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BUY AND HOLD SETBACK

IN THIS ISSUE

By Gordon Pape, Editor and Publisher

Anyone who uses a buy and hold strategy to invest must have patience and faith. Patience, because a typical buy and hold security will take time to deliver its rewards. Faith because if you don't believe in the securities you select, you're likely to panic and sell at the first sign of a recession.

Faith in our Buy and Hold Portfolio was put to the test in the latest six-month period. Our last review was based on prices as of Dec. 1. Subsequently, the TSX experienced two major selloffs, in December and March. The S&P 500 showed a similar pattern, although not as extreme.

The net result is that all our Canadian securities were hit, along with one large US holding. These are all good companies and I expect them to recover, but there's no denying the pain they're currently inflicting.

The IWB Buy and Hold Portfolio was launched eleven years ago this month. It invests in high-quality stocks. The

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intention is to stick with them through both bull and bear markets. The underlying thesis is that the long-term trend of the markets is up. If you own good stocks, they'll move with it. The performance over the years has proved the point: an average annual compound rate of return of over 10%.

The portfolio consists mainly of Canadian and US blue-chip stocks that offer long-term growth potential. It also has a bond ETF holding. The original weighting was 10% for each stock with the bond ETF starting with a 20% position. That has now been reduced because equity increases have outpaced the bond market.

I used several criteria to choose the stocks. These included a superior long-term growth profile, industry leadership, a good balance sheet, a history of dividend increases, and relative strength in down markets.

The objective is to generate decent cash flow (all the stocks but one pay dividends), minimize downside potential, and provide slow but steady growth. The target rate of return was originally set at 8% annually.

These are the securities we hold with comments on how they performed since my last review in December. Prices are as of the close of trading on June 15.

IWB BUY & HOLD PORTFOLIO

iShares Canadian Universe Bond Index ETF (TSX: XBB). The bond market appeared to be turning around. But when inflation refused to fall as quickly as hoped, the Bank of Canada started to raise rates again. That was bad news for XBB. The units are down $0.67 since the time of our last review in early December. That's not a lot, but it's directionally not what we want to see. We received distributions totalling $0.412 per unit.

BCE Inc. (TSX, NYSE: BCE). BCE shares hit a 2023 high of about $65 in April but have been retreating since due to weak performance numbers. The company stunned the media community last week when it announced major cutbacks that included several high-profile TV reporters. The company increased its dividend from $0.92 per share to $0.9875.

Brookfield Asset Management (TSX, NYSE: BAM), Brookfield Corporation (TSX. NYSE: BN). Pay attention because Brookfield has made another of its unusual financial manoeuvres. We have owned shares of Brookfield Asset Management (BAM) in this

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portfolio for years. In December, BAM decided to change its name to Brookfield Corporation (trading symbol BN). BN then spun-out shares in its asset management business (BAM), with BN shareholders receiving one share of BAM for every four shares of BN they owned. So, we now own shares in both companies, with BN being the original and BAM the spin-off. Confusing? You bet! BAM pays a quarterly dividend of US$0.32 a share. BN pays US$0.07.

CN Rail (TSX: CNR, NYSE: CNI). After an impressive performance last fall, CN shares have slipped back again, losing $16.86 in the latest period. Because of timing we received three dividend payments totalling $2.31 a share. The dividend was increased by 7.8% effective with the March payment.

Enbridge (TSX, NYSE: ENB). Enbridge shares were hit by rising interest rates and weaker energy prices. The shares are down $5.73 since the December update. We received two quarterly dividends for a total of $1.775.

Toronto Dominion Bank (TSX, NYSE: TD). The banks are still under pressure as investors are concerned about a possible recession and the turmoil in US regional banks. TD's planned takeover of Horizons Bank, which would have significantly enlarged its US footprint, has been aborted. The stock has performed poorly since our December review, losing $11.21. We received two dividend payments of $0.96 each for a total of $1.92 per share.

Alphabet (NDQ: GOOGL). Tech stocks were crunched last year as the boost from the pandemic evaporated. But this year is another story. Alphabet shares are up by about 25% since our last review, making this our top performer in the past six months. This is the only stock in the portfolio that does not pay a dividend.

