

Quarterly Market Review

Q4 2022

BMO Private Wealth

Canadian Equity

Canadian equities rebounded during the fourth quarter of 2022, as the S&P/TSX Composite Index increased 6.0%. While the fourth quarter was an improvement over the third quarter, many of the same themes and issues carried over: the market was focused on interest rates, inflation, economic growth, and the ongoing conflict between Russia and the Ukraine.

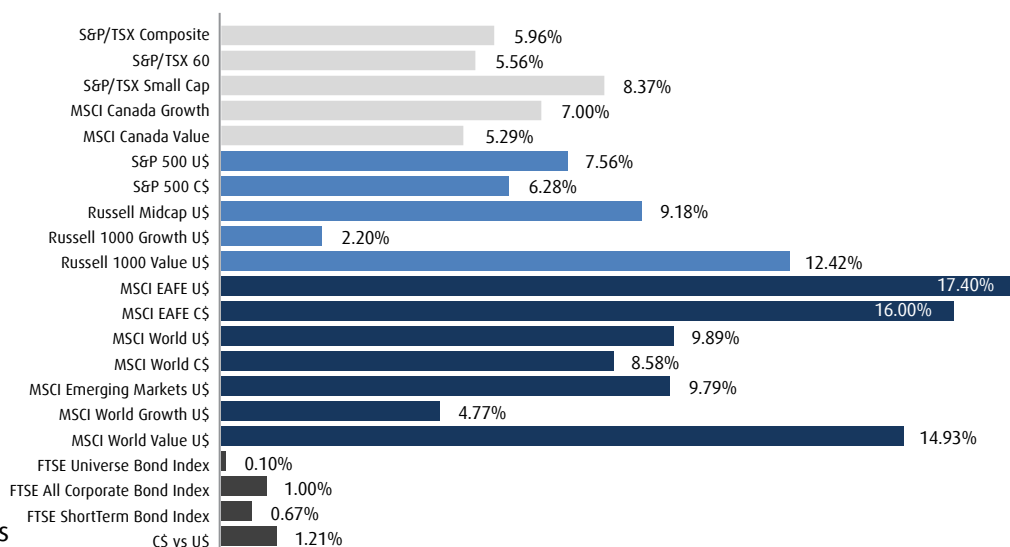
For the quarter, sector performance was broad based with nine sectors having positive performance. The top-performing sectors were Information Technology, Energy and Consumer Discretionary, which generated returns of 12.6%, 9.0% and 8.8%, respectively. Gold companies outperformed with IAMGOLD Corp. and Torex Gold Resources producing outsized returns of 132.9% and 56.0%, respectively. The only two sectors with negative performance on the quarter were Healthcare and Utilities.

The difference in performance over the quarter between large- and small-cap companies was significant, with large-cap companies returning 5.6% while small-cap companies returned 8.4%. Over the past year, small-cap companies have significantly underperformed large caps (-9.3% versus -6.2%) as the economy anticipated a future recession.

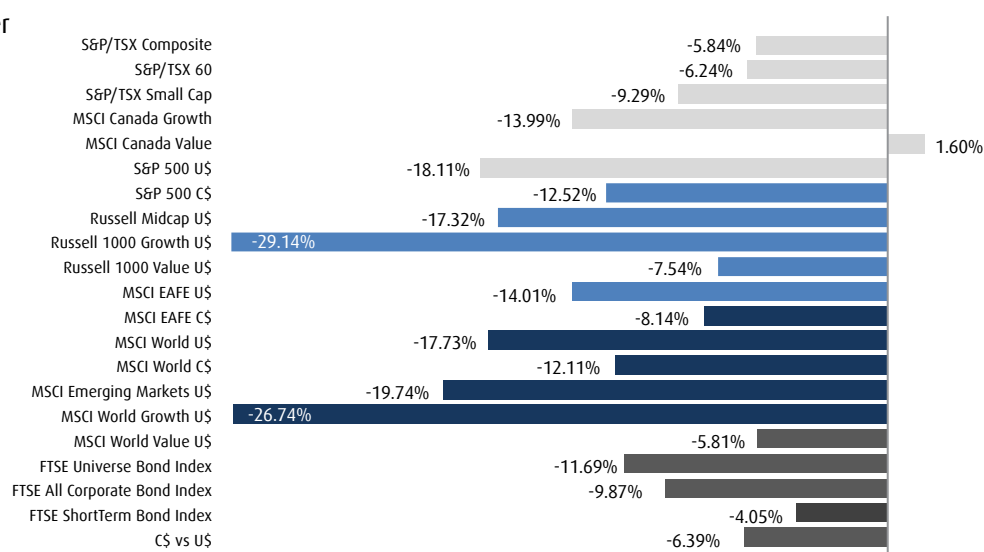
From a style perspective, unlike U.S. and international equity markets, growth investing outperformed value investing during the quarter. However, over the past 12 months, value investing has been, in a meaningful way, in favour as Energy companies outperformed. Over this period, the MSCI Canada Value Index rose 1.6% versus the MSCI Canada Growth Index, which produced a -14.0% return.

