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FEDEX RATTLES INVESTORS

By Gordon Pape, Editor and Publisher

Anyone who's been sitting on the fence on the recession issue may have been pushed off it on Thursday.

That's when FedEx stunned investors, and Wall Street, by issuing quarterly results that were well short of expectations. And it wasn't just the shortfall that shook up people. The company added a gloomy forecast of what lies ahead, pulled its financial guidance, and announced it is scaling back some operations as business softens. The company's CEO, Raj Subramaniam, said in a TV interview he believes we're heading into a global recession.

That doesn't mean a recession is a dead certainty – see Richard Croft's column on the prospects for a soft landing elsewhere in this issue.

But the fact a company with world-wide operations and the reputation of being an economic bellwether is

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taking such a grim stance must give us pause. FedEx is often viewed as a proxy for the broader economy because its business touches so many areas, including consumer spending, transportation, global trade, ecommerce, business activity, and more.

The reaction to Thursday's release of preliminary results was so strong that it sent the stock tumbling more than 20%, its biggest one-day loss since 1980. Interestingly, rival UPS only lost 4.5%.

FedEx reported a slight year-over-year increase in first quarter 2023 GAAP revenue (to Aug. 31), to $23.2 billion. But operating income fell to $1.19 billion from $1.4 billion the year before, a decline of 15%. Diluted earnings per share were $3.33, down from $4.09 in the year ago period.

The results were so bad that the company withdrew its guidance for the 2023 fiscal year and announced several cost-saving measures.

The company said the results were hit by "global volume softness that accelerated in the final weeks of the quarter". The statement referred to "macroeconomic weakness in Asia and service challenges in Europe, leading to a revenue shortfall in this segment of approximately $500 million relative to company forecasts".

The company expects economic conditions to worsen in the upcoming quarters.

"Global volumes declined as macroeconomic trends significantly worsened later in the quarter, both internationally and in the US," said Mr. Subramaniam. "We are swiftly addressing these headwinds, but given the speed at which conditions shifted, first quarter results are below our expectations. While this performance is disappointing, we are aggressively accelerating cost reduction efforts and evaluating additional measures to enhance productivity, reduce variable costs, and implement structural cost-reduction initiatives."

Cost cutting initiatives include a hiring freeze, closing over 90 FedEx locations, identifying five corporate offices to be closed, reduction of flight frequencies, reduction of Sunday operations in some locations, and a reduction in hours for some staff.

The FedEx report is the strongest statement we've seen from any major company to date about global economic prospects for the months ahead. The company's pessimistic outlook dragged down all the major indexes on Friday, although not by as much as might have been expected.

So, if you own shares in FedEx what should you do now? Contributing editor

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Adam Mayers, who recommended the stock in 2020, says you should retain your positions.

"Undoubtedly, it was a bad quarter for FedEx, but in a nervous market this sharp sell-off is perhaps an overreaction. The stock is a hold, not a sell," he writes.

"FedEx reported a quarterly profit that missed expectations, while revenue exceeded it," he continues. "That suggests a problem with costs, which is an internal issue and one new CEO Raj Subramaniam is addressing with a multiyear strategic plan. The external issues are well known – inflation, rising costs and interest rates, a global slowdown, and consumers who are pulling in their horns. Europe is struggling with soaring energy prices.

"In the meantime, FedEx raised the dividend in June, the second increase in two years. The stock now yields 2.86% and the dividend appears safe."

And what should you do if you're worried about a recession? I advise remaining cautious. It's not yet time to go bottom fishing for bargains, and it may not be for a few months. If you have some free cash, consider socking it away in a short-term GIC – EQ Bank is currently offering 4.5% on a one-year term. Collect the worry-free interest and reassess the market when the certificate matures.

?YOUR QUESTIONS

Recovering US tax

Q – I am holding shares of some American equities in a non-registered trading account. These dividend bearing stocks are subject to withholding tax.

My question is: Do I recoup any of these taxes when I submit my yearly return? – Robert S.

A – Yes. You are eligible for a foreign tax credit. The amount should be shown on your T-5 reporting slip. – G.P.

GLOBAL PORTFOLIO TAKES A HIT

By Gordon Pape

Stock markets around the world are down this year. So, it should come as no surprise that the IWB Global Portfolio is down as well. None of our holdings gained ground during the six months since our last review in March.

This portfolio was launched in March 2012. It is designed to provide an international model for growth-oriented investors, with a target annual rate of return of 8-10%.

The portfolio invests in eight domestic, American, and international ETFs, covering all parts of the globe. Investors should only track this portfolio if they are willing to accept stock market risk. As we've seen, that risk has been significant this year.

