MARKET & ECONOMIC SUMMARY

Volume 10, Issue 3 – July 2022

MARKET SUMMARY

Second Quarter 2022

S&P/TSX Composite TR

Q2	YTD	1 year
↓13.2%	↓9.9%	↓6.5%

S&P 500 TR (USD)

Q2	YTD	1 year
↓16.1%	↓20.0%	↓10.6%

MSCI EAFE GR (C$)

Q2	YTD	1 year
↓11.5%	↓17.5%	↓13.9%

ICE Bof AML Canada Brd Mkt TR

Q2	YTD	1 year
↓5.6%	↓11.9%	↓11.0%

SECOND QUARTER HIGHLIGHTS

- S&P/TSX Composite hits year-to-date low of 18,661.50 on June 23rd
- S&P 500 hits 12-month low of 3,636.87on June 17th
- Canadian dollar hits 20-month low of $0.7646 USD on June 17th
- WTI Oil maintains 14-year highs at $123.18 USD on June 8th
- Bank of Canada increased overnight rate by 1.00% to 1.50% in Q2

SUMMARY

It was an eventful quarter. Lingering inflation, tightening central bank policy, high oil prices and geopolitical tensions were top of mind for investors. U.S., Canadian and global equities swung back and forth on market volatility, one moment bullishly coping and the next turning bearish, before ending Q2 in the doldrums.

There were several positive North American economic indicators during the quarter. The unemployment rate in the U.S. and Canada remained low and job vacancies grew. Both U.S. and Canadian retail sales chugged along while Canadian house prices continued to cool.

The Canadian federal government also released its 2022 annual budget which included increased military spending, home affordability measures, green initiatives and a tax hike on large banks and insurers. Ontario, representing 40% of Canada's economy, headed to the polls for its provincial election with Premier Ford's progressive conservatives re-elected for a second term with a second majority. Alberta, Canada's oil-producing province, which also has the world's third largest oil reserves, recorded its first surplus in seven years following the surge in energy prices since the turn of the year.

The S&P/TSX Composite Index ended the quarter down 13.2% while the S&P 500 Index posted a loss of 16.1% and the MSCI EAFE Index (CAD) a loss of 11.5%. All the big tech names sold-off after disappointing quarterly results while cryptos fell dramatically as speculative investors exited stage left with their tail between their legs.

Inflation kept climbing across the globe hitting 40-year highs driven predominantly by food and gasoline prices with federal reserve banks responding with aggressive interest rate increases, negatively affecting bonds, and vowing to keep pushing until inflation comes down. There was some good news at the tail end of Q2 however with oil posting its first monthly decline since November last year giving us hope inflation will begin to taper. As a result, the loonie, considered a petro-dollar, weakened against the greenback.

"It might take time, but a rebound will occur, and history has proven investors are rewarded over the long-run." – *Matthew Jenkinson*

STRATEGIC NOTES

A frequently quoted but very apt piece of commentary by Benjamin Graham, the mentor to Warren Buffett, says it well "In the short-run the market is a voting machine. Yet, in the long-run, it is a weighing machine." In the short-run the market will go up and down based on votes being counted but in the long-run produces a more accurate, almost precise, measurement of the circumstance.

Market efficiency concerns the extent to which market prices incorporate available information. An efficient market is thus a market in which asset prices reflect all past and present information, the theory is known as the Efficient Market Hypothesis. Although we don't agree entirely with all parts of the hypothesis, we agree we're able to glean information from the millions of investors as votes are cast and weighed about the economy and vice versa; part art and part science.

It's no secret that we're going to have a recession, we'd argue we're in a recession already. A recession is defined as two consecutive declining quarters of GDP. Q1 US real GDP was -1.6% and the Atlanta Federal Reserve Bank revised their Q2 forecast down from 1% to -1.2%. We positioned the portfolio for this during our annual review in April of 2021 knowing we were going to suffer inflation, subsequent rising interest rates to curb inflation and then recession as economies work out their debt and subsequent lack of capital to invest.

When we look across the capital markets the yield curve inverted (Feb '22) telling us it's riskier to lend in the short-term than for the long-term; a 12/14 strike-rate over 120 years as a leading indicator to a recession. Stocks globally are down ~20% and more importantly have been for a while suggesting the voting has settled and the consensus weighed. The NASDAQ, a growth-oriented index, is down 30% suggesting growth will be more difficult and the TSX is down 10% suggesting Canada will be less affected by a global recession with reason being the energy tailwind unique to Canada.

The bad news is *economically* we must deal with the repercussions of COVID lockdowns which we're surprised took so long to come to fruition. The good news is most of this negativity appears priced into capital markets, we've already embarked into a recession in our opinion, and the light at the end of the tunnel is what the market is seeking, declining inflation with a healthy labor market. We remain cautious as unforeseen negative events have disproportional impacts in tough conditions. It might take time, but a rebound will occur, and history has proven investors are rewarded over the long-run.

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The information in this letter is derived from various sources, including CI Investments, Signature Global Asset Management, Cambridge Global Asset Management, Globe and Mail, RBC GAM, National Post, Bank of Montreal Economics, Yahoo Canada Finance, OilPrice.Com and Trading Economics. Index information was provided by Morningstar, TD Newcrest and Bloomberg. Eastport portfolio returns are net of all investment management fees but do not include an advisory fee. This material is provided for general information and is subject to change without notice. Every effort has been made to compile this material from reliable sources; however, no warranty can be made as to its accuracy or completeness.