Mid-Year Market Update
May 2022

Let's connect

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History sets the context for the present. To understand today's markets, we must understand how we got here.

- In 2020, we experienced and were witness to the first truly global effort to save lives and protect our financial ecosystem. A coordinated global effort was made to manage a highly integrated financial system by lowering borrowing rates while the central banks infused monumental amounts of liquidity directly into households and the economy. Despite that, *lockdowns* didn't provide many options to spend all that liquidity.
- The speed at which financial markets & the greater economy have recovered from the lockdowns is astounding and surprised most experts.

We have always believed that today's volatile markets are part of the long process of the recovery

"What is past is prologue".

Two years after the Covid-19 lockdowns, global financial markets are experiencing a coordinated and synchronized downturn as the effects of low interest rates, liquidity and lockdowns are being felt by way of higher levels of inflation, pent up demand, and historically high levels of consumer savings.

- When inflation rises beyond acceptable levels, the Central bank's role is to tighten *our* 'belts' and raise interest rates in the hopes that inflation abates without causing higher unemployment or a recession. Regrettably, it is often the case that they can't do both and so *recessions* tend to follow a central bank 'tightening' period.
- Remember that Financial Markets are trying to anticipate what will happen in 6 to 12 months from now. If we think in terms of cause and effect - *good news is that all of this is perfectly normal*.

The Global Equity and Bond Markets Sell-Off:

The S&P 500 is down approximately -16% from its highs in 2022, approaching a *Bear Market* (-20% from peak). The Nasdaq (tech growth) is firmly in bear market terrain down over -25%, and the S&P/TSX is flirting with correction territory down -10%. Global equities are doing just as badly, and Canadian & US Bond Markets are all in a synchronized downward trend with long term bonds at *historical* losses of -21% in Canada YTD.

April 2022 was the worst month for equity markets since March 2020 and the S&P 500 (US market) is now off to its **worst start to a year since 1932!!!**

S&P 500: Worst Performance through 88 Trading Days (1928 - 2022)				
Rank	Year	Price Return: First 88 Trading Days	Price Return: Day 89 to Year-End	Price Return: Full Year
1	1932	-26.6%	16.1%	-14.8%
2	2022	-16.3%	?	?
3	1970	-13.3%	15.3%	0.0%
4	1939	-13.0%	9.0%	-5.2%
5	2020	-10.8%	30.4%	16.3%
6	1941	-10.5%	-8.2%	-17.9%
7	1942	-9.2%	23.8%	12.4%
8	1960	-8.6%	6.1%	-3.0%
9	1962	-7.7%	-4.4%	-11.8%
10	1977	-7.4%	-4.4%	-11.5%
11	1974	-6.2%	-25.0%	-29.7%
12	1953	-6.1%	-0.6%	-6.6%
13	1973	-5.8%	-12.3%	-17.4%
14	1937	-5.2%	-35.2%	-38.6%
15	1994	-5.2%	3.8%	-1.5%

*Source: Charlie Bilello, Compound Capital

While the average ***balanced*** Fund / ETF is down -11% to - 13% YTD *(Source: Morningstar), by comparison our ***balanced portfolios are only down approximately -4.8%.*** Our portfolios, *while still down*, have preserved your capital and demonstrated tremendous resilience in the face of extreme market volatility. You will notice that your portfolios have only experienced a small fraction of the percentage declines of the markets overall. It is times like these that further validate the structure and diversification strategies we have employed in building and managing of your portfolios.

We highlight our recently increased allocation to ***cash*** & our ***alternative managers*** & defensive positions. Alternative managers provide less correlation to the equity markets and can reduce overall portfolio risk while preserving capital or even profiting in down markets! Attached is the latest fact sheet for **Forge First**, a ***core*** position we increased in recent months in our *Alternative Asset* Allocation. This investment is up almost +5% year-to-date!