Here's a look at how our ETFs have performed since the last update in March. Results are as of the afternoon of Sept. 15.

IWB GLOBAL PORTFOLIO SECURITIES

iShares Core S&P/TSX Capped Composite Index ETF (TSX: XIC). This ETF tracks the performance of the S&P/TSX Composite Index. The TSX has performed better than the major US indexes, but it is down for the year, nonetheless. The units lost $3.82 (10.9%) since the last review. We received two quarterly distributions for a total of $0.456 per unit.

iShares S&P/TSX Small Cap Index ETF (TSX: XCS). This ETF tracks Canadian small cap stocks. This sector of the market showed strength when commodity prices rallied at the start of the year, but people bailed out quickly and the units lost $4.30 in the latest period. We received two quarterly distributions that totaled $0.25 per unit.

iShares US Small Cap Index ETF (CAD-Hedged) (TSX: XSU). US small cap stocks pulled back in the latest period, along with the broader market. The units were down $5.28 or 12.7%. We received a semi-annual distribution in June of $0.148 per unit.

iShares Core S&P 500 Index ETF (CAD-Hedged) (TSX: XSP). This ETF tracks the performance of the S&P 500. It's been a bad year for US stocks, and the results here show it. This ETF lost $6.79 (14%) during the period. We received a mid-year distribution of $0.233 per unit.

BMO Nasdaq 100 Equity Hedged to CAD Index ETF (TSX: ZQQ). This fund provides exposure to the top 100 stocks on the Nasdaq exchange. This has been the most volatile index in the US in recent months as the tech sector has seen its largest retreat since 2008-09. The fund is down $20.97 (19.6%) since the last review. To add insult to injury, there was no mid-year distribution.

iShares MSCI EAFE Index ETF (CAD-Hedged) (TSX: XIN). This ETF tracks markets in Europe, Australasia, and the Far East. Surprisingly, the stock markets in those countries have fared better than those in North America. The units lost only $2.10 (7%) since the last review. We received a semi-annual distribution of $0.518 per unit in June.

iShares MSCI Frontier 100 ETF (NYSE: FM). This ETF holds major companies in Third World countries from Nigeria to Vietnam. These markets have suffered badly this year and the units are down US$6.19 (18.9%) since the last review. We received a mid-year distribution of US$0.607 per unit in June.

iShares MSCI Emerging Markets ETF (NYSE: EEM). This sector continues to lose ground as the pandemic, interest rate hikes, and the war in Ukraine continue to weigh heavily on global markets. The units are down US$7.27 (16%) since our last review. We received a mid-year distribution of US$0.362 per unit.

We received $6.90 in interest from the cash balance in our EQ Bank high-interest savings account.

IWB Global Portfolio (a/o Sept. 15/22)

Security	Weight	Total Shares	Average Price	Book Value	Current Price	Market Value	Retained Income	Gain/ Loss %
XIC	20.2	290	$22.34	$6,479.95	$31.27	$9,068.30	$212.88	+43.2
XCS	6.4	165	$16.23	$2,677.90	$17.38	$2,867.70	$64.66	+ 9.5
XSU	14.9	185	$17.96	$3,527.35	$36.22	$6,700.70	$69.12	+91.9
XSP	20.9	225	$17.06	$3,997.30	$41.76	$9,396.00	$237.03	+141.0
ZQQ	21.0	110	$21.44	$2,358.40	$85.77	$9,434.70	$241.56	+310.3
XIN	9.9	160	$21.38	$3,421.25	$27.75	$4,440.00	$326.49	+38.9
FM	2.4	40	$35.18	$1,407.25	$26.60	$1,064.00	$32.68	-22.1
EEM	4.2	50	$43.81	$2,190.50	$38.14	$1,907.00	$232.08	-2.3
Cash	0.1			$66.48		$73.38		
Total	100.0			$26,126.38		$44,951.78	$1,416.50	+77.5
Inception				$20,002.30				+131.8

Comments: For the first time, every security in the portfolio lost ground. The worst performer was ZQQ, which took a beating as high-tech stocks continued to nosedive. The best (or least bad) result came from XIN, as overseas markets fared better than those here in North America.

The net result was a loss of 19% over the latest period – a big setback any way you look at it.

As a result, our cumulative gain since inception has been cut to 131.8%. That works out to a compound average annual growth rate of 8.34%. Despite the big loss, that's still within the original target range. However, I don't think we still have seen the bottom of this bear market yet so we may have to endure more losses before things turn around.

