Conservative income October 2022 Edition

# Benchmarks ~ 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 October Asset Allocation update.

Investors endured quite a roller coaster ride in the third quarter. After a sharp rise for equities in the first half of the period, the descent that began at the end of August accelerated in September, bringing the vast majority of assets into negative territory for a third consecutive quarter.

Besides, several key technical levels were crossed in recent days. On the equity front, the S&P 500 posted a new low for 2022, reaching a price last seen in November 2020 (chart below).





In bond markets, U.S. 10-year yields surpassed their high of last June as they tested the 4% threshold, a first since April 2010.

Finally, currencies have also had their share of exceptional movement lately, with the tradeweighted U.S. dollar index reaching a 37-year high. Far from being a one-pair affair, the Greenback's strength was observed against all currencies, although it has been

more pronounced relative to Europe (in the midst of an energy crisis) and Japan (where rates remain near zero).

Why all the fuss? Clearly, these turbulences reflect markets' nervousness towards the accelerated monetary tightening carried out by central banks, and especially the Federal Reserve. Indeed, in addition to opting for a third consecutive 75-bp rate hike in September, the Fed is now projecting to stop about 100 bps higher than it had foreseen in June, i.e. at a target rate somewhere between 4.50% and 4.75%.

Obviously, these projections remain conditional upon the evolution of the economic environment. Yet, with only a few months separating us from these aggressive rate-hike projections, the chances of Fed officials changing their minds seem quite slim. As such, while monetary policy is not yet in restrictive territory in the eyes of markets, it probably will be before long.

## What's A Benchmark Got To Do With It?

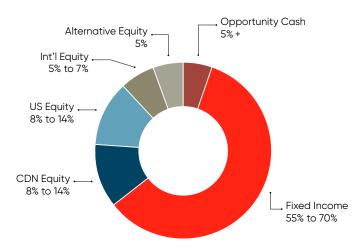
At the time of writing this update, the TSX is down around 10% year-to-date, the Dow is down around 13% and the NASDAQ is down around 30%. Hearing about the performance of the overall market can be confusing because it doesn't necessarily put in perspective how your portfolio is doing year-to-date. When talking about the TSX, Dow and NASDAQ, we are referring to the equity component of your portfolio, which varies based on your risk tolerance. As an example, a balanced portfolio is 60% equity and 40% fixed income versus a maximum growth profile which is 85% equity and 15% fixed income. The performance of the equity category varies even more as equities are broken down through Canadian, US, and International. Within these categories there are variations in performance because each country deals with their own economic and



geopolitical factors. Beyond equities, your portfolio is also composed of fixed income, alternative equity and even a small component of cash (see chart below). Fixed income can be less volatile than equities, but there isn't a perfect negative correlation between stocks and bonds. For example, right now we are seeing a downturn in equities, but since interest rates are going up, bond prices tend to have an inverse relationship and go down.

For our models, we find that the best benchmark to use is a mutual fund with a similar asset allocation. The models are well diversified, with 33 individual stock positions, individual corporate and government bonds, select mutual funds and structured products. There are no mutual funds with our exact holdings, but there are funds with a balanced, conservative, growth or maximum growth mandate. By comparing our performance to the performance of these funds, we get an idea of how well we are navigating these tricky markets.

#### 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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