

Portfolio Management Commentary

Quarter ending September 30th, 2022



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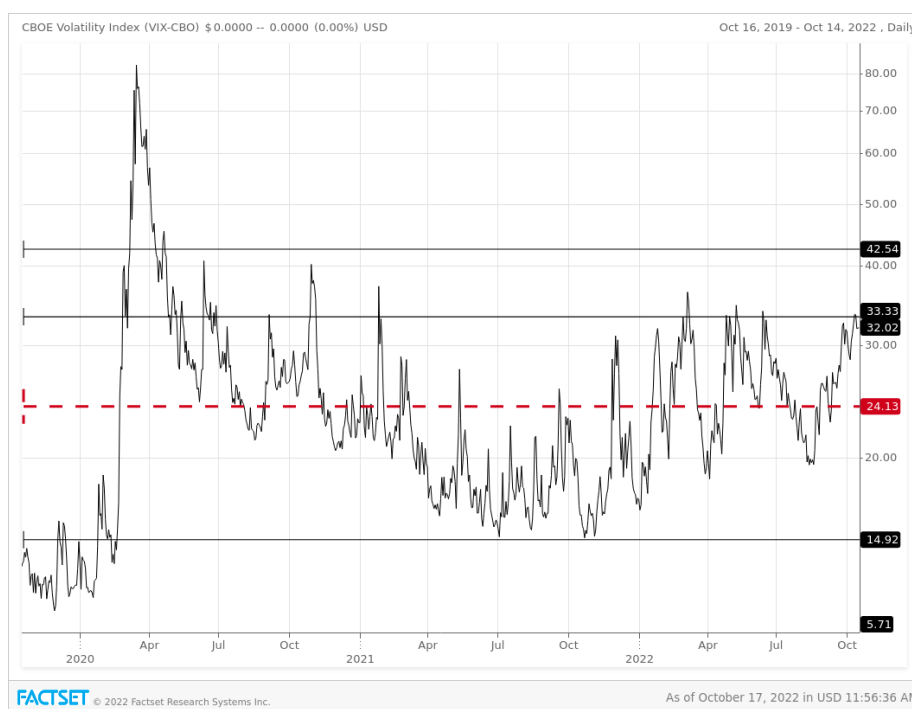
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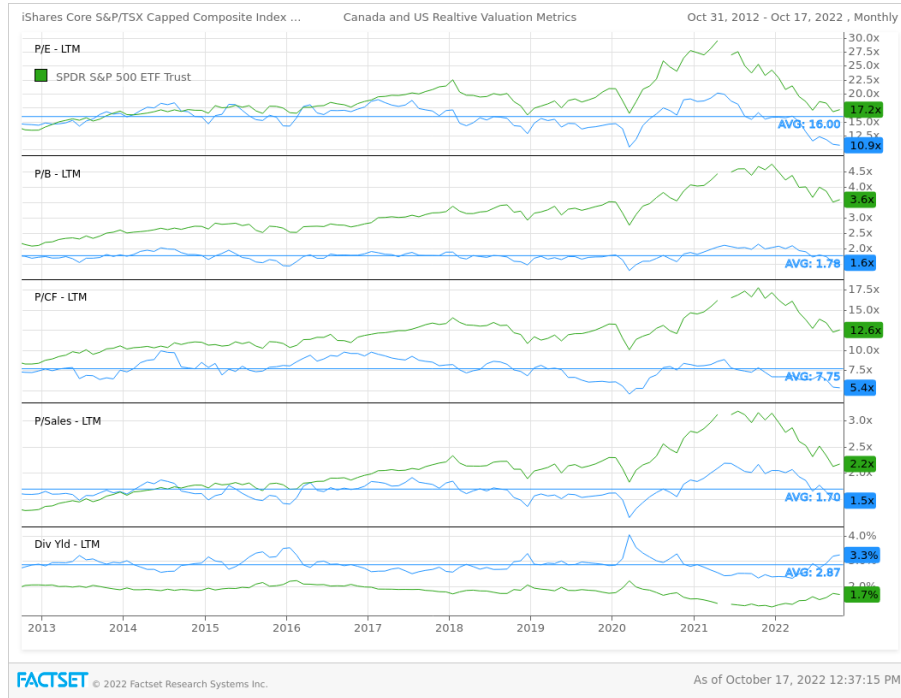
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Weakness continued for assets in the third quarter of 2022. While August offered some hope that a relief rally would take place, ongoing inflation concerns stymied investor optimism. Clearly, headline risk is enough to move prospective participants to the sidelines in hopes of a more orderly market. As we have mentioned previously, volatility levels are raised and are unlikely to trend lower in the near term.