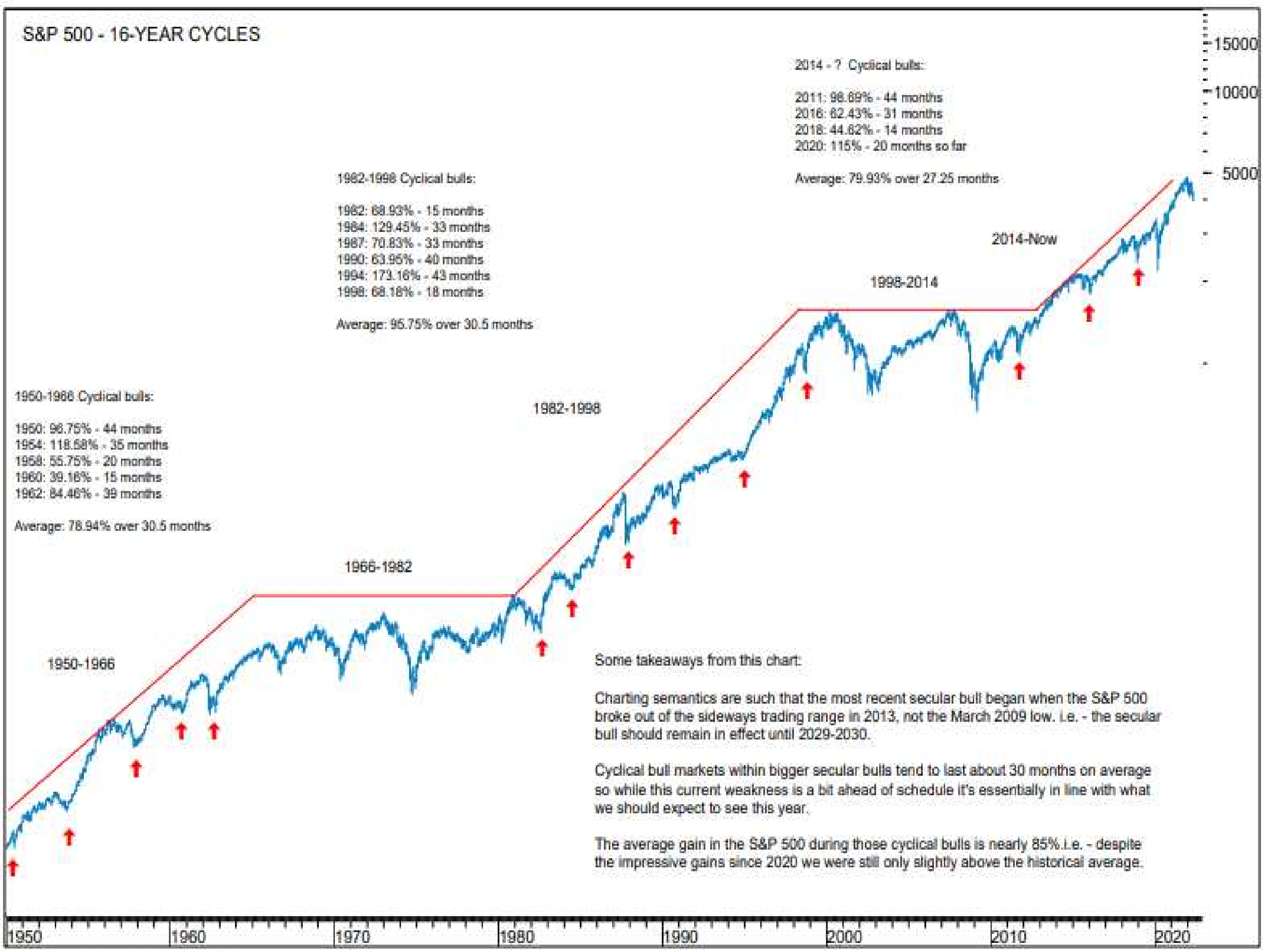
Our Strategy:

Since 'timing the market is nearly impossible', insulating our client portfolios from extreme volatility is an important focus while still trying to maintain a bias towards long term growth. To that end, we have constructed 'All Weather Portfolios' - for both the *present volatility* and *future growth*.

Our diversification strategy includes both *risk* and *opportunity* management. Our *Absolute Return & Alternative* managers provide significant protections against present market risk & volatility while still providing us with excellent future return potential. Given that we have benefited from this strategy, we take comfort to ride out this volatility in the interim. Similarly, while interest rates rise and wreak havoc in the fixed income markets globally, our fixed income defensive Bond *Ladder strategy*, a 'core and yield' approach, has resulted in significant preservation of capital as we outperform in the bond markets.