Changes: Despite the drop in value in the latest period, this portfolio continues to offer excellent diversification and geographic coverage. We will not replace any components at this time.

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Global Portfolio—continued from page 6...

We have a little money to reinvest so we'll add to a few positions while prices are down.

XSP – We'll buy five more units at a cost of $208.80. That will increase our total to 230 while reducing retained income to $28.23.XIN – We'll invest $277.50 in 10 more units, bringing our total to 170. We're left with $48.99 in retained earnings.

EEM – We will buy another five units for $190.70, bringing our total to 55. Retained income will drop to $41.38.

All else remains the same.

We now have cash and retained income of $812.88. We'll move the money to the Saven Financial high interest savings account, which is currently paying an impressive 3.3%.

Here is the revised portfolio. I will review it again in March.

IWB Global Portfolio (revised Sept. 15/22)

Security	Weight	Total Shares	Average Price	Book Value	Current Price	Market Value	Retained Income
XIC	19.9	290	$22.34	$6,479.95	$31.27	$9,068.30	$212.88
XCS	6.3	165	$16.23	$2,677.90	$17.38	$2,867.70	$64.66
XSU	14.7	185	$17.96	$3,527.35	$36.22	$6,700.70	$69.12
XSP	21.0	230	$18.29	$4,206.10	$41.76	$9,604.80	$28.23
ZQQ	20.7	110	$21.44	$2,358.40	$85.77	$9,434.70	$241.56
XIN	10.3	170	$21.76	$3,698.75	$27.75	$4,717.50	$48.99
FM	2.3	40	$35.18	$1,407.25	$26.60	$1,064.00	$32.68
EEM	4.6	55	$43.29	$2,381.20	$38.14	$2,097.70	$41.38
Cash	0.2			$73.38		$73.38	
Total	100.0			$26,810.28		$45,628.78	$739.50
Inception				$20,002.30			

BUYING INTO THE IMPOSSIBLE DREAM

By Richard Croft, Associate Publisher

For the past two months financial markets have been stuck in a trading range that runs the gamut between fear and greed. It's a classic tug of war, buttressed by vague macro-economic scenarios that are at best, subjective.

Efforts to pinpoint the terminal interest rate (the rate at which inflation will be contained without triggering a prolonged recession) vary depending on the latest iteration of Fed speak. That said, we are of the view that market participants have priced in an interest rate trajectory that will culminate somewhere between 3.75% to 4.25%.

The current overnight rate for the Bank of Canada sits at 3.25% while the US rate is between 2.25% and 2.50% with an additional 0.75% hike expected at the Federal Reserve's Sept. 21 meeting. If our position is valid, then the rate hike cycle is closer to the end than it is to the beginning.

Of course, our view hinges on current versus long-term inflation expectations. And that analysis requires constant surveillance of consumer attitudes and spending trends. The objective is to weigh how monthly inflation statistics versus long-haul inflation expectations influence consumer behavior. The worry