This can be seen quite easily reflected in the chart of the VIX below. In general, a reading above 15 indicates increasing volatility and a risk-on environment for stock market investors. According to the VIX level, risk has been growing in 2022 and is currently sitting at one standard deviation above the three-year average. This is a market sentiment indicator, and readings need to be extreme—in either direction—for tradable signals to develop. An elevated reading, trending higher, but not extreme, indicates further continued weakness for the foreseeable future.



All is not bad news, however, as lower prices lead the way to lower valuations. Depicted below is a comparative valuation chart of the S&P/TSX Capped Composite and the S&P 500 index. Based on 10-year averages, the TSX shows both absolute and relative attractive valuations at current levels. So, in other words, there is a good fundamental reason to purchase Canadian stocks at these price levels.



As for the U.S., the valuations are closer to historical averages. However, given the greater growth profile of the S&P 500 to the S&P/TSX, there is still potential price appreciation for U.S. stocks at these levels. Remember that the higher octane in U.S. earnings, driven by tech and the size of the U.S. economy, demands a higher price to be paid.

Let’s review the past quarter to determine if some investible themes emerge. Presented below are the broad-based market returns for Q3, 2022. Once again, general market weakness dominated asset classes. Surprisingly, Canadian bonds generated a positive return. This is probably connected to the yield stabilization of Canada’s 10-year for the quarter as well as asset rotation away from equities and into safer options. As you can see, global equity markets dropped precipitously after the middle of August.



Once again, negative headlines influenced investor behaviour, and market participants grappled with what constitutes a fair price to pay for declining earnings and higher input costs. In the end, security prices dropped steeply as we exited September.

If we drill down into a sector analysis of the major Canadian and U.S. indices, we can see that declining sectors outnumbered advancing sectors in both instances. In Canada, industrials and consumer discretionary were the strongest sectors, while real estate and communication services were the laggards. We believe that strength or weakness this quarter was driven more by idiosyncratic company news than sector rotation.

In the U.S., consumer discretionary and energy were the only two positive sectors for the quarter, while real estate and communication services posted double digit negative returns. I think the quarter could be best summed up as general market weakness with a further downside tilt concentrated in leveraged names (real estate) and e-commerce (communication services).

S&P/TSX Sector Snapshot	9/30/2022	S&P 500 Sector Snapshot	9/30/2022
Sector	% Chg	Sector	% Chg
20 Industrials	4.23	25 Consumer Discretionary	2.35
25 Consumer Discretionary	4.18	10 Energy	0.90
30 Consumer Staples	2.62	40 Financials	-4.47
15 Materials	2.53	20 Industrials	-5.58
40 Financials	-1.24	35 Health Care	-6.32
55 Utilities	-4.63	45 Information Technology	-6.44
45 Information Technology	-4.69	15 Materials	-7.74
10 Energy	-5.27	30 Consumer Staples	-7.94
35 Health Care	-6.44	55 Utilities	-8.29
60 Real Estate	-6.44	60 Real Estate	-12.66
50 Communication Services	-7.54	50 Communication Services	-13.30

Your Portfolio

Portfolio activity was light for the quarter as we continued to hold our positions through the volatility. There was, however, a couple of changes to report.

Portfolio	Sells	Buys
U.S. Core Growth	<ul style="list-style-type: none"> Sell Roper Technologies Inc. (ROP) 	<ul style="list-style-type: none"> Buy L3Harris Technologies Inc. (LHX) with a 4% weighting

Trade Rationale

- The U.S. growth model change was done to decrease our exposure to packaged software (ROP) and to increase our exposure to industrials with a further emphasis on defence spending (LHX). This name may sound familiar as we made a profitable trade in the security back in 2020.

Market Movers

Canada		US	
Leaders	Laggards	Leaders	Laggards
Cameco Corp (CCO) +35.48%	CAE Inc. (CAE) -33.20%	Constellation Energy Corp (CEG) +44.68%	Charter Communications Inc (CHTR) -36.92%
Saputo Inc. (SAP) +17.95%	Open Text Corp (OTEX) -24.41%	Enphase Energy Inc (ENPH) +41.77%	FedEx Corp (FDX) -33.24%
Waste Connections Inc. (WCN) +17.13%	TC Energy Corp (TRP) -15.26%	ON Semiconductor Corp (ON) +33.07%	Match Group Inc (MTCH) -33.21%

Source: YCharts

Final Thoughts

The third quarter of 2022 marked the third consecutive negative quarter for the S&P 500. While this is clearly not welcome news, it is comforting to realize that markets do not go down forever and that excesses in one direction lead to eventual corrections in the opposite one.

While the bottom has not formed for global equity and bond markets, there are the beginning signs of a shift in price momentum and market leadership that are constructive for higher, future returns. This is a situation that we closely monitor.

Once again, we thank you for the trust you have placed in our service, and through our commentary, we endeavor to add value to your investing experience. As we are fond of saying, “Successful investing is a process which requires patience and time.” We are here for the long haul.

Many Happy Returns,

Patrick

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