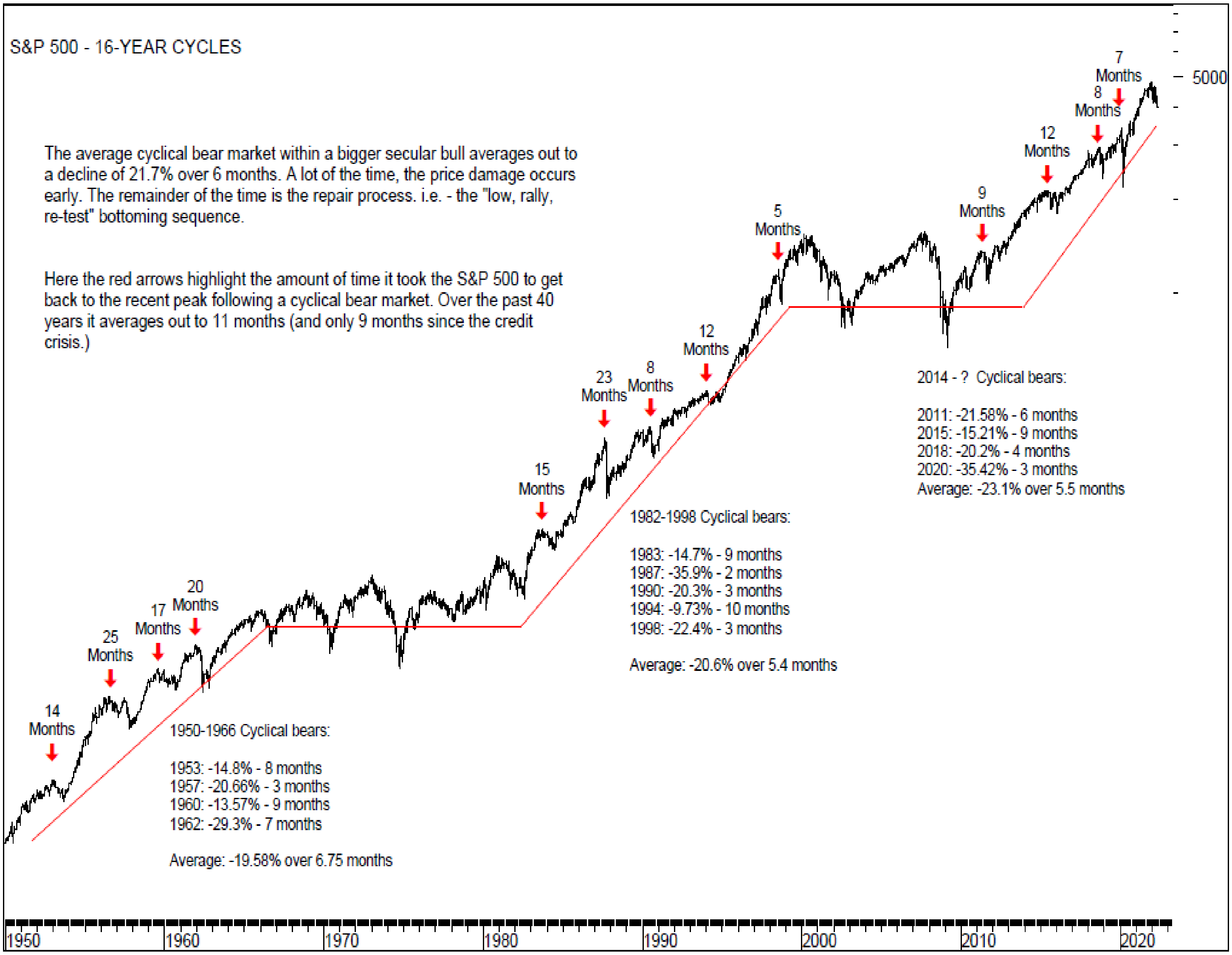
Where do we go from here?

While we don't know exactly when the markets will finish correcting or how much further (if any) they will correct, we do believe that we are in a secular Bull Market in which the longer-term trend is here to stay for several more years. This doesn't mean that there won't be several 'bear' markets along the way. Below are some charts & thoughts that could be helpful when thinking about today's financial markets and provide you some 'context' as to how we are perceiving today's markets and preparing for 'the day after' and the longer term.