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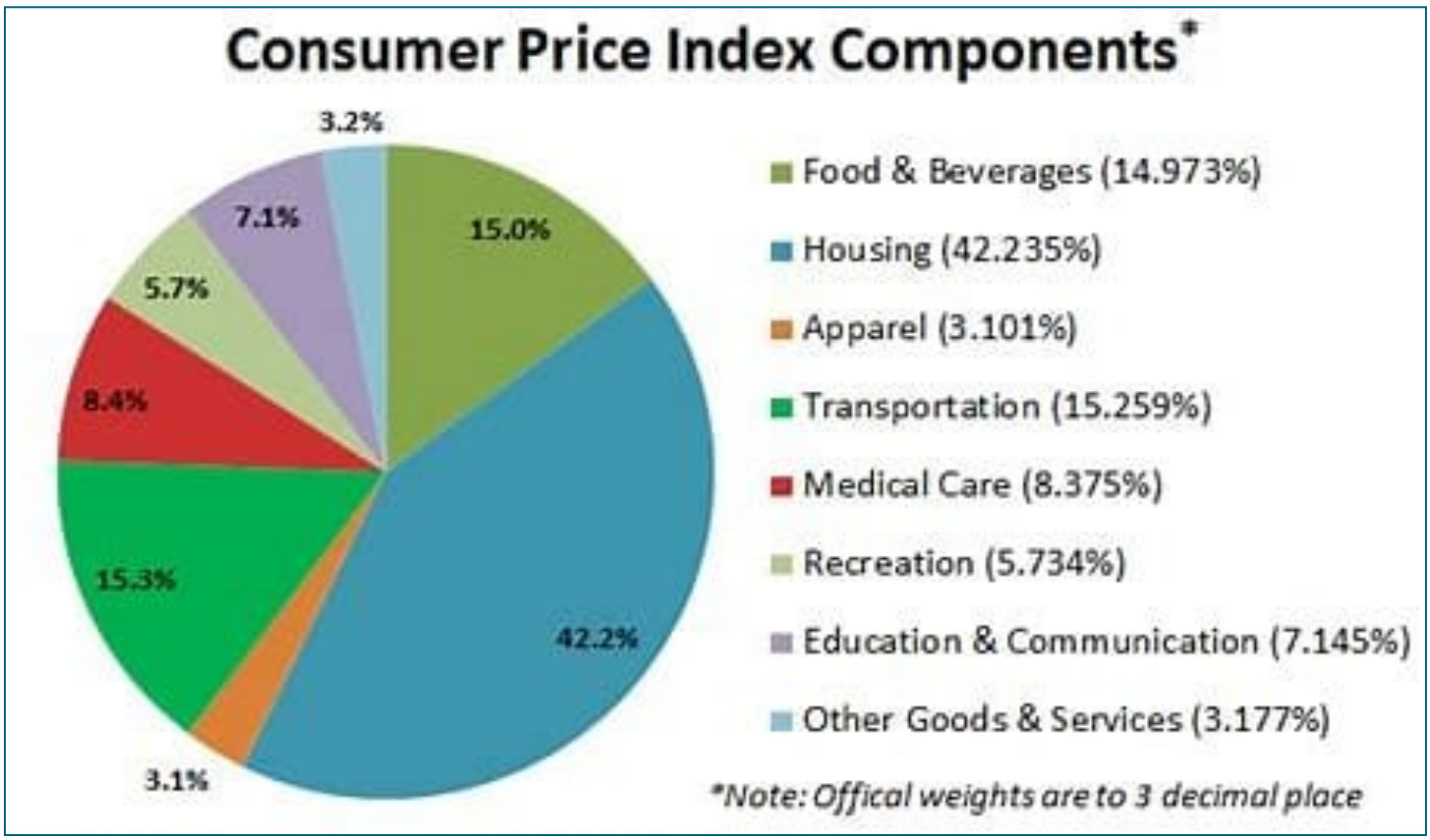

Impossible dream—continued from page 8...

is that expectations turn into reality… If consumers believe inflation is a longer-term problem, it will become a longer-term problem.

The numbers for the US August consumer price index (CPI) did not help. Inflation came in hotter than expected, rising 0.1% to 8.3% on a year-over-year basis. The expectation was 8.1%. Core CPI, which removes the volatile food and energy components, was up 0.6% in August and 6.3% year over year.

Energy prices fell 5% for the month, led by a 10.6% slide in the gasoline index. However, those declines were offset by month-over-month increases in shelter (0.7%), food (0.8%), and medical care (0.8%). New vehicle prices were higher (+0.8% month-over-month), though used vehicles fell 0.1%.

Not surprisingly, markets tanked on the news. Short-term interest rates jumped as traders jettisoned any notion that the Fed would become more dovish and only raise rates by 0.5% this week. A 0.75% rate hike is now the base line and, according to Fed funds futures, there is a 10% possibility that the US Federal Reserve will raise rates by a full percentage point. The reaction in the bond market was instantaneous, which spilled over into the equity markets.

Food and rental costs were the problem. Prices have continued to rise, which probably explains the shift in consumer behavior. As prices for basic food rises, more consumers look for lower cost alternatives, which are delivered by Walmart and Costco. The rise in food costs, combined with labor shortages, is the main reason the cost of a meal at restaurants has surged.