UnitedHealth Group (NYSE: UNH). UNH is the top health insurer in the US and until now has been a steady profit producer. But the shares lost a surprising US$71.07 (13.2%) since our last review. One of the company's top executives said in a presentation that UNH was expecting to cover the costs of a higher number of elective surgeries

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IWB BUY & HOLD PORTFOLIO

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that had been postponed by the pandemic. Those remarks prompted some people to sell, and others decided to take profits. This should just be a temporary situation, however. The beauty of the insurance business is that when costs go up, the companies respond by raising premiums. We received three dividends due to timing, for a total of US$5.18 per share.

Walmart (NYSE: WMT). Walmart shares posted a gain of $4.36 during the review period. We received three quarterly dividends for a total of US$1.70 per share.

Cash. We moved our cash and retained earnings of $2,726.17. to CIBC, which was offering a special rate of 4.5% on new eAdvantage Savings Accounts. We received $61.34 in interest.

Here is the status of the portfolio as of June 15. The Canadian and US dollars are shown at par, but obviously the US holdings are doing better thanks to the strength of the greenback. Trading commissions are not factored in, although in a buy and hold portfolio they are not significant in any event.

IWB Buy and Hold Portfolio (a/o June 15/23)

Symbol	Weight %	Shares	Average Price	Book Value	Current Price	Market Value	Retained Earnings	Gain/ Loss %
XBB	9.5	520	$31.37	$16,312.30	$27.38	$14,237.60	$349.27	-10.6
BCE	7.8	195	$47.46	$9,255.29	$60.00	$11,700.00	$560.62	+33.5
BN	10.9	370	$12.75	$4,716.94	$44.17	$16,342.90	$415.09	+255.2
BAM	2.8	93	$4.25	$1,572.31	$44.75	$4,161.75	$13.02	+165.5
CNR	12.0	115	$47.64	$5,478.15	$155.89	$17,927.35	$429.86	+235.1
ENB	6.9	210	$42.85	$8,998.45	$49.23	$10,338.30	$372.75	+19.0
TD	9.9	185	$45.50	$8,417.10	$80.58	$14,907.30	$431.40	+82.2
GOOGL	13.3	160	$39.72	$6,355.92	$125.08	$20,012.80	$0	+214.9
UNH	14,0	45	$112.47	$5,061.15	$465.89	$20,965.05	$1,569.35	+345.2
WMT	12.6	120	$109.44	$13,132.40	$157.73	$18,927.60	$405.20	+47.2
Cash	0.3			$416.73		$478.07		
Total	100.0			$79,716.74		$149,998.82	$4,546.56	+93.9
Inception				$49,945.40				+209.4

Comments: The new portfolio value (market price plus retained dividends/ distributions) is $154,545.38. That compares to $160,065.12 at the time of the last review, for a loss of 3.4%.

All our securities lost ground during the period except Alphabet, which rebounded strongly, and Walmart.

Since inception, we have a total return of 209.4%. That represents an average annual compound growth rate over 11 years of 10.81%. Despite the latest setback, that is well ahead of our 8% target.

Changes: Normally, I don't make changes to this portfolio. Buy and hold should mean exactly that. But we have an unusual situation this time. The Brookfield spin-off has left us with two Brookfield stocks in the portfolio. Brookfield Corporation (BN) gives us exposure to all sectors of the company: asset management, real estate, renewable power, infrastructure, etc. Brookfield Asset Management (BAM) only targets one segment of this vast conglomerate.

Accordingly, we will retain our position in BN and sell our shares in BAM for $4,174.77 (including the small amount of retained earnings). We will use the money to buy 30 shares of Proctor & Gamble (NYSE: PG) at $148.45. The total cost is $4,453.50. We will take $278.73 from cash to make up the difference.

