

Investment Update | October 3, 2022

We are certainly facing some trying times not only in the capital markets, but also from a global perspective. The constant uncertainty makes it very hard to make any sense of what is happening, let alone what will happen in the future.

Your Investment Team and I spend hours every day reading and listening to all available information to ensure we are taking adequate steps to position your portfolios for better times ahead - and there will be better times ahead.

It's difficult to find some historical parallel to what is going on today. We must go as far back as the late 70s and early 80s to see the levels of inflation we have today. Back then, the US economy was strong with double digit growth rates, but the Fed was increasing rates rapidly to combat inflation. On the world stage, we had issues in the Middle East involving Iran, Iraq, Israel, and Egypt, and Russia invaded Afghanistan (all too familiar). The Fed was able to slow down the economy to more manageable growth levels, which resulted in decreased inflation. What followed was 20 years of bull market with annual double-digit growth.

To a certain degree, history does tend to repeat itself, and we can see some similarities between then and now. This is not to suggest that we will see double digit market growth, but it does point to the need of the Fed to increase rates to slow down demand and get inflation under control. Unfortunately, with that comes a potential recession as a result - which is what we are experiencing in the capital markets right now.

The question now is...what do we do from here? As I look at what is happening, it is difficult to imagine that this is here to stay for an extended period. We just need time to work through the effects of the pandemic, challenges in the supply chain, too much money in the system, and the conflict in Ukraine – those are the biggest factors affecting our current situation. This is also the time to take advantage of some of the opportunities in front of us – when was the last time that fixed income actually generated income? It's been 14 long years – until now!

Fixed income is an important component of investment portfolios, and it has been used mostly as a principal protection in recent history. Now it is back to the dual mandate of the past – protect the principal and generate income. What that also means is that some of the existing fixed income funds in your portfolios are showing negative returns. While it doesn't look good on paper, I am not concerned. The negative returns are mostly driven by changes in interest rates (fixed income values decrease in rising rate environments). Credit quality is the other driver of negative returns but what we are seeing today is not the case – credit quality is strong. The beauty of fixed income is that as each instrument gets closer to maturity, market value increases, and as it matures, proceeds get reinvested into instruments generating higher yields. This means that not only will your funds increase in value over time, they will also generate more income.

Your Investment Team is paying close attention to these developments and making necessary tactical changes while staying patient and disciplined. As managers of managers, we are in constant contact with your managers to make sure that they do the same – maintain the high conviction in their investment process and philosophy and stay true to their mandate. We feel confident that we have the proper high quality managers in place, and we have our fingers on the pulse of what each manager is doing for your portfolio. We are positioned well for the future.

Patience is the operative word here. Remaining calm and rational during times like these is critical. While we don't anticipate things to get much worse from here, it will be a bumpy ride for a while. In the 130-year history of the U.S. stock market, the market has always recovered and went on to set new all-time highs. We just don't know when that will be.

I know we have periodic conversations with many of you, but if you wish to discuss further, please don't hesitate to reach out to myself, your Relationship Manager, or your Investment Manager.

Pavel Konecny, CFO & Chief Investment Officer