January 2022 Newsletter

We would like to wish you and your family a healthy and prosperous 2022. While our team was largely unaffected by COVID-19 last year, we recognize that others were less fortunate. We remain optimistic that the worst is behind us and look forward to less challenging days ahead.

In this newsletter we provide an article on the importance of a wealth plan, a review of our investment process and portfolio results, and a summary of global markets in December.

Wealth Planning for Uncertain Times

During uncertain times, creating or updating your wealth plan can provide reassurance that your long-term goals remain achievable. This article contains helpful tips to stay focused.

Investment Process and Portfolio Review

Our investment process for our Multi Asset Portfolios is designed to capture most of the market's upside, while seeking to avoid most of the market's downside volatility. The process utilizes a multi asset approach which may include Canadian equities, U.S. equities, developed international equities, emerging international equities, currencies, commodities, gold, oil, infrastructure, Real Estate Investment Trusts (REITs), bonds, preferred shares and cash. We actively measure the supply and demand for each asset class and allocate our investments to the strongest prevailing asset classes.

Each of the Multi Asset Portfolios has two positions – a "Core" position and a "Tactical" position. The core position is always designed to hold specific assets, while the tactical positions change based on the universal law of supply and demand.

Core Position

The core position contains our North American (N.A.) stock portfolio and our fixed income portfolio.

The N.A. stock portfolio consists of 20 individual stocks, equally weighted, and rebalanced annually. The N.A. stock portfolio performed well on an absolute basis yet underperformed its North American benchmark in 2021. Our stock selection process works well during strongly trending markets where trends in specific sectors are well defined and experience relatively low volatility. During 2021 however, the portfolio experienced a number of significant short-lived rotations in and out of technology, oil and gas, drug and commodity stocks.

The fixed income portfolio consists of Canadian bonds, global bonds and preferred share ETFs. The fixed income portfolio experienced excellent results and significantly outperformed its benchmark in 2021. Many institutional investors in Canada invest in the Canadian bond benchmark index. This index suffered a negative total return in 2021 as a result of rising interest rates. However, our fixed income investments focused on very short-term corporate bonds as well as preferred share ETFs. The preferred share ETFs performed very well as preferred shares in Canada most often benefit from rising interest rates, and 2021 was no exception.

Tactical Position

The tactical position can have up to two positions of the various asset classes and may from time to time be invested only in cash as a defensive measure. As with the core stock portfolio, the constituents in the tactical portfolio are also determined by supply and demand.

The Tactical Portfolio was invested in risk assets throughout all of 2021 and contributed significantly to the overall performance of the multi asset portfolios. This component did experience a variety of asset rotations as supply and demand shifted throughout the year. Early investments in emerging markets and Europe and Asia were replaced mid-year with investments in crude oil and the U.S. markets. By fall, oil investments were replaced with an investment in the TSX/S&P Canadian index. By year end the tactical component was equally split between the Canadian and U.S stock markets.

We are pleased with the overall portfolio results in 2021. You can view all the portfolio results here. In addition, you can see the portfolio construction of all the portfolios here.

Market Summary for December 2021

S&P 500 Finishes 2021 Near a Record High

US stocks ended 2021 on a strong note with the S&P 500 rising 4.4% in December and posting a 26.9% gain for the year. The index closed at 4,766 on December 31st, only 0.6% off its all - time high. The resiliency of US stocks was on display in December as the S&P 500 posted its third best gain for the year amid a number of concerns arising among investors, including the rapid spread of omicron, CPI print near 40 -year highs, Fed's taper acceleration, and expectations for three rate hikes in 2022. Overall, the solid fundamental backdrop for US stocks remains intact with earnings estimated to grow at a high single-digit clip, positive revisions breadth holding above 60%, profitability metrics and margins at new highs, and shareholder distributions accelerating.

Consumer Staples and Utilities Post Gains of 9%+ in December

Investors favored defensive areas in December as Consumer Staples and Utilities each logged gains of 9%+. From our lens, it seems unlikely for this outperformance to persist in the coming months given the strength of the economy and direction of the US 10Y Treasury yield, which has been grinding higher, both of which should be headwinds to relative performance. In addition, subpar fundamentals continue to underpin these sectors recently dropping to record lows vs the S&P 500.

Lack of Buy-In When It Comes to Financials

Financials failed to keep pace with the S&P 500 in December with the sector trailing by 1.24% and Banks, in particular, struggling despite the uptick in yields. There appears to be a discernible lack of buy-in among investors when it comes to Financials. Financials could be one of the biggest beneficiaries if yields continue to move higher.

December Rebound Pushes TSX to Best Annual Return Since 2009

2021 exhibited the strongest annual S&P/TSX price return since 2009. In fact, December saw a rebound from the pull back in November even as renewed lock down risks emerged. Earnings continue to rebound in December, profitability metrics are near previous highs, valuations have compressed to historical averages, revisions remain broadly positive, and companies are flush with cash and cash flow, suggesting significant corporate actions over the coming quarters. Overall, bouts of volatility are not surprising, and we continue to believe price momentum will slow and remain choppy as the market transitions to more earnings driven market through 2022.

Looking Forward

We are often asked about what our expectations for the market are. Predicting future stock market performance is difficult at best, so we refrain from trying. However, behind the scenes, we continue to test and if appropriate, implement additional tools that will help our portfolios outperform inflation and taxes over time. Changing market conditions are inevitable, and we remain confident in our ability to safely navigate through them.

If you have any questions about this summary, or your investment portfolio, please call us.

Sincerely,

Ferrie Petruccelli Wealth Management Group

David Ferrie, Portfolio Manager, Managing Director
T: 416-590-7667 david.ferrie@nbpcd.com

Anthony Petruccelli, Portfolio Manager, Financial Planner
T: 416-590-7675 anthony.petruccelli@nbpcd.com

Frank Raso, Administrative Assistant
T: 416-590-7689 Francesco.Raso@nbpcd.com

Shirley Macalalad, Administrative Assistant
T: 416-590-7605 shirley.macalalad@nbpcd.com

Our Partners
Tim Simpson, Estate & Insurance Advisor
T: 416-359-7798 timothy.simpson@nbpcd.com

Hill Su, Wealth Planning Consultant
T: 416-590-7690 hill.su@nbpcd.com

BMO Capital Markets