P&G should need no introduction to readers. Almost everyone has some of its products in their homes. The stock has a long history of gradual increases and is

IWB Buy and Hold Portfolio (revised June 15/23)

Symbol	Weight %	Shares	Average Price	Book Value	Current Price	Market Value	Retained Earnings
XBB	9.6	530	$31.29	$16,586.10	$27.38	$14,511.40	$75.47
BCE	7.9	200	$47.78	$9,555.29	$60.00	$12,000.00	$260.62
BN	10.8	370	$12.75	$4,716.94	$44.17	$16,342.90	$415.09
PG	2.9	30	$148.45	$4,453.50	$148.45	$4,453.50	$0
CNR	11.9	115	$47.64	$5,478.15	$155.89	$17,927.35	$429.86
ENB	6.9	210	$42.85	$8,998.45	$49.23	$10,338.30	$372.75
TD	10.1	190	$46.42	$8,820.00	$80.58	$15,310.20	$28.50
GOOGL	13.3	160	$39.72	$6,355.92	$125.08	$20,012.80	$0
UNH	13.9	45	$112.47	$5,061.15	$465.89	$20,965.05	$1,569.35
WMT	12.6	120	$109.44	$13,132.40	$157.73	$18,927.60	$405.30
Cash	0.1			$199.34		$199.34	
Total	100.0			$83,357.24		$150,988.44	$3,556.94
Inception				$49,945.40			

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 $5.02.*

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.

Performance: After peaking at $7.67 in early January, the shares have been treading down.

Distributions: Investors are currently receiving $0.20319 per quarter ($0.813 a year), to yield 16.2%. This is a significant increase from $0.125 a quarter at the time the recommendation was made.

Comments: PIC.A is a structured security that acts like a long-term call option on Canada's five largest banks. Rising interest rates have impinged on loan margins for all the banks, which as you might expect has caused the value of PIC.A to decline sharply from the last update in February.

Not much is likely to change through the remainder of 2023, although banks will probably lead the recovery. That should begin in earnest when central banks hit the pause button.

The potential benefit from holding this security is that profits come in the form of quarterly dividends. Since the initial recommendation in December 2020, the security has paid out $1.952 in dividends. Even at today's depressed price, that represents a total 3.5-year annualized return on investment of 27.85%.

Action now: Hold.

First Trust Dow Jones Internet Index Fund

HOLD

NYSE: FDN *Originally recommended on July 30/18 (#21828) at $140.20. Closed Friday at $162.71. (All figures in US dollars.)*

Background: FDN holds major stakes in the mega-tech space, notably among the FAANG+ stocks – Facebook (now Meta), Apple, Netflix, Google (now Alphabet), and Microsoft.

Performance: The units are well up from their 52-week low of $114.86, touched in late October. Since then, they have staged an impressive rally, closing Friday at $162.71. That's well above our original recommended price.

Key metrics: The ETF was launched in June 2006. Assets under management total $5.3 billion. The MER is 0.51%.

Portfolio: This is a large cap tech fund, and the top holdings are similar to those at the last review. Alphabet (classes A and C) is the top position at 11.31%. Amazon.com is next at 10.53% of assets, followed by Meta Platforms (8.8%), and Netflix (5.5%).

Comments: High tech stocks have generated about 50% of the return in the S&P 500 index this year. That tells us that the current upside trajectory is narrowly focused. That said, the companies that make up the bulk of the holdings in this ETF are at the cutting edge of Generative AI, which, in my mind, is transformational. If you consider that FDN traded as high as US$250 in August 2021, there is plenty of potential upside.

Action now: Hold.

Global X U.S. Infrastructure Development ETF

SELL HALF

NYSE: PAVE *Originally recommended on Feb. 17/20 (#22007) at $17.82. Closed Friday at $30.19. (All figures in US dollars.)*

Background: This is a sector specific fund that seeks to provide investment results that correspond generally to the price and yield performance, before fees and expenses, of the US Infrastructure Development Index. This index is designed to measure the performance of US listed companies that provide exposure to domestic infrastructure development.

Performance: After a slump in March, the fund has been trending steadily higher.

Key metrics: The fund was launched in March 2017 and has assets under management of about $4.4 billion. The MER is 0.47%.

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INFLATION COOLS LESS THAN EXPECTED

By Richard N. Croft, Associate Publisher

The May read in the Consumer Price Index (CPI) supported the position that inflation is receding. US inflation came in lighter than expected, rising 0.1% month-over-month, which was in line with economist's estimates.