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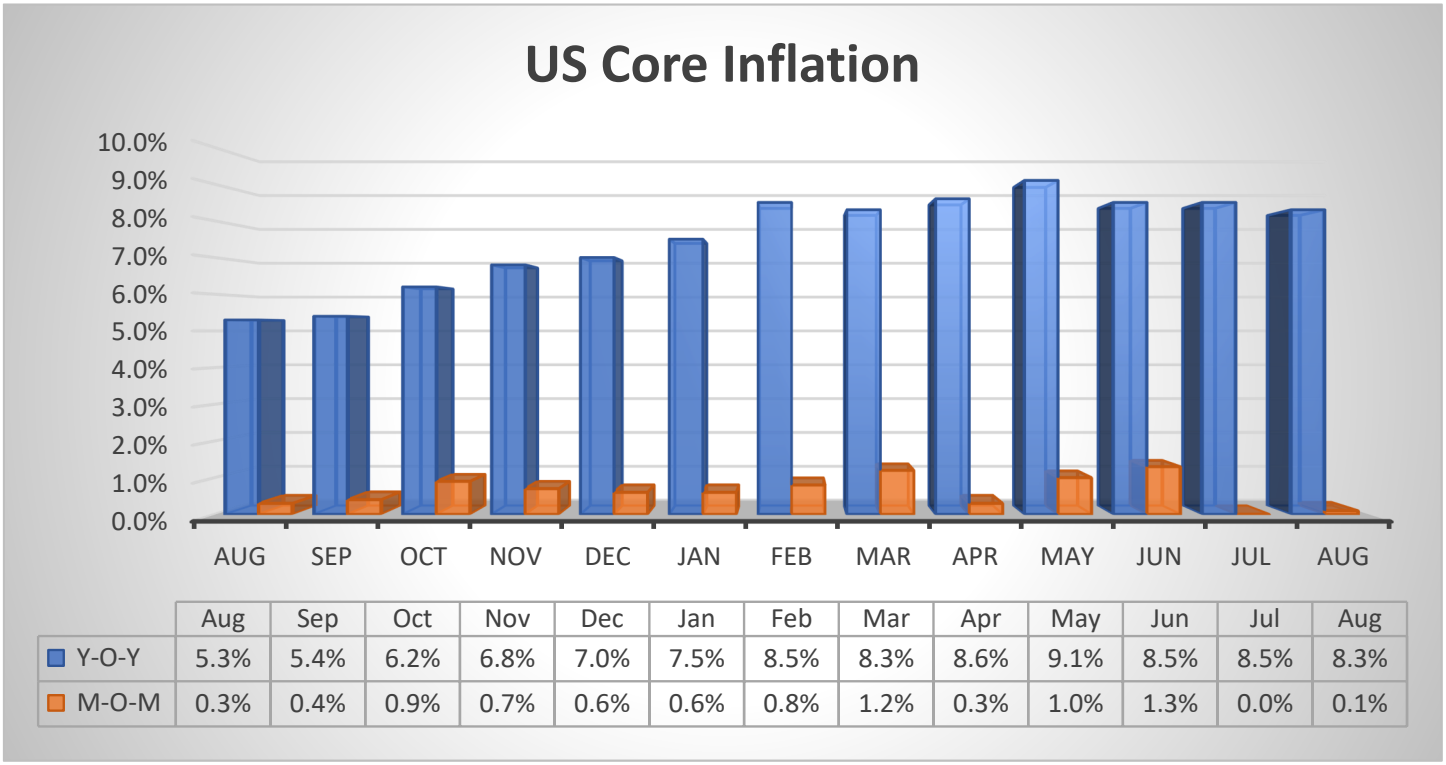

	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Y-O-Y	5.3%	5.4%	6.2%	6.8%	7.0%	7.5%	8.5%	8.3%	8.6%	9.1%	8.5%	8.5%	8.3%
M-O-M	0.3%	0.4%	0.9%	0.7%	0.6%	0.6%	0.8%	1.2%	0.3%	1.0%	1.3%	0.0%	0.1%

Impossible dream—continued from page 9...

That said, some analysts have opined that inflation could fall dramatically by year-end as rent increases have begun to stabilize. As more datapoints are added, rental costs should abate. Food, on the other hand, is more problematic and, given its weight within the CPI, will continue to negatively impact the inflation data.

Most economists doubt the August inflation reading will alter the Fed's stance, especially given Chairman Powell's hawkish comments at his Jackson Hole speech. That said, the Fed has a history of changing direction as new datapoints emerge. You may recall in June 2020 Mr. Powell was not even "thinking about thinking about raising rates" before 2023 at the earliest. When we fast forward to the second quarter of 2022, when inflation datapoints began flashing red, not only did the Fed begin thinking about rate hikes, but their tone also became more hawkish. The aggressive rate hiking campaign began in earnest soon after.

The point is that a reversal of course would not be out of character for the Fed. Our position is the Fed will push rates up by another 175 bps before the end of 2022. They will likely do 75 bps in September and maybe two additional 50 bps before year-end, before hitting hit the pause button. Those hikes will hit their terminal rate and allow the Fed to stand aside until after the November mid-term elections. That would give the members of the Federal Open Market Committee time to assess the impact of their interest rate policy.

Finally, we turn to the ever-changing soft landing versus recession debate. Soft landings are about as rare as Toronto winning the Stanley Cup. Historically, central banks have no better than a 1 in 10 chance of managing the interest rate sweet spot that tames inflation without causing a hard landing.

