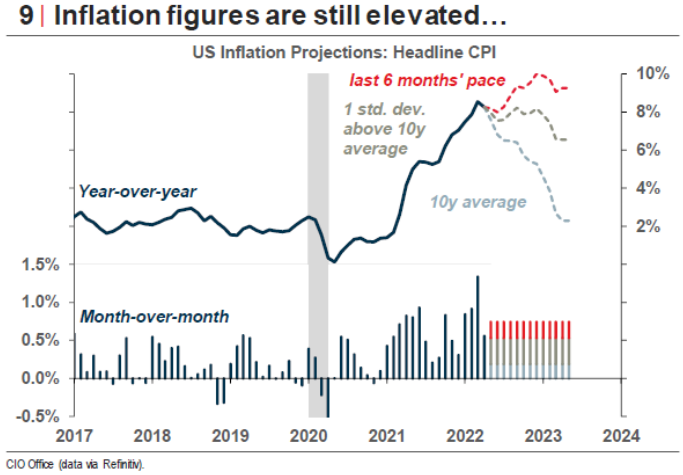
Bear Markets ~ Laurel Hickey & Garth Bluekens

Comments from the CIO's office

Martin Lefebvre is National Bank Investments Chief Investment Officer and Strategist. Please see below for key takeaways from his June Asset Allocation update.

As expected, after seven consecutive months of rising annual inflation, the U.S. Consumer Price Index (CPI) finally recorded its first decline last month. While base effects should favour a decline for another two months, the details of the report show that the return to lower inflation levels will not happen overnight, with monthly price growth remaining about one standard deviation above its historical average **(chart below)**.



Fortunately, more and more indicators suggest we may have seen the peak in this regard. For example, the Inflation Surprise Index continues to distance itself from its August 2021 height, signifying that the numbers, while still very high in absolute terms, are not as elevated when compared to forecasters' expectations.

A similar trend can be seen in market inflation expectations. Over the medium term (next five years), expectations are down sharply from the highs reached during the worst of last March's commodity price hike. Over the longer term (the subsequent five years), inflation is also projected to be on the decline but, more importantly, remains consistent with the Fed's target.

Going forward, a key element to watch will be wage growth, as wages are an important source of upward pressure on prices, particularly within the services sector. The latest NFIB survey results on labour shortages among small businesses, while very tentative, suggest that a peak in wage growth may be in sight in the upcoming months.

At the same time, it will be important to monitor household consumption trends. Recall that one of the many side effects of the pandemic and lockdown measures was to cause demand (and therefore prices) for durable goods to explode at the expense of services, a phenomenon that is partly responsible for the current inflation problem.

Therefore, normalizing inflation will necessarily require a return to balance between spending on goods versus services. This does indeed seem to be happening, quietly but surely, according to the latest personal consumption expenditure figures and the latest results from major U.S. retailers such as Target.

What's a Bear Market Got To Do With It?

If you have read our monthly updates from the past quarter, you will not be new to the theme of market volatility. Since the start of the year, market volatility has caused the market to hit lows not seen since 2020. After the US Fed announced a 75-basis point increase in interest rates mid-June, there was a sharp decline in the market. Following this decline, bear market and recession have come into the conversion surrounding market and economic outlook. There is mixed consensus from economists on whether there will be a recession or not, but we can say that we are entering a bear market. According to a NBI CIO office strategic

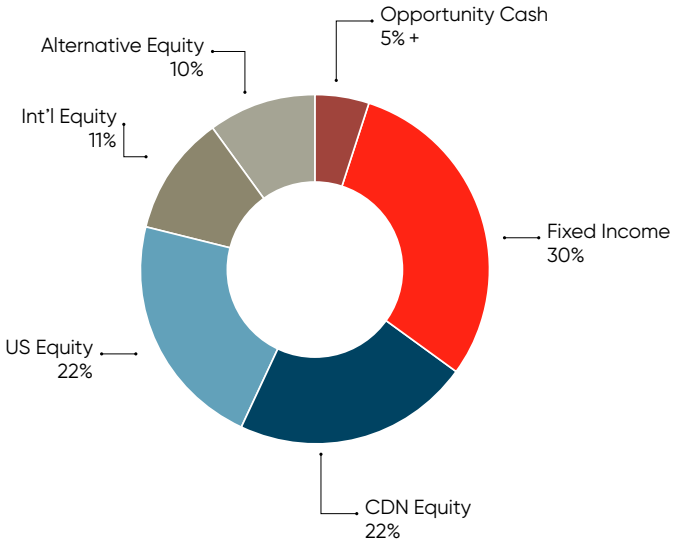
1 Market Sentiment Definition (investopedia.com)

report, since 1950 the S&P 500 has experience 10 bear markets, defined as 1) a decline of more than 20% from its peak level, and 2) a full recovery to a new high. The duration of the decline and the time it takes to recover to a new high is something that varies between bear markets. As we have mentioned before, the increasing inflation from a variety of factors, including the pandemic, supply issues and geopolitical tensions is a driving factor around the market volatility this year. Determining the market bottom and when a rebound could take place will probably coincide with inflation slowing down. The increase in interest rates may help to curb some of this inflation, but there are still supply-side issues, especially with commodities like energy, that most likely won't be resolved by an increase in interest rates.

We know that hearing that we may not be at a market bottom yet is unsettling. We are also in a time where it is hard to escape the news of a potential recession and increasing inflation numbers. We want to talk to you about these topics. A market downturn can be an opportunity to grow your wealth by staying invested and adding to your portfolio if you have the means and the risk tolerance. Please reach out for a mid-year check in call!

2 The Volatility Index: Reading Market Sentiment (investopedia.com)
3 CBOE Volatility Index (^VIX) Historical Data - Yahoo Finance

Growth Investment Model Goal Asset Allocation



Your Investment Policy

GROWTH PROFILE: Your main goal is to achieve growth in your investments. Although you can tolerate greater changes in the market value in order to increase the value of your assets, you are not prepared to invest your entire portfolio in equities. If you feel that your risk tolerance is shifting, please let us know!

Source: This information is for illustration purposes and subject to change. Your portfolio may not hold all of these positions. We enhance the composition of your portfolio with additional equity solutions that are not illustrated. The weightings change with market fluctuations and model rebalancing.

Laurel Marie Hickey CFP® CIM® FCSI®
Investment Advisor, Portfolio Manager
239 8th Avenue SW Calgary Alberta T2P 1B9

Garth Bluekens CPA CA PFP® CIM®
Investment Advisor, Portfolio Manager
404 6th Street S Lethbridge Alberta T1J 2C9

Tel.: 403-531-8429 | **Toll Free:** 1-877-506-7900 | **Email:** laurel.hickey@nbc.ca

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

GLOBAL WEALTH