The year-over-year number fell for the eleventh consecutive month. Based on May's month end data, the year over year CPI came in at 4.0% versus 4.9% for April, well down from last year's peak number of 9.1%.

The core CPI – which strips out volatile items like food and energy costs – was very much in line with expectations, rising 0.4% in May versus 0.4% in April and forecasts for 0.4%. Core CPI slowed to 5.3% year-over-year which was in line with expectations and down from 5.5% in April.

What the numbers are telling us – the same story is unfolding in Canada – is that the cost of accommodation and services are holding sway on the numbers. Increases in shelter costs and used vehicles pushed the index higher. That was offset somewhat by declines in prices for fuel oil, new vehicles, and groceries.

Shelter accounts for approximately one-third of the CPI basket and because of its influence on the month-over-month data, it is helpful to understand how it is calculated. Shelter costs are not, as many believe, a reflection of the absolute price increase in median home price across the country. Rather, shelter inflation is calculated using a measure known as "owner's equivalent rent," which attempts to measure what a given house would rent for on the overall market. Using this metric addresses the fact that shelter costs for homeowners and renters can vary substantially. The owner's equivalent rent aims to smooth out the attendant distortions.

Tamping down shelter inflation is a two-step process. Since rents tend to lag, residential property values must first recede. Theoretically, as property values retreat future rent increases will moderate. At least that's the theory. The problem is that lack of supply has caused an escalation in residential property values.

Compounding the problem is the attendant cost of carry associated with higher mortgage rates. As central banks raise rates to slow economic activity, they are inadvertently escalating the major component in the CPI, which means that getting inflation from where it is to target, will be a formidable challenge.

Given the challenges surrounding shelter costs, it should not have come as a

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surprise that the US Federal Reserve (Fed) decided to hold rates steady at the June meeting. This was not a pause or pivot, but a so-called "skip" strategy. Think of the June decision as a conditional pause, much like we saw with the Bank of Canada (BoC) that moved from the sidelines by raising its benchmark rate by 0.25% at the June meeting. The BoC had been on a rate hike hiatus since January.

The Fed's objective is to evaluate the impact of hikes that have already occurred. How the economy responds will determine whether another rate hike is likely at the July meeting.

There are subtleties underpinning a "skip" strategy. So many in fact, that it makes one wonder if descending into a nuanced rabbit hole is worth the effort. Fair question!

From our perspective, it *is* worth the effort because of the impact nuanced decisions have on market perception. Three months ago, investors would have viewed a decision not to raise rates as a sign that the Fed was finished and there would be a period of stability that would lead to rate cuts by year-end. The decision to skip a rate hike implies that more are on the table. In our view the committee will likely re-engage with another rate hike at the July meeting depending on incoming data. Most importantly, we think there is virtually no chance that the Fed will cut rates in 2023.

In terms of the data, the main concern will be whether shelter costs become entrenched. That's not the prevailing view. The cost of home ownership is highly dependent on mortgage rates, which by all accounts are close to peaking. The costs associated with renting are more complex. Low unemployment, demographics, demand, and mortgage costs directly impact what a landlord can charge. No quick fixes among these factors.

Beyond housing data, the Fed has been taking a closer look at the "super-core" inflation rate. This is an obscure dataset that excludes food, energy, and shelter. It focuses instead on raw material costs and services such as those provided by lawyers, plumbers, gardeners, and hairdressers. That number remains well above trend.

Historically, the Fed had focused on "core" inflation because the components tended to be less volatile and, by extension, transitory. The super core concept gained notoriety after being outed by Fed Chair Jerome Powell and Nobel laureate economist Paul Krugman. In Powell's view, removing components that cause inflation spikes and focusing on elements with entrenched price behavior provides a better measure of the longer-term direction of prices across the broader economy.

The Fed spends a lot of time drilling down into the super core components with specific emphasis on labor costs within the service sector. For instance, prices of

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haircuts and personal grooming services rose from January to December 2022, according to a Wall Street Journal analysis. In comparison, prices of televisions fell in the same period, highlighting that the issue with persistent inflation could be due to the rising prices of services rather than goods.