Could central banks pull off the impossible… orchestrating a soft landing without a pandemic playbook? Based on data from the US Commerce Department, we are already seeing economic contraction, but it doesn't feel like a recession. The US economy added just under three million jobs from January through the end of July. Earnings for consumer-facing companies such as Starbucks Corp. and Uber Technologies Inc. have pricing power. Travel is booming as airlines experience unprecedented demand and hotels are operating at near capacity with occupancy levels at or near pre-pandemic levels. Companies in the benchmark S&P 500 Index posted record profits for the second quarter.

While this recession is out of the ordinary, it is not without precedence. The 1990-1991 recession was primarily confined to the commercial real estate and banking sectors, but it took another four years for employment to fall back to

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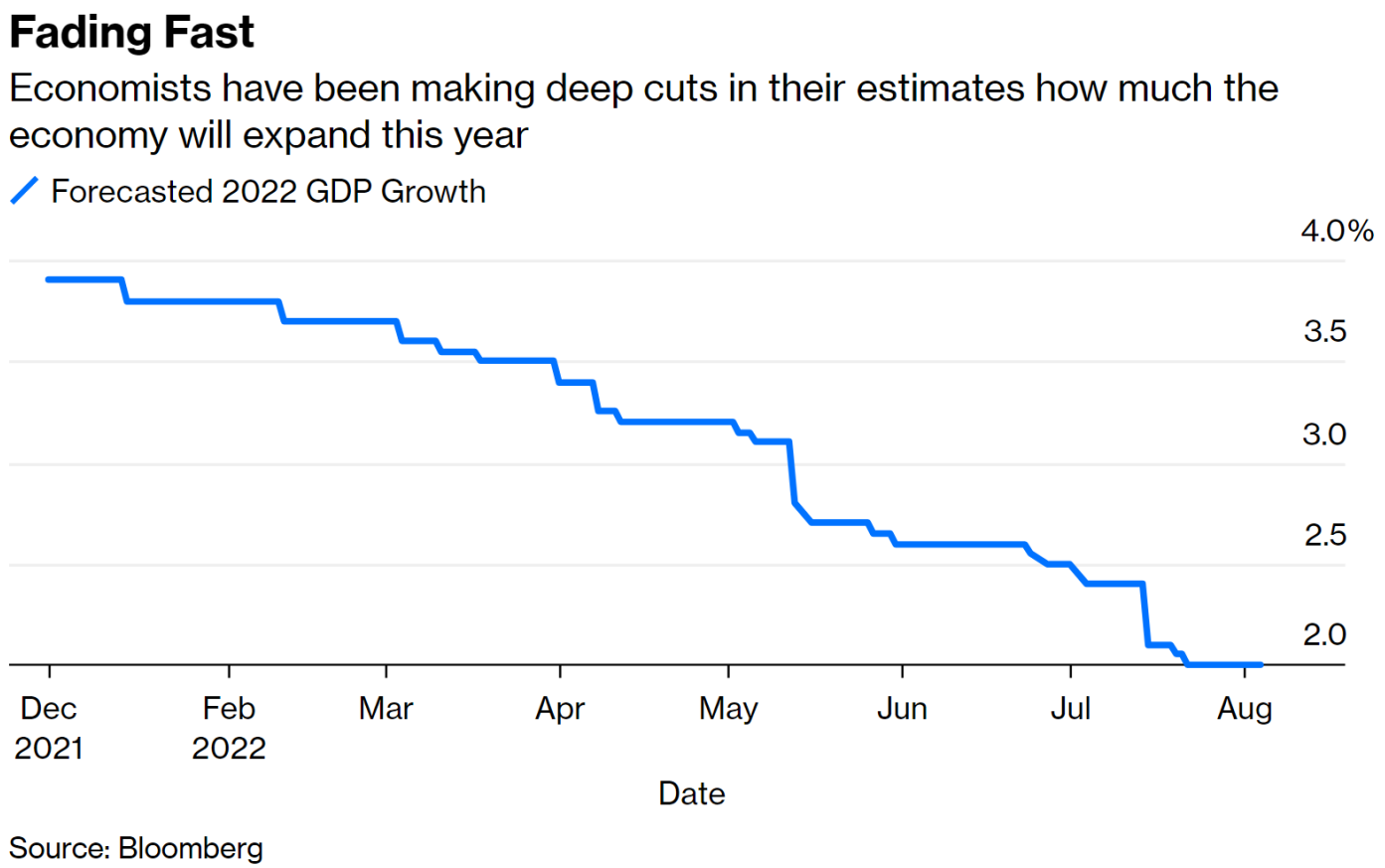

Impossible dream—continued from page 10...

pre-1990 levels. The dot.com bust in 2000-2001 could hardly be considered a recession but was extremely painful in terms of its impact on the stock market. Then there was the financial crisis of 2008-2009. It was referred to as the Great Recession because of its depth and duration, with unemployment rising to 10%, the housing market collapsing, and personal bankruptcies surging. The COVID-19 recession of 2020 saw the economy contract by the most since the Great Depression and the unemployment rate shoot up to near 15%, but it quickly abated on the back of unprecedented fiscal and monetary stimulus.

