

Comments from the CIO's office

Martin Lefebvre is National Bank Investments Chief Investment Officer and Strategist. Please see below for key takeaways from his June Asset Allocation update.

After an eventful first half of the year, returns across asset classes remain tinged with red, with a few exceptions (chart below).

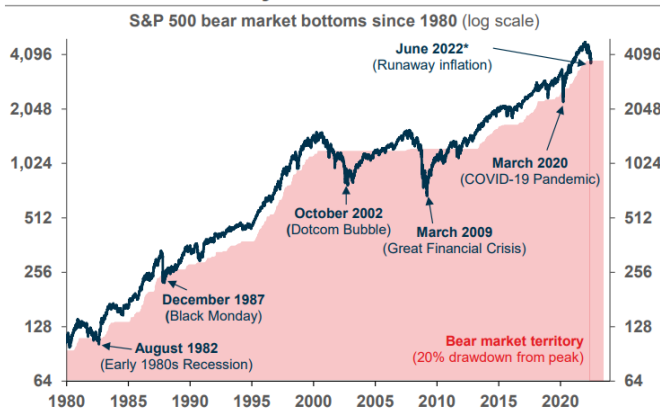
1 | A first half of the year tinged with red...

2022 Total Returns (YTD, as of June 30 2022)						
Cross Assets	Fixed Income*	S&P/TSX Sectors	S&P500 Sectors	Equity Regions (in C\$)	U.S. Factors	CA Factors
Commodities 35.3%	Cash 0.2%	Energy 26.2%	Energy 31.8%	LatAm (EM) 1.8%	High Dividend -8.8%	High Dividend 1.3%
C\$ per USD 2.1%	Short Term -4.2%	Utilities 1.3%	Utilities -0.6%	Canada -9.9%	Low Volatility -10.5%	Momentum -2.5%
Gold -1.5%	Federal Gov. -9.3%	Comm. Serv. -0.7%	Cons. Staples -5.6%	Asia (EM) -15.3%	Value -12.4%	Value -3.6%
Can Pref. -9.9%	Preferred Shares -9.9%	Cons. Staples -1.1%	Materials -7.6%	Emerging Mkts -15.7%	Large Caps -20.9%	Low Volatility -4.1%
S&P/TSX -9.9%	Corporate -10.9%	Materials -8.3%	Health Care -8.3%	EAFE -17.5%	MSCI USA -21.1%	Large Caps -9.6%
Can Bonds -11.9%	Overall Universe -11.9%	Industrials -9.3%	Industrials -16.8%	Japan -17.6%	Small Caps -21.5%	S&P/TSX -9.9%
Balanced* -13.7%	Inv. Grade (US) -13.9%	Financials -11.2%	Financials -18.7%	U.S. -18.3%	Quality -23.6%	Quality -11.9%
High Yield (US) -14.0%	Prov. & Muni. -13.9%	Cons. Disc. -17.1%	Real Estate -20.0%	World -18.3%	Momentum -24.0%	Small Caps -14.1%
Emerging Mkts -17.5%	High Yield (US) -14.0%	Real Estate -21.7%	Technology -26.9%	Europe -18.7%	Growth -25.9%	Growth -20.4%
EAFE -19.3%	Real Return -17.8%	Health Care -23.9%	Comm. Serv. -30.2%	EMEA (EM) -26.8%		
S&P 500 -20.0%	Long Term -21.9%	Technology -25.3%	Cons. Disc. -32.8%			

CIO Office (data via Refinitiv).

Incidentally, June turned out to be quite volatile for U.S. stocks, as a brief rebound early in the month was succeeded by a swift drop into bear market territory – the first since March 2020 and only the sixth since 1980 (chart below).

2 | ... and marked by a bear market for the S&P 500



CIO Office (data via Refinitiv).