MO Wealth Technical Analysis - Russ Visch, CMT

Created in MetaStock



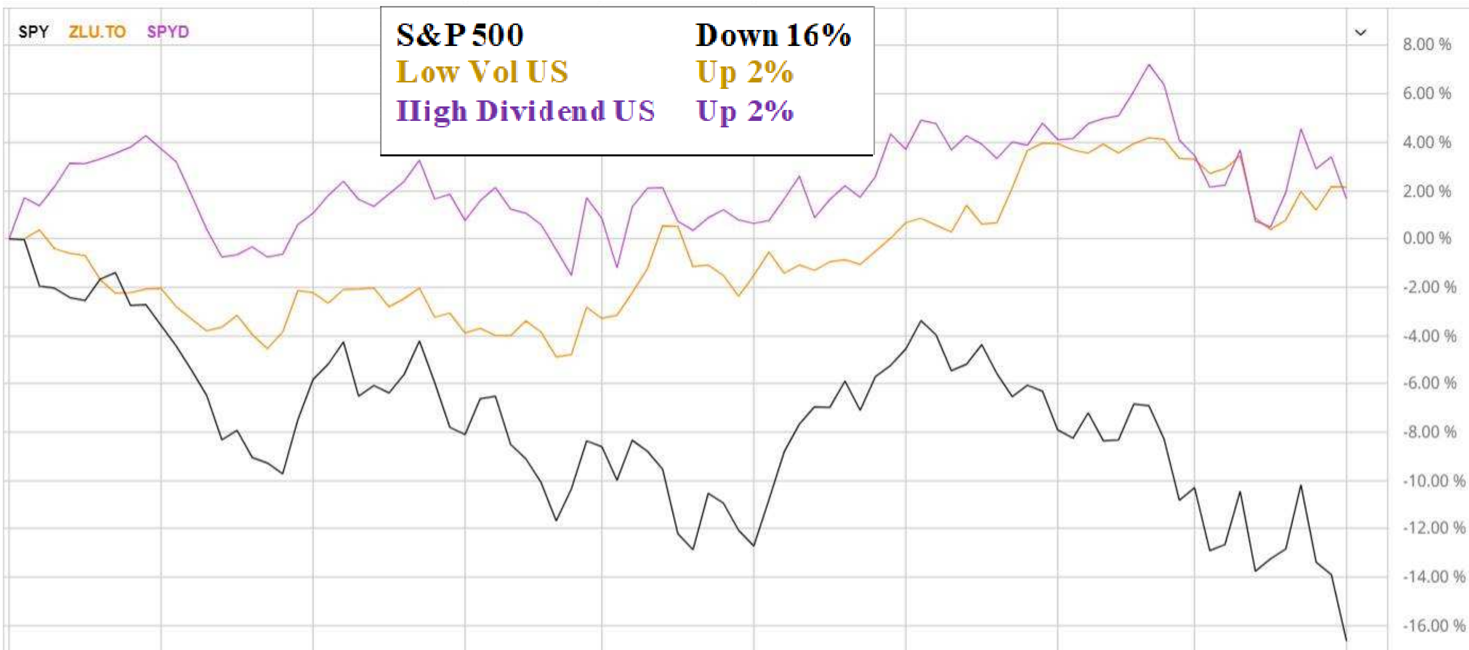
BMO Wealth Technical Analysis - Russ Visch, CMT

Created in MetaStock

The above charts depict that experiencing ***cyclical*** **bear market** corrections are quite normal during a ***secular*** Bull market. 2 key takeaways: First, if history is any guide, we are most of the way through this cyclical bear already. They last about 6 months with a decline of 21% in the S&P 500. As of today, the S&P 500 is 4 months past and 16% below its early January peak. More importantly, it usually takes the S&P 500 less than a year to get back to its prior bull market peak. That means we should be back making new all-time highs either in Q4 of this year or early 2023.

What **IS** Working?

As many of our clients already know, we construct prudent diversified portfolios with a healthy allocation to Absolute Return Alternative managers. Our only solace and comfort to ride out this volatility is the downside protection afforded by our roster of Alternative Absolute Return focussed managers and mandates. Several are actually up on the year (ie. Forge First mentioned above) and truly offer uncorrelated returns and capital preservation in these highly volatile markets! 2 other exposures that are working well at this time are a Low Volatility US equity exposure and a High Dividend US stock allocation. Both of these are satellite positions in our portfolios and each are up 2% on the year as noted below:



Source: Stockcharts.com

We hope that you and your families are healthy, safe and taking care of yourselves during this continuing pandemic. In addition, we would be remiss in not extending our deepest thanks to all those responders and front-line physicians who have worked exceptionally hard these past few years to keep us all safe!

Finally, as Lou and I enter our 5th Year with BMO Private Wealth, **we would like to personally thank those who have invested with us over these many years → we greatly appreciate your support and confidence!!** It is abundantly clear to us that a Wealth Management Family Office is only as good as its underlying clients and in this regard we have been very fortunate.

Thank-you for your time and as always please feel free to connect with us should you have any questions or to learn more.

Please contact our office at anytime should you have any questions or wish to discuss your portfolio.

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