



Conservative+

September 2022 Edition

Diversification ~ 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 September Asset Allocation update.

The tug-of-war between bulls and bears continued throughout August, with U.S. equities initially trending higher, only to pull back and close the month lower. Who will win the next round? It's impossible to know with certainty, but in order to get some clarity, we dedicate this report to a brief overview of both the bullish and bearish theses, while remaining as factual as possible.

"perfect" track record has just crossed a critical threshold, the energy situation in Europe is worsening, and lockdowns in China are persisting.

No one knows for sure what the future holds, and that includes the most bullish, the most bearish, and us. This is always the case, which is why diversification is the only real key to success in long-term investing. And it is even more true today, given the unprecedented, complex, and sometimes even contradictory nature of the economic backdrop.

1 | Tug-of-war between Bulls and Bears



On the bullish side, the central scenario calls for a rapid slowdown in inflation and a gradual slowdown in wages, allowing the purchasing power of households – which are otherwise in excellent financial health – to strengthen and enabling the Fed to renew with less constraining monetary policies. Some recent data tend to support this thesis, but