Triggering this downturn was the announcement of inflation figures well above expectations in the United States. Not only did the annual growth rate of the Consumer Price Index (CPI) accelerated to 8.6% in May but, more worryingly, the monthly pace of the median CPI calculated by the Cleveland Fed – probably one of the best indicators of underlying inflationary pressures – reached a new record high.

All else equal, this means that U.S. monetary policy is likely to fall into restrictive territory as early as the start of 2023, which, over the past five decades, has always ultimately resulted in a recession.

Reflecting upon these developments, the bond market has started to signal a growing likelihood of recession via an increased number of inversions within the yield curve. While this measure has not yet crossed its more probing threshold, there is little doubt that it will soon do so if the Fed does not lower its rate-hike intentions by the end of the year.

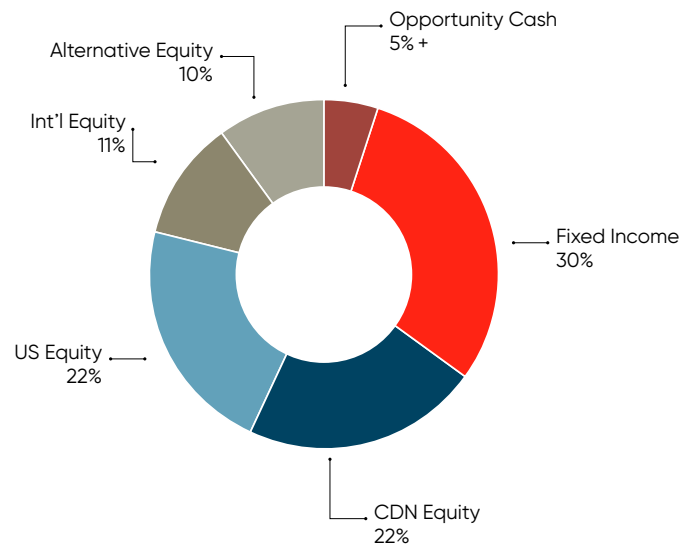
What's a Mid-Year Check In Got To Do With It?

On July 15th we sent out a mid-year check in newsletter. As we enjoy these summer months and things start to slow down a little, we want to make sure that all items are checked off your list. The continued market volatility may be weighing on your mind, and we don't want this to affect your summer plans. Whether you check your online access frequently or not, we encourage all clients to make sure that they have this set up. After a down day in the markets, it can be reassuring to know where your portfolio stands and to see the automatic changes we are making to the discretionary models. Please let us know what is on your list to discuss. We are also pre-booking portfolio reviews for the fall, so please reach out to schedule a time to meet either in person or virtually!



On the theme of checking in, we also want to provide an update from our June monthly update. Our topic was Bear Markets as the fear of a recession became more prevalent following the 75 basis point US fed interest rate increase. This was one of the causes for the sharp decline in the markets last month. Since then, we have seen some recovery, especially at the time of writing this update during the last couple weeks of July. The Bank of Canada increased interest rates 100 basis points mid-July, but we didn't see the same reaction in the Canadian market as we did in the US in June. While inflation remains at multiple decade highs, we can expect the aggressive approach of increasing rates by central banks to continue. We are hopeful that some of the recent market recovery will hold, but it will largely depend on the upcoming earnings season. With the latest economic developments in the US, we are expecting that a lot of companies will have earnings forecasts revised downward. During these times, diversification of your portfolio is of high importance. Our CDN quant has 16 companies and our USD has 17, providing the protection needed during these volatile times.

Growth Investment Model Goal Asset Allocation



Your Investment Policy

GROWTH PROFILE: Your main goal is to achieve growth in your investments. Although you can tolerate greater changes in the market value in order to increase the value of your assets, you are not prepared to invest your entire portfolio in equities. If you feel that your risk tolerance is shifting, please let us know!

Source: This information is for illustration purposes and subject to change. Your portfolio may not hold all of these positions. We enhance the composition of your portfolio with additional equity solutions that are not illustrated. The weightings change with market fluctuations and model rebalancing.



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