

July 7th, 2022

Market Volatility and Historical Perspective

Hello,

Financial markets have tested investors' patience since the beginning of 2022. Not only did fears of an economic slowdown and the war in Ukraine push stock markets down more than 20% (its worst first half since 1970), but inflation and interest rate hikes pushed the bond market down 12% (its worst performance in modern history). Even short-term bonds are down 5%. All asset classes (except commodities and energy) are down in 2022.

Actions had already been taken to reduce the risk of the portfolio:

- purchase of short-term bonds,
- addition of preferred shares – good dividend,
- addition of alternative infrastructure investments – good dividend,
- good balance between value style managers (dividend) and growth style.

Several specialized managers we use have also accumulated cash positions (5%-10%) in their fund to reduce volatility.

What should investors do now?

Market volatility is troubling, but historically not unusual. If you have a diversified portfolio that fits your time horizon and risk tolerance, it's likely that the recent market crash will be just a flash in your long-term investment plan.

However, it can be hard to do nothing when markets are tough. Given what has happened recently, consider some recognized investment principles :

Bear markets don't last. Studies of the S&P 500 bull and bear markets dating back to the 50s found that Bear Markets last an average of 11 months and Bull Markets last an average of 67 months (6 times longer).

Resist the urge to sell unless your financial situation warrants it. It is difficult to time a perfect return to the market. Market rebounds tend to be paramount. Missing these key days can have a big impact on performance. A diversified portfolio can help reduce the pain of volatility.

Don't try to time the markets. It's almost impossible. Time spent in the market is what matters. While staying the course and continuing to invest **even when the markets plunge**, it can be difficult rationally but it can be healthier for your portfolio and can result in greater wealth accumulated over time. For example, the stock market price-to-earnings ratio (S&P TSX) which is normally at 16 times earnings is currently at 12 times earnings. Stocks have rarely been so cheap.

Every investor has a different tolerance for risk and volatility, regardless of age. Some experienced investors who are over 80 still have a growth profile (more invested in stocks) and

some 30-year-old investors have a conservative profile (more invested in bonds). Do not hesitate to contact us for a portfolio review if you think your investor profile has changed lately.

I have included, for your reading, the strategic report *Bear Markets Historical Perspective* produced by our Office of the Chief Investment Officer. The conclusion is that the return to an upward trend will likely have to go through a marked slowdown in inflation. For the time being, it is not certain that the return of inflation to a more sustainable level will necessarily have to go through a recession. In addition, beyond short-term fluctuations, it is worth remembering the importance – with supporting figures – of staying the course for investors.

Do not hesitate to contact me for any question and good reading.



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