Maximum growth | November 2022 Edition

Staying Invested ~ Laurel Hickey & Garth Bluekens

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 November Asset Allocation update.

On both sides of the border, year-over-year inflation remains unacceptably high for central banks, i.e., well above the 2% target. However, in the shorter term, the trend is more encouraging as, on a three-month annualized basis, a marked slowdown can be observed (chart below).

For now, this deceleration is primarily driven by prices of a more volatile nature, such as goods, and this trend may continue for some time. Indeed, global supply chains continue to improve, while the recent decline in agricultural and oil price growth – though still subject to significant risks from the conflict in Ukraine[1] – suggests some relief in food and energy inflation.

Nevertheless, policymakers have repeatedly mentioned that their concerns are primarily about underlying inflation[2] which they have more influence over. In this regard, there are few signs of a slowdown according to the Atlanta Fed's sticky Consumer Price Index (CPI), a measure that focusses on the components of the consumer basket whose prices only change infrequently (mostly services). However, it should be noted that part of this "stickiness" in price growth is explained by a lag bias stemming from the way shelter prices (which account for about one-third of total inflation) are measured in the CPI[3]. In short, in addition to the natural lag between a movement in house prices and a movement in rent (landlords don't adjust rents every month), the estimate of shelter costs is based on a sample that includes current prices and dated prices (each rent is measured only twice a year). In the end, we therefore observe a significant time lag (about 15 months) between a change in house prices and shelter inflation. Thus, we will probably have to wait until the Summer of 2023 to see this component of the CPI decelerate meaningfully even if, in practice, declines in house prices are already being observed.

In this context, it will therefore be important to keep a close eye on core inflation measures that exclude shelter in order to get a better idea of current trends, not those of several months ago. For now, the picture remains much the same. But, a cooling labour market should ultimately help reduce core inflationary pressures and some signs are beginning to emerge in this regard.

What's Staying Invested Got To Do With It?

We are close to the end of the year and the market is still in unrest. We did see some recovery in October following better than expected inflation numbers, but there are still days where the market has large drawdowns. The market moving more than 1%, both up or down in a given day can cause high emotions for investors. We go from thinking that we could be on our way to recovery, to thinking that there is still more

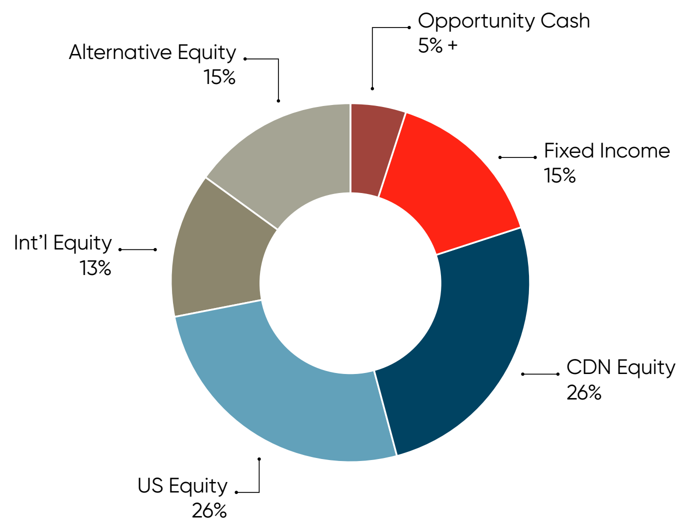
[1] Russian exit from Ukraine grain deal 'catastrophic' for poor nations, Financial Times, October 30, 2022.
[2] According to the Bank of Canada, core inflation must be less volatile than CPI and capture persistent movements in inflation.
[3] Home prices are not an input to the CPI; the Bureau of Labor Statistics (BLS) only considers the change in rent prices and then an adjustment is made to estimate the impact of these changes on households that own their homes (the "Owners' Equivalent Rent" component in the CPI). Rent prices are collected by surveying a sample of renters every six months (some households are surveyed in January and July, others in February and August, etc). For more details, see: Measuring Price Change in the CPI: Rent and Rental Equivalence.

downturn to come. In these uneasy times, it can be tempting to make a short-term decision of liquidating your investments even though this would put your longer-term plan at risk. Many people think they would benefit more from exiting the market and re-entering when there is more certainty of recovery. The issue with this, is it is almost impossible to time the market and often, your return will suffer in the long term. In the 2022 NBF Investing Guide[4], they illustrate the benefits of holding onto your investments during market fluctuations. In 2008, if you exited the market at a portfolio value of $87,736 and then re-entered the market 1 year later, the market value of your portfolio in 2021 would be $177,033. If you had stayed invested, the portfolio would have a market value of $277,965. This is why it is important to stick to a disciplined approach to investing. By having a diversified portfolio and remembering the importance of time horizon, you can ride out market volatility and come out stronger on the other side.

We want to talk about these emotions that come with investing. We like to celebrate with our clients in times of positive returns, but we also want to support and provide reassurance in these times of negative returns.

[4] NBFWM 2022 Investing Guide- Should you hold on to your investments during market fluctuations? (pg.8)

Maximum Growth Investment Model Goal Asset Allocation



Your Investment Policy

MAXIMUM GROWTH PROFILE: You want to maximize the growth of your investments by investing all or most of your portfolio in equities. In doing so, you accept a higher level of risk and change in the value of your investment in the hope that your returns will ultimately be higher. 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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