Capital Markets Review

3 Months (ending December 31, 2022)



1 Year (ending December 31, 2022)



Source: BMO Capital Markets and Bloomberg

U.S. Equity

U.S. equities recovered in the fourth quarter after losing ground in the previous quarter. Equity markets as represented by the S&P 500 Index rose 7.6%. The U.S. dollar also weakened further, primarily against the euro, yen and Canadian dollar.

Performance of the S&P 500 Index was broad based with nine of the 11 sectors producing positive returns. Energy and Industrials were the top performing sectors, while Consumer Discretionary and Communication Services were the worst performing. FedEx was the worst performing stock amid concerns of future slow growth in the economy. Halliburton was the top performing stock, surging 60.3% on news of increased defense spending in the U.S.

From a style perspective, value investing significantly outperformed growth investing. The Russell 1000 Value Index rose 12.4% versus only a 2.2% rise for the Russell 1000 Growth Index. Over the calendar past year, the Value Index has outperformed the Growth Index by 21.6%. Small-cap stocks performed in line with large-cap stocks on the quarter.

International Equity

Global equity markets rallied in the first couple months of the fourth quarter before giving way to recessionary concerns in December. Even with some of the weakness later in the quarter, the MSCI EAFE Index ended the quarter up 17.4%.

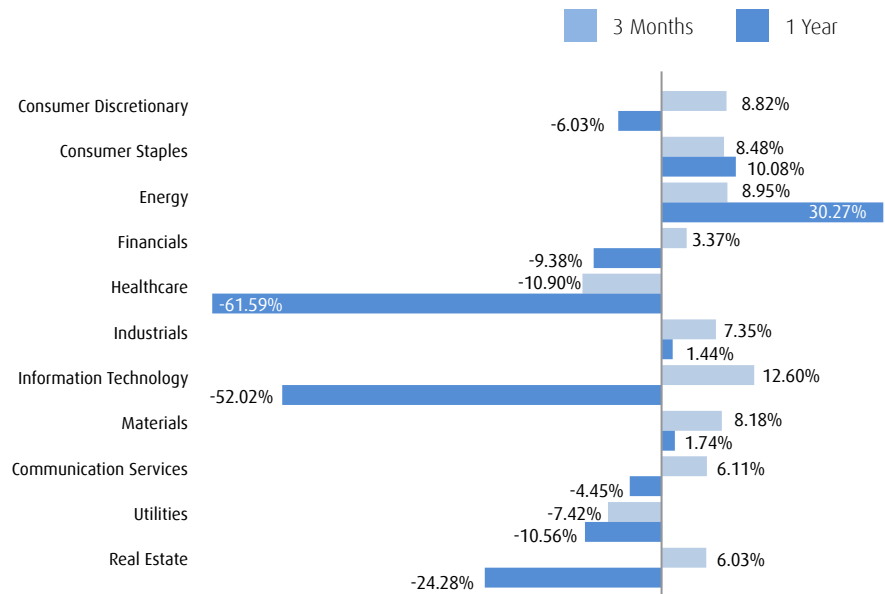
Within the MSCI EAFE Index, Financials and Materials were the best performing sectors, while Communication Services and Consumer Staples were the worst performing sectors during the quarter. Although producing a very respectable 14.7% return for the quarter, the Information Technology sector ended the calendar year down 33.2%.