Not surprisingly, economists have been adjusting their growth estimates to take into account the most recent data. It is possible that the current recession fear is grounded in recency bias. That is to say, consumers are taking into account the damage caused by previous recessions and assume the next one will be of the same magnitude. We see this debate playing out on social media as influencers attempt to define a recession and when it officially starts. The technical definition is that a recession is marked by two straight quarters of declining GDP, something we have already experienced.

The labor market is the biggest source of angst. Based on the most recent data, the US unemployment rate remains anchored at 3.6%, just slightly above the half-century low of 3.5% set in 2019. Although job openings have fallen to 10.7

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million from the peak 11.9 million in March, they remain double the long-term average going back to 1999. Of note is the strength in the services sector, which rebounded to a three-month high in July on firmer business activity and orders.

We think the short-term gyrations in the financial markets which, for the most part, are driven by algorithmic trading, is underpinning the notion that we may get the illusive soft landing. The S&P 500 bumped up against the 4,200 level in August, fell back to support at 3,900, rebounded and then fell off a cliff back to just below the 3,900 support (it finished on Friday at 3,873). Yields on US Treasuries eased and then pushed higher, which highlights the markets' uncertainty. That said, we are comforted by the fact that the new issue corporate bond market is booming, and the US dollar remains strong. The implication is that US financial conditions are easing and, if that proves to be sustainable, the doom and gloom mantra will have less influence on the investor psyche.

Central banks have been criticized for not anticipating the sharp acceleration in inflation. If this group can tame inflation without causing too much economic pain, it would go a long way toward restoring credibility.

One thing is certain. The old economic playbooks are no help for what is happening now. There is no script that can decipher the aftermath of an economy that was hobbled, that shed 17 million workers over a two-week period and contracted 31%, only to rebound just as quickly on the back of government stimulus and ultra-easy monetary policy. We cannot expect this economy to follow the usual boom-bust patterns. Faced with the notion that past economic playbooks are irrelevant, central banks had to navigate the uncertainty with something entirely new. What is interesting, is that they may succeed.

Associate Publisher Richard Croft has been in the investment business for more than 40 years and is the founder of R.N. Croft Financial Group. As a global portfolio manager and option specialist, his focus is helping investors clarify their goals and risk tolerances, leading to an appropriate risk-adjusted portfolio. He can be contacted at rcroft@croftgroup.com

RICHARD CROFT'S UPDATES

Recommendations are colour-coded:
Green indicates Buy
Yellow indicates Hold
Red indicates Sell

Premium Income Corporation Class A Shares

HOLD

TSX: PIC.A

Originally recommended on Dec. 14/20 (#22044) at $4.82. Closed Friday at $6.87.

Background: PIC.A is a split share managed by Mulvihill Investment Management that invests in Canadian banks.

The sister share is the Premium Income Corporation preferred shares (TSX: PIC.PR.A), which receive a fixed dividend based on the initial payout from the basket of banks.

PIC.A is the capital share that participates in the growth of the banks and earns any dividends above what is paid out to the preferred shareholders. PIC.A is effectively a leveraged play on the Canadian banks.

Performance: The total return on this security since the original recommendation is 74%, including quarterly dividends.

Distributions: Investors are currently receiving $0.216 per quarter ($0.864 a year).

Comments: The loan portfolio of Canadian banks should do well if we get a normal upward sloping yield curve in a rising rate environment. However, a hard landing recession would likely cause borrowers to reduce their balance sheets, stinting loan growth.

Personally, I think much of the bad news has been priced into the banking sector. Given the low cost base on the initial recommendation, I would stay with this position. But recognize this is an aggressive leveraged play and limit your overall portfolio exposure to this security.

Action now: Hold.

The Goldman Sachs Group NYSE: GS

HOLD

Originally recommended on Jan. 17/17 (#21703) at $244.30. Closed Friday at $326.21. (All figures in US dollars.)

Background: Goldman Sachs is one of the premier wealth management companies in the US. The company delivers a range of financial services including investment banking, securities, investment management, and consumer banking to a diversified client base that includes corporations, financial institutions, governments, and individuals.