The cost of services is the direct result of a tight labor market that has been more robust than anyone expected. That said, some cracks seem to be emerging. In Canada, for example, the May labour report showed a decline of 17,000 jobs (note this report was released after the aforementioned quarter point rate hike), which is the first decline after eight consecutive months of job growth.

A more muted story in the US is unemployment ticking up. But a rate of 3.7% is not likely to moderate Fed policy. More important is the surprising resilience in the US economy. It's a glass half-full or half-empty depending on one's positioning.

The half-full perspective implies that a robust economy raises the likelihood that the Fed can orchestrate a soft landing. The half empty line of reasoning suggests further rate hikes will impinge profits and delay any return to normalcy.

Then there is the super core focus underpinning Fed decisions. The Fed has already raised interest rates eight times since early 2022 pushing up the cost of borrowing. This theoretically should encourage people to save. That's a tough sell to American consumers who are typically aggressive spenders.

Knowing where we are on the inflation front is one thing; how the markets are likely to react is another. Given the surge in stock prices, particularly among the big tech names whose performance has been backstopped by the generative AI craze, we are of the view that traders believe that the rate hiking cycle is all but finished. They may be right. If so, then we are at the early stages of a new bull market. IWB readers should keep their tech positions and hold the banks, which should recover nicely as the completion of the rate hike cycle will have a positive impact on their margins.

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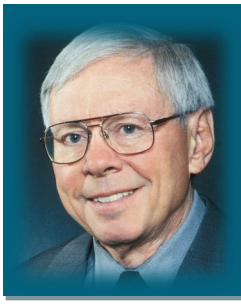
Portfolio: The ETF has 99 holdings which are basically equal weighted. Top five positions include Eaton Corp., Parker Hannifin Corp., Fastenal Corp., Rockwell Automation, and Trane Technologies.

Comments: This was originally recommended as a diversified way to benefit from US infrastructure spending that was a significant part of Democratic platform. I still like the prospects but given the 40%+ annualized return since the original recommendation, I suggest that you sell half your position, if you have not already done so. Hold the rest.

Action now: Sell half/Hold.



GORDON PAPE'S ETF UPDATES

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

BMO Low Volatility Canadian Equity ETF TSX: ZLB *Originally recommended Feb. 18/19 (#21907) at $31.53. Closed Friday at $41.09.*

BUY

Background: This ETF invests in a portfolio of large-cap Canadian stocks that have a low beta history, meaning they are less sensitive to broad market movements and, therefore, theoretically less risky. The portfolio is rebalanced in June and reconstituted in December.

Performance: It's been an up and down year for this fund with the net result being a gain of 5.52% so far in 2023 (to May 31). The fund stood up well during the broad market pull-back in 2022, losing only 0.37%. Over the past five years, this ETF has generated an average annual return of 9.39%.

Portfolio: There are 47 positions in the portfolio, all Canadian companies. Hydro One tops the list at 4.13%, followed by Canada's big three grocery chains: Metro Inc. (3.58%), Empire Co. (3.51%), and Loblaw Co. (3.28%). The only holdings that match or exceed 3% of assets are Fortis (3.19%) and Emera Inc. (3.0%).

In terms of sector breakdown, 19.42% is in financials (a significant underweight from the TSX Composite), 15.86% in consumer staples, and 14.44% in utilities. Energy, which is the second-largest sector in the Composite, has negligible representation.

Key metrics: The fund was launched in October 2011 and has $3.1 billion in asset under management. The MER is 0.39%.

Distributions: The fund makes quarterly payments, which are currently running at $0.28 per unit ($1.12 per year). At that rate, the yield at the current price is 2.7%.

Tax implications: In 2022, about 59% of the distributions were treated as eligible dividends, meaning they qualified for the dividend tax credit if held in a non-registered account. Another 39% was classed as capital gains. So, this is a very tax-efficient fund.

Risk: Medium. Although this is a low-volatility fund, it is not immune from stock market risk. However, as 2022 showed, the fund did much better than the broad market in a steep decline.