From a country perspective, companies in Germany and France performed better than the broad market, while Swiss and Japanese companies lagged.

From a style and market capitalization perspective, value investing outperformed growth investing, and small-cap companies underperformed large-cap companies over the quarter.

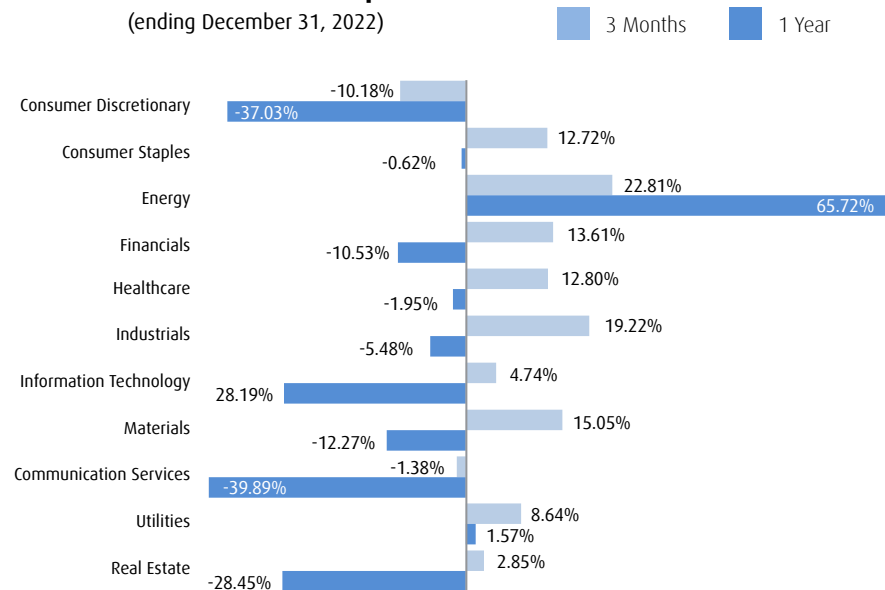
S&P/TSX Composite Sector Comparison

(ending December 31, 2022)



S&P 500 Sector Comparison

(ending December 31, 2022)



Source: BMO Capital Markets and Bloomberg

Emerging Markets returns were positive but still lagged developed markets, returning 9.8% in U.S. dollar terms for the three months ending December 31. For the past year, an allocation to Emerging Markets would have generally hurt performance as the asset class has underperformed the markets in Canada, the U.S. and Europe.

Fixed Income

The final quarter of 2022 continued to be characterized by central banks' prolonged battle against inflation, with geopolitics (i.e., China's zero Covid policy and the Russia/Ukraine conflict) remaining an overhang to growth. Inflation data remained elevated in most markets and more persistent than expected, aided by strong labour markets.

With respect to inflation, the U.S. Consumer Price Index ("CPI") was 7.1% for November, down 200 basis points from its peak (9.1%) back in June. Similarly in Canada, CPI was 6.8% in November, down 130 basis points from the 39-year high of 8.1% in June 2022. Accordingly, in the fourth quarter the U.S. Federal Reserve raised its benchmark rate by another 125 basis points to 4.50% and the Bank of Canada raised its policy rate 75 basis points to a target of 4.25%.

During the quarter, the Canadian bond market (FTSE TMX Canada Universe Bond Index) was flat, returning 0.1%. For the calendar year, the Index was down -11.7%. The U.S. bond market, as represented by the Bloomberg Barclays U.S. Aggregate Bond Index, also was positive in the quarter, rising 1.9% in U.S. dollar terms, and was down -13.0% for the calendar year. Canadian long-duration bonds underperformed, falling -1.0%, while mid-term bonds performed in line with the Index, and short-term bonds outperformed. Canadian corporate bonds outperformed, returning 1.0%.

Please contact your BMO financial professional if you have any questions or would like to discuss your investments



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