Performance: After hitting a 52-week low of $277.84, the shares have rebounded. However, they are still well below their one-year high of $426.19 set last October. We advised taking half profits in December when the shares were trading at $391.06.

Dividend: The quarterly dividend was raised by 25% in August, to $2.50 ($10 annually). The shares yield 3.1% at the current price.

Comments: Goldman Sachs has a bank charter thanks to changes approved by regulators after the 2008 financial crisis. That said, the company's main profit centers are investment banking and proprietary trading.

Investment banking will slow in the coming months as demand for new equity issues abates. However, issuance of corporate bonds remains strong, and the company's solid trading desk should help offset weakness in the investment banking arm.

Goldman Sachs is the pre-eminent player in these spaces and will come out of this period stronger and leaner. If you can withstand the volatility that the shares will incur over the next six months, it is worth holding, especially since you are receiving a decent yield.

Action now: Hold.

CORRECTION

In last week's issue an incorrect purchase price was shown for the iShares Global Agricultural Index ETF (TSX: COW). The correct price should have been $70.77. I apologize for any confusion. – G.P.

GORDON PAPE'S UPDATES

Recommendations are colour-coded:
Green indicates Buy
Yellow indicates Hold
Red indicates Sell

BMO MSCI India ESG Leaders Index ETF

HOLD

TSX: ZID *Originally recommended on April 10/17 (#21715) at $22. Closed Friday at $37.74.*

Background: This ETF tracks the MSCI India ESG Leaders Index, which in turn is based on the MSCI India Index of mid- and large-cap stocks. The index aims to capture the performance of securities that have been assigned higher ESG ratings by MSCI relative to their peers. It excludes securities of companies that earn significant revenues from tobacco, alcohol, gambling, conventional weapons and civilian firearms, any controversial weapons, significant generation of nuclear power, as well as companies involved in severe business controversies.

Performance: This fund has held its own during a difficult year for world markets. It's trading at around the mid-point of its 52-week range and is up 71.5% since it was recommended. As of the end of August, it was down 4.6% year to date, but the 10-year average annual compound rate of return was a healthy 14.5%.

Portfolio: The fund holds 41 stocks, weighted by market capitalization. The largest positions are in Reliance Industries (13.2%), Infosys (12.5%), and Housing Development Finance Corp. (10.7%). The largest sector holdings, which are unchanged since our last update, are information technology (29.5%), financials (20.3%), and energy (17.9%).

Key metrics: The fund was launched in January 2010 and has $95 million in assets under management. The management expense ratio (MER) is 0.67%.

Distributions: Payments are made annually, and they are normally negligible. But in December 2021 investors received a cash payment of $0.50 per unit, plus a reinvested distribution of $1.95, for a total of $2.45. Of that, 56% was received as foreign income, which is fully taxed in

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iShares MSCI EAFE Index ETF (CAD-Hedged)

HOLD

TSX: XIN *Originally recommended on March 18/13 (#21311) at $19.68. Closed Friday at $27.57.*

Background*:* This ETF is the Canadian dollar hedged version of a US fund (NYSE: EFA) that tracks the MSCI EAFE Index. That index covers Europe, Australasia, and the Far East. Most of the assets are invested in the US version of this ETF.

Performance: It's been a choppy ride, but this index has been gradually trending down over the past year. However, it is still up 40% since the original recommendation. Over the ten years to Aug. 31, the fund generated an average annual compound rate of return of 8.1%.

Key metrics: The fund was launched in September 2001 and has about $1.15 billion in assets under management. The MER is 0.54%, which is up three basis points since our last review.

Portfolio: This ETF is highly diversified with more than 800 underlying positions and is more-or-less equally weighted. The top two positions are Swiss based, headed by Nestle at 2.05% of the total portfolio. Roche Holdings is at 1.48%. Japanese stocks make up about 23% of the assets, with about 15% in the UK.

Distributions: They are paid semi-annually, in June and December. The June payment this year was $0.326 per unit.

Outlook: Global stock markets have been weak this year. Recession worries are the main fears holding back stocks right now.

Action now: Hold.

ZID—continued from page 15...

a non-registered account. Just over 42% was treated as capital gains.

Risk: BMO's risk rating on this ETF is medium to high.

Outlook: Earlier this month, credit rating agency Moody's cut its projected 2022 growth rate for India to 7.7%, from 9.1%. Moody's cited rising interest rates, slowing global economic growth, and the impact of the monsoon season for reducing its GDP target.

Action now: Hold. The 10-year record for this fund is excellent.