Conservative income

March 2022 Edition

Market Volatility ~ Laurel Hickey & Garth Bluekens

Comments from the CIO's office

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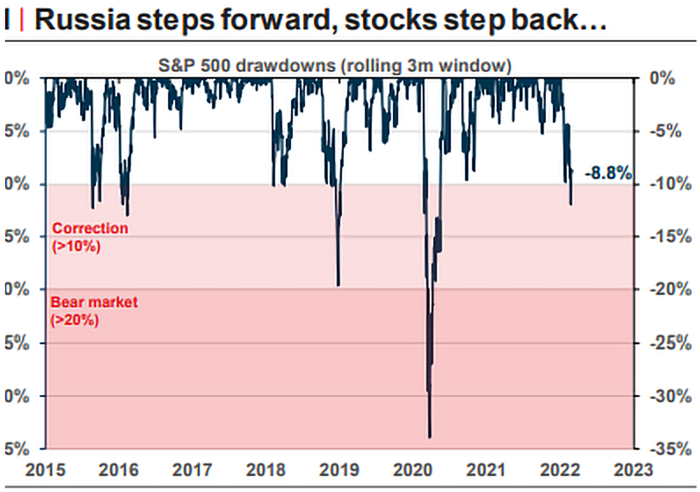
If 2022 had already been shaping up to be a volatile year for markets with central banks gradually withdrawing their accommodative policies, the advent of the most serious European military conflict since the end of World War II has added a degree of uncertainty of a far more profound dimension.

After a challenging January, tension continued to rise in stock markets throughout February, with the S&P 500 momentarily revisiting correction territory (-10%) as the Russian President crossed the Rubicon and launched a full-scale invasion of its democratic neighbour to the west (see below).



These historic circumstances resulted in a second consecutive month of broad-based losses across major asset classes.

Looking back, while the start of 2022 is certainly uncomfortable for investors, it may not be as dire as one might think from a Canadian perspective, as tragic as the situation in Ukraine may be. For instance, Canada's flagship stock index (S&P/TSX) is practically unchanged year-to-date, supported by the higher weighting of energy, materials, and financials within its sector allocation. Naturally, the situation is more challenging abroad, but the losses are fairly limited: between -4% and -8% in C$ after two months in 2022.

Looking ahead, large fluctuations are likely to continue (in both directions) as markets assimilate the impact of President Putin's military campaign on the global economy which remains difficult to quantify. In parallel, the upcoming Federal Reserve rate normalization campaign will also be a focal point in the coming weeks. At both ends, nothing can be taken for granted, although the level of uncertainty and the fundamental importance (i.e., beyond the mere impact on financial markets) of the conflict sparked by the Russian leader goes far beyond upcoming decisions on the monetary front.

What's Market Volatility Got To Do With It?

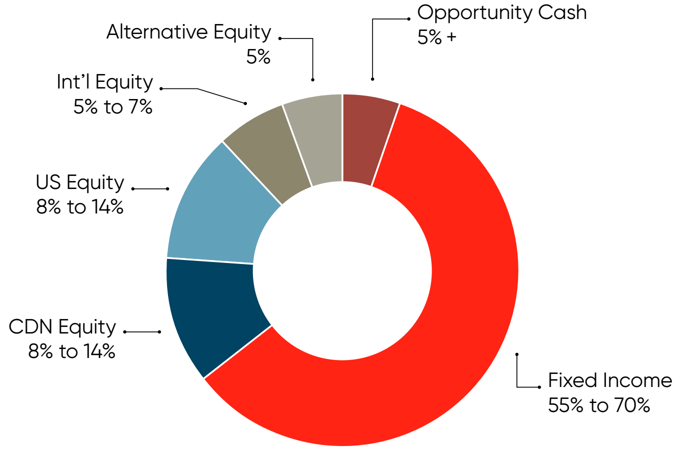
As mentioned in the CIO's comments, we have been dealing with persistent market volatility since the start of 2022. When you see markets around the world selling off, your gut reaction may be to sell and cut your losses. This type of reaction comes with great risks as it can significantly impact your retirement plan. Before putting your money at risk, you need to understand why you are investing and what your time horizon is. Market volatility is of more concern if your money has a short-term time horizon. If you have a large purchase coming up that you need to liquidate your accounts for, then raising the funds sooner rather than later may be more beneficial. If you have a long-term time horizon and your goal is retirement in 10 years or more, then staying invested and riding out the volatility may be more beneficial.

Whenever there is market volatility it is important to understand why it is happening. As we mentioned in the February update, the impending rise of interest rates is causing uncertainty with investors. The rising rates are an effect of rising inflation that we have been seeing since last year. Another major source of volatility is from Russia announcing that they were invading Ukraine.

The day following the announcement the US market was down close to 3% at one point, before fully recovering the losses by market close. This volatility has continued into the early weeks of March, and it is hard to tell if it will be brief or drawn out. As mentioned in NBC Financial Markets Geopolitical Briefing, Russia is a major supplier of oil and gas, industrial metals, and wheat. As this conflict continues, we could continue to see a surge in the price of these items. This adds to the already high levels of inflation we are seeing coming out of the pandemic.

If you feel that your risk tolerance is changing through these volatile times, please let us know. When choosing your risk tolerance, you may feel that you are more comfortable with risk because it is just a hypothetical as opposed to seeing the change in the value of your accounts in real time. We have 5 risk models to choose from. Let us know if you would like to re-evaluate your risk objectives.

Conservative Income Investment Goal Allocation



Your Investment Policy

CONSERVATIVE INCOME: On the whole, you want fixed income investments. You want to preserve your capital or create a source of periodic income to finance ongoing expenses. You are not against the idea of investing a small part of your portfolio in equities, mainly to counteract the effects of inflation. If you feel that your risk tolerance has shifted 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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