Conclusion: This ETF should continue to move modestly higher and offers downside protection in the event of another sell-off.

Action now: Buy.

BMO Low Volatility International Equity Hedged to Canadian Dollar ETF

HOLD

TSX: ZLD *Originally recommended on Feb. 18/19 (#21907) at $24.04. Closed Friday at $25.31.*

Background: This is the international equivalent of the Canadian Low-Volatility EFT described above. It focuses on stocks from developed countries outside North America. The fund invests in units of ZLI, a companion low-volatility fund that is unhedged. In this fund, foreign currency exposure is hedged back into Canadian dollars, thereby eliminating one level of risk.

Performance: After touching a 52-week low of $21.84 in October, the ETF has been trending higher. It posted a loss of 7.68% in 2022 but is up 7.54% year-to-date (to May 31). The average annual compound rate of return since inception is 6.14%.

Portfolio: ZLI, which is the underlying fund here, holds 101 stocks. Japan is the number one favorite country, with 18.45% of the portfolio, followed by Britain (16.48%), France (12.03%), and Germany (11.23%).

The portfolio is well-balanced, with consumer staples the largest sector at 16.25% followed by healthcare (15.96%), industrials (15.57%), and utilities (13.07%).

Key metrics: The fund was launched in February 2014 and has not attracted a lot of investor interest, with only $29.7 million in assets under management. That raises questions about its on-going viability, which means at some point it could be merged or closed. Your assets would be protected in those circumstances, but you would need to find an alternative investment. The MER is 0.44%.

Distributions: The fund makes quarterly payments, which are currently running at $0.17 per unit ($0.68 per year), for a yield at of 2.7%.

Tax implications: In 2022, most of the distributions were foreign income. That's fully taxable in a non-registered account although it's partially offset by a foreign tax credit. So, there are some tax advantages here, but not to the same degree as in the Canadian entry.

Risk: I would rank this is somewhat higher risk than the Canadian fund, as international stocks have tended to be more volatile recently.

Conclusion: This ETF is a useful addition if you want some lower-risk overseas exposure in your account.

Action now: Hold.

CI First Asset Canadian REIT ETF TSX: RIT

HOLD

Originally recommended on Feb. 18/19 (#21907) at $17.30. Closed Friday at $16.

Background: This fund invests in an actively managed portfolio comprised primarily of securities of Canadian real estate investment trusts (REITs), real estate operating corporations (REOCs), and corporations involved in real estate related services. The fund may also invest up to 30% of its net asset value in non-Canadian real estate businesses.

Performance: It's been a rocky road for the real estate sector and all funds associated with it. In 2019, this ETF posted a gain of about 18%. Then the pandemic hit and suddenly the revenue of many REITs was at risk, especially those focused on the retail, hotel, and office sectors. That was following by a period of rising interest rates, which continues to this day. Higher rates are never good news for REITs.

Against that background, it's not surprising the fund was down 11.6% over the year to May 31. The good news is it appears to have stabilized, with a year-to-date gain of 0.9%. Since inception the average annual compound rate of return is 9.1%.

Portfolio: The fund holds 37 securities in more-or-less equal balance. The top positions are in Dream Industrial REIT (5.24%), Granite REIT (5.22%), Canadian Apartment Properties REIT (4.81%), and Killam Apartment REIT (4.63%). About 90% of the investments are in Canada with the rest in the US.

Key metrics: The fund was launched in November 2004 and has $566 million in asset under management. The MER is high at 0.87%.

Distributions: The fund makes monthly distributions, which have been at $0.0675 per unit ($0.81 per year) since early 2016. The yield at the current price is 5.1%.

Tax implications: The fund is tax efficient. In 2022, almost 40% of the distributions were treated as capital gains, with about 36% qualifying as return of capital.

Risk: At this point, this ETF should be treated as higher risk due to the possibility of more rate hikes. Once the rate cycle is over, we'll review the risk status.

Conclusion: We may have seen the low for this ETF but with the uncertainty of more rate hikes and a potential recession looming, caution should be exercised. However, the yield is very attractive, so I suggest you maintain your positions.

Action now: Hold.