Family Wealth Counsel Advisory Group | RAYMOND JAMES®

Third Quarter Commentary – November 2022

It has not been an easy year in the markets. High inflation, rising interest rates, Russia's war in Ukraine and COVID lockdowns in China have all resulted in a material increase in market volatility and have produced negative year to date returns in all areas of the market. Energy, housing and food prices have risen over the last year and have contributed to this cycle of higher inflation originally triggered by the excess demand and supply issues during the COVID time out in 2020-2021. As a result, central bankers will continue raising interest rates in an effort to slow the economy down until there are tangible signs of a reducing demand and increasing supply leading to lower prices and inflation.

There has been no place to hide during all of this with the stock and bond markets both down year to date as can be noted below.

As of October 31, 2022

S&P/TSX	-8.47%
S&P500	-18.76%
MSCI EAFE	-25.09%
Bonds	-14.78% (Universal Canadian Bond Market)

In the wake of the negative markets so far this year and with the prospects of a recession becoming more and more evident now, leading to even a further slowing down of the economy, we have been repositioning the portfolio to take advantage of the higher bond yields and more attractive dividend opportunities.

Interestingly enough, the likelihood of a recession will not be confirmed until after the fact and at that point we expect markets to move sideways for a little while longer before eventually moving back up. This lag effect is normal and usually starts when the central banks start to blink and become less aggressive with their rate hikes. Please read our recent blog on the Lesser of Two Evils suggesting that a recession is not always as bad as we are led to believe.

Here is a brief summary of what we have been doing to protect the portfolio from further downside and to re-position things to take advantage for the recovery ahead:

- In 2021, we sold our long duration, fixed income funds and maintained the proceeds in the money markets (cash)

- We took some profits from some of our growth positions including the higher valued technology and consumer discretionary stocks
- We recently re-deployed some of our cash in short duration laddered bonds ETFs to lock in rates just under 5% which is something we have not been able to do now for many years.
- We reduced our global equity exposure and added to our large cap Canadian dividend stocks
- Over the last 12 months we have moved the portfolio more to a quality bias, which includes companies that have durable business models, a sustainable competitive advantage, and high profitability. Given the uncertainty of the economic backdrop and our expectation that a recession is on the horizon, we believe companies that meet this definition represent the best opportunity since these companies have historically outperformed during periods of economic contraction (see our blog on Peace of Mind Investing).

Despite the fact that the financial markets are down year-to-date, it is worth pointing out that anyone who has been invested for the past 3-5 years has not lost any of their invested capital. The markets are simply coming off a huge peak in 2020 and 2021 and are in the process of reverting back to their long term averages.

We know it has been difficult and that market volatility can cause anxiety. We have been through this before and we know that markets will eventually rebound. While the markets will cause portfolios to be negative short term there is little long term risk to any of your holdings as they all have sustainable business models. Remember markets do not move up linearly and will price in a recovery long before it happens - you do not want to be out of the market at that time.

As always, we are here to discuss your concerns and answer any questions at any time.

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