

Portfolio Management Commentary

Quarter Ending March 31st, 2022



Patrick A. Choquette, CFP®, CIM®, CMT®
Portfolio Manager

Tel: 604-514-5305

patrick.choquette@raymondjames.ca

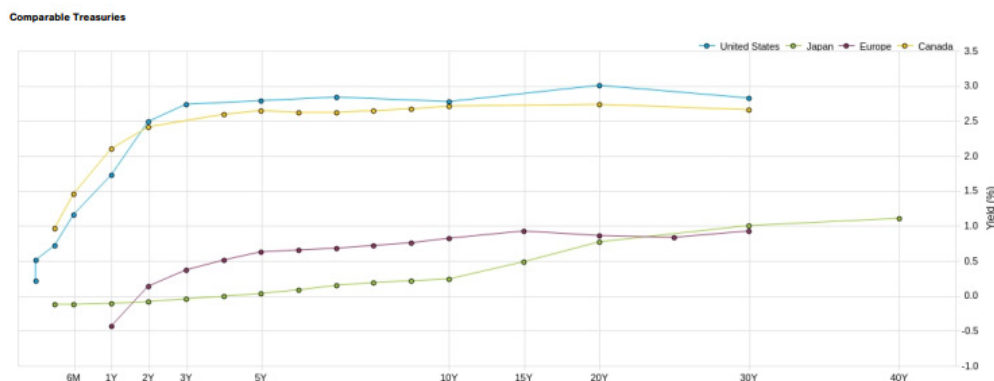
Raymond James Ltd.
Suite 202 – 19978 72nd Ave
Langley, BC V2Y 1R7

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Unfortunately, there have been few places to hide in the first quarter of 2022. Our welcome respite from the endless discussions surrounding COVID has been replaced with a new spectre, the Ukraine war. We are barely a month into the Russian invasion of the Ukraine, but it seems like an eternity. This must surely be the feelings of Ukraine residents amid their struggle for sovereign control. Our hearts go out to those at the centre of the conflict and we hope for a quick return to peace. It's times like these that we feel blessed to live in Canada. We know it isn't perfect here, but many alternatives are terrible to imagine.

As for the capital markets, the story has predominantly been about inflation. Whether it's tales of bidding wars in local real estate, oil cresting \$130 USD, or further supply constraints in the manufacturing sector, hard assets have tallied the best returns of the quarter. In contrast, fixed income assets—such as bonds--have suffered price declines as global monetary policy has shifted from accommodative to restrictive. The big question on the minds of those in the investment community is what is the magnitude of the change? Pictured below are the current government yield curves for the US, Japan, EU, and Canada.

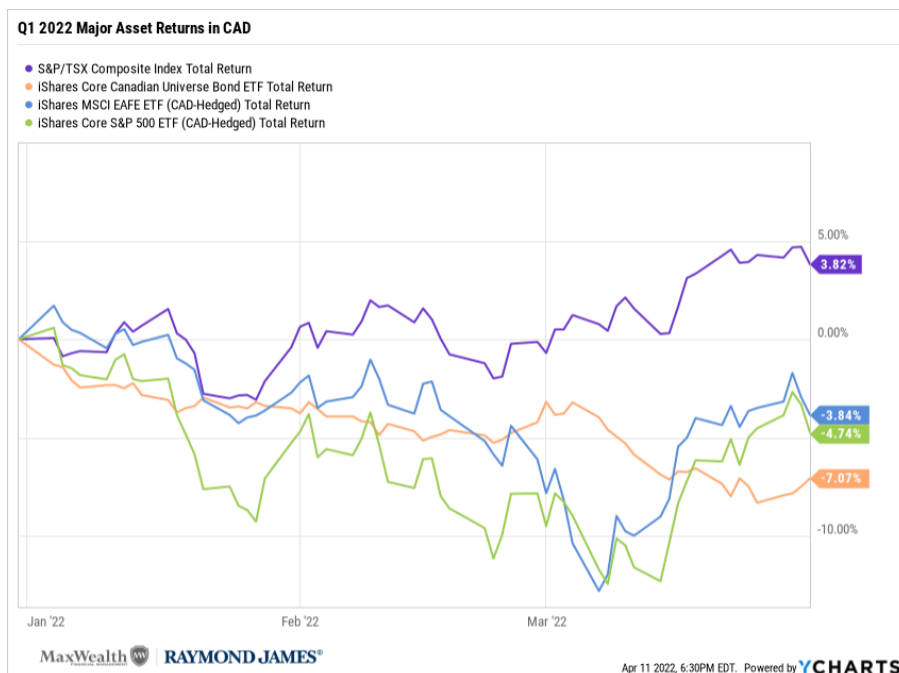


Note: Bid and ask price data is not available from underlying sources in the FactSet Interest Rates database

Sources: FactSet Interest Rates, Tullett Prebon Information, *SWX Swiss Exchange

None of these curves are inverted—meaning that short rates are higher than long ones—but there is definitely flatness in all of these figures. This matters because flat curves are seen to eventually give way to inverted curves, and inverted curves tend to be present at recessions. We make no predictions about recessions in this office. We only bring these topics up to share our views on the risks currently facing investors.

Pictured below are the broad market returns for Q1, 2022. The chart below is a confusing one. Risk assets sold off in the US and internationally, while Canadian stocks rallied on the back of strong commodities performance. Fixed income languished. It was the worst performer as rising yields have impacted short-term pricing to the downside.



If we drill down into a sector analysis of the major Canadian and US indices, we can see the areas of both strength and weakness for this quarter. In Canada, it was no surprise that Energy and Materials were the top two sectors. Performance was driven by strong increases in commodities for the quarter. Crude was up over \$30 USD per barrel over this timeframe and the S&P Goldman Sachs Commodity Index was up over 29%. The bottom two sectors were Health Care and Information Technology. This doesn't surprise us because Canadian health care stocks are largely composed of volatile cannabis companies and information technology had a terrible quarter globally. As we have mentioned in earlier commentaries, technology is largely considered a long-duration asset because it takes time to recoup your R&D costs and the payout usually occurs well into the future.

S&P TSX Sector Snapshot	03/31/2022	S&P 500 Sector Snapshot	03/31/2022
Sector	% Chg	Sector	% Chg
10 Energy	28.72	10 Energy	39.03
15 Materials	20.09	55 Utilities	4.77
50 Communication Services	8.83	30 Consumer Staples	-1.01
30 Consumer Staples	5.37	40 Financials	-1.48
55 Utilities	4.96	20 Industrials	-2.36
20 Industrials	3.86	15 Materials	-2.37
40 Financials	2.16	35 Health Care	-2.58
60 Real Estate	-4.70	60 Real Estate	-6.22
25 Consumer Discretionary	-7.70	45 Information Technology	-8.36
35 Health Care	-8.51	25 Consumer Discretionary	-9.03
45 Information Technology	-35.45	50 Communication Services	-11.92

Source: FactSet

In the US, Energy was the clear winner, and Utilities was the only other sector with a positive return. Once again, this comes as no surprise to us. Energy's lift is correlated to the rise in commodities (i.e., crude oil) and Utilities offer a safe-haven in times of market sell-offs. Of course, the return path of utilities may decline if inflation becomes more pervasive. Long-term contracts cannot be adjusted quickly for utility companies, so variable cost increases could hurt their bottom line. The bottom two performing sectors were Consumer Discretionary and Communication Services. This is consistent with the theme that economically sensitive and discretionary-based industries had a tough quarter. When war happens, investors tend to hunker down and prepare for the worst. One manifestation of this practice is to sector rotate out of growth industries such as Technology, and into value ones, such as Energy and Materials.

Your Portfolio

There were some positional changes worth noting for the portfolios during the quarter. Please see the chart below for the specific details.

Portfolio	Sells	Buys
Disciplined Growth	<ul style="list-style-type: none"> Sell Real Matters Inc. (REAL). 	<ul style="list-style-type: none"> Buy 3% position in Shopify Inc. (SHOP)
Canadian Focused Equity, US Citizen TFSA	<ul style="list-style-type: none"> Sell Franco-Nevada Corporation (FNV). 	<ul style="list-style-type: none"> Buy 4% (CFE) and 5% (USCIT)Wheaton Precious Metals Corporation (WPM).

Trade Rationale

- We exited our position in Real Matters Inc. (REAL) on the back of another quarter of declining earnings and sales growth. We reallocated this capital to another growth name in the e-commerce sector, Shopify Inc. (SHOP). Shopify is a global leader in cloud-based e-commerce solutions for small and medium-sized businesses. SHOP has also experienced significant declines over the past quarter and so we see this switch as an opportunity to take a position in a name that has been on our radar for quite some time. Recent price declines have provided us with a prudent entry point into a quality company with an incredible growth potential.
- We removed Franco-Nevada Corporation (FNV) and replaced it with Wheaton Precious Metals Corporation (WPM). Both are quality names in the precious metals space, but fundamental valuations, business diversity, and earnings drivers are more compelling for WPM. The initial position size, for record keeping, is 4% for the Canadian Focused Equity and 5% for the US Citizen TFSA.

Market Movers

Canada		US	
Leaders	Laggards	Leaders	Laggards
Canadian Natural Resources Ltd (CNQ) +46.23%	Shopify Inc (SHOP) -51.46%	Occidental Petroleum Corp (OXY) +96.17%	EPAM Systems Inc (EPAM) -55.63%
First Quantum Minerals Ltd (FM) +42.98%	FirstService Corp (FSV) -27.16%	The Mosaic Co (MOS) +69.61%	ETSY Inc (ETSY) -43.24%
Teck Resources Ltd (TECK.B) +40.33%	Magna International Inc (MG) -21.11%	Haliburton Co (HAL) +66.21%	PayPal Holdings Inc (PYPL) -38.67%

Source: YCharts

Final Thoughts

The start of 2022 has rattled the resolve of many investors. Risks are certainly elevated versus this time last year, but we are aligned with the larger viewpoint at Raymond James: that equities offer the best option for prudent, long-term investors. We are reminded that patience is an essential component to any successful investment philosophy. Volatility provides us with numerous opportunities to upgrade the quality of your portfolios. We are also reminded that, as painful as the current events are, we live in a world of abundance, and that eventually the human spirit will shine through. Thank you for your trust.

Many Happy Returns,

Patrick

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