as noted in the company's second quarter Management discussion and analysis, there is continued uncertainty regarding planned production in 2023 at Key Lake due to the length of time the facility was in care and maintenance, the operational changes that were implemented, availability of personnel with the necessary skills and experience, and the impact of supply chain challenges on the availability of materials and reagents. These factors have combined to impact production at Key Lake, leading to the reduced forecast. The Key Lake mill is owned 83.333% by Cameco and 16.667% by Orano. The McArthur River mine continues to operate well and is expected to achieve its planned production for 2023. Any ore from McArthur River that is not immediately processed at Key Lake will be stored in inventory for future milling. Cameco's strategy of full-cycle value capture positions the company to effectively manage the expected production shortfall and meet delivery commitments to customers. The company maintains the flexibility to source material through various means beyond production if required, including increasing market purchases, pulling forward long-term purchases, using inventory or borrowing product. Any pounds Cameco does not produce in 2023 will remain available to the company and, with increasing supply pressures, potentially become more valuable when delivered in the future.

ECONOMIC CONDITIONS

Statistics Canada released its Gross Domestic Product (GDP) estimate for the second quarter of 2023. The economy contracted at an annualized rate of 0.2%, below the consensus estimate calling for a 1.2% increase. The previous quarter's result, meanwhile, was revised down 5 ticks to 2.6%. Domestic demand continued to grow in the second quarter (+1.0%) as household consumption expenditures (+0.2%), government consumption (+2.5%), non-residential structures investment (+9.9%) and investment in machinery and equipment (+11.1%) increased, more than offsetting a decline in residential investments (-8.2%). Trade had a negative impact on GDP, with exports (+0.4%) increasing modestly compared to imports (+1.9%). Inventory depletion continued in the quarter, resulting in a negative contribution of 0.8% to GDP. Nominal GDP grew by 2.7% on an annualized basis following a 3.1% increase in the first quarter of 2023. Also in nominal terms, disposable income jumped an annualized 10.7% following a 2.5% contraction in the first quarter. Consumption, meanwhile, rose 4.1% annually. As a result, the savings rate increased from 3.7% to 5.1%, above its pre-pandemic level (2.8%). Industry data showed that output dipped 0.2% in June. Goods were down 0.4% while services decreased 0.2%. Statistics Canada also released an advance estimate for July showing unchanged output. This data is much weaker than the previously released monthly GDP figures and means the economy is much less overheated than the Bank of Canada believed in July (the second quarter expected at 1.5% versus actual at -0.2%). Under normal circumstances, a quarter of stagnation like the second quarter would not necessarily be a cause for concern. But there's nothing normal about the current situation, as population growth is booming. Taking this factor into account, real GDP per capita actually fell sharply in the second quarter at an annualized rate of 3.1%, the fourth consecutive quarterly decline, coinciding with the start of the central bank's monetary tightening. For the 4 quarters to the second quarter 2023, GDP per capita is down 2.0%. This has happened historically 4 times in the last 4 recessions. In each episode, when GDP per capita was barely below the previous year's level, the central bank was already in easing mode, in contrast to the current hawkish stance of the Bank of Canada.

U.S., nonfarm payrolls rose 187 thousand in August, a bit more than the median economist forecast calling for a +170 thousand print. However, this positive surprise was held back by a -110 thousand cumulative revision to the previous month's data. Employment in the goods sector advanced 36 thousand as gains in construction (+22 thousand) and manufacturing (+16 thousand) were only partially offset by a 2 thousand decline in the mining/logging sector. Jobs in services-producing industries, for their part, expanded 143 thousand, with notable increases for health/social assistance (+97 thousand), leisure/hospitality (+40 thousand), professional/business services (+19 thousand) and "other" services (+13 thousand). Alternatively, losses were observed in transportation/warehousing (-34 thousand) and information (-15 thousand). The temporary help services category (-19 thousand), meanwhile, saw payrolls decrease for the ninth time in the past ten months. In all, 179 thousand jobs were created in the private sector, compared with 8 thousand in the public sector, the latter entirely due to federal (+10 thousand) as state/local (-2 thousand) administrations posted a decline. Average hourly earnings rose 4.3% in August, one tick lower than July and in-line with consensus expectations. Month on month, earnings progressed below consensus at 0.2%. Also the household survey (similar in methodology to Canada's labour force survey) painted a similar picture of the situation prevailing in the labour market, with a reported 222 thousand gain in employment. That said, the job increases in August, combined with a rise in the participation rate (62.8%), translated into a three-tick upswing of the unemployment rate to 3.8%. Full-time employment fell 85 thousand, while the ranks of part-timers edged up 32 thousand. And so once again, employment gains were concentrated in just a few client-facing industries; health/social assistance performed especially well. Elsewhere, gains were much more modest.

U.S. economy grew for the fifth quarter in a row, up 2.1% annualized in the second quarter, but that was downwardly revised from the first estimate of 2.4% which was firmly above expectations at the time and this revision doesn't change that. Inventories shrank US$1.8 billion in the second quarter, which was a big swing from the +$9.3 billion in the initial estimate. So, instead of adding to the headline, inventories subtracted 0.1 percentage points (the second quarter in a row). The decline in exports was trimmed a little, and imports didn't fall as much as the first estimate, so net exports ended up subtracting 0.22 percentage points from the headline. Fixed investment (equipment, IP) also didn't rise as quickly as first thought, which is the other reason behind the lower headline.

The U.S. trade deficit widened to US$91.2 billion in July, a 2-month high. Exports rebounded 1.5% (first increase in 4 months) and imports jumped 1.9% (first increase in 3 months). Consumer goods imports excluding autos surged 4.1%, the most in six months. And business inventories rose for the first time in 3 months, up 0.1% in July while June's increase was revised to a drop, which explains the revision in the second quarter GDP report.

U.S. nominal personal income increased 0.2% in July, a bit less than the median economist forecast calling for a 0.2% gain. Amid a labour market that remains healthy, the wage/salary component of income progressed 0.4%, while income derived from government transfers fell 0.6%. Personal current taxes, for their part, spiked 1.3%. All this translated into a flat reading for disposable income. Nominal personal spending, for its part, jumped 0.8% in the month, a tick more than consensus expectations. Adding to the positive surprise, the prior month's print was revised upwards, from +0.5% to +0.6%. Outlays on services expanded 0.8%, while goods consumption progressed 0.7%. As disposable income stayed flat and spending advanced at a fast pace, the savings rate sank from 4.3% to an 8-month low of 3.5%. This remains significantly below the levels observed before the pandemic (between 8.5% and 9.0%). Adjusted for inflation, disposable income retraced 0.2%, whereas spending steamed ahead 0.6% on gains for both services (+0.4%) and goods (+0.9%). Within services, the largest contributors were food services/accommodation, financial services/ insurance and housing/utilities. Goods outlays, meanwhile, were driven by an expansion in the game/toys/hobbies and recreational goods categories. Also in July, the headline personal consumption expenditures (PCE) deflator came in at 3.3% year over year, up from 3.0% the prior month and in line with consensus expectations. The core PCE measure, for its part, edged up from 4.1% to 4.2%, a result that was also in line with the median economist's forecast. On a monthly basis, both the headline and the core index advanced a consensus-matching 0.2%. This data published by the Bureau of Economic Analysis seems, at first glance, to show an economy which, far from slowing down, seems rather to be re-accelerating in the face of aggressive monetary tightening by the Federal Reserve. Adjusted for inflation, personal spending indeed advanced at its fastest pace in 6 months in July and is tracking a very healthy expansion in the third quarter.

Chinese Caixin Services Purchasing Managers' Index (PMI) fell to 51.8 in August from 54.1 in July and missing estimates of 53.5. The data was driven by a slower pace of business activity and a soft rise in new orders. In addition, markets failed to receive a boost from news that Country Garden was able to avert a default. The Chinese company paid its two dollar bonds after initially missing the payments on Aug 7. The company though still has more debt to work on. It extended payment on seven yuan bonds by three years.

FINANCIAL CONDITIONS

The U.S. 2 year/10 year treasury spread is now -0.70% and the UK's 2 year/10 year treasury spread is -0.75%. A narrowing gap between yields on the 2 year and 10 year Treasuries is of concern given its historical track record that when shorter term rates exceed longer dated ones, such inversion is usually an early warning of an economic slowdown.

The U.S. 30 year mortgage market rate has increased to 7.22%. Existing U.S. housing inventory is at 3.3 months supply of existing houses as of June 30, 2023 - well off its peak during the Great Recession of 11.1 months and we consider a more normal range of 4-7 months.

The volatility index (VIX) is 13.80 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

And Finally: "The only way to get ahead is to find errors in conventional wisdom." –Larry Ellison

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Glossary of Terms: 'CET' core equity tier, 'EBITDA' earnings before interest, taxes, depreciation and amortization, 'EPS' earnings per share, 'FCF' free cash flow, 'GDP' gross domestic product, 'ROE' return on equity, 'ROTE' return on common equity, 'ROTCE' return on tangible common equity, 'conjugate" a substance formed by the reversible combination of two or more others.

1.Not all of the funds shown are necessarily invested in the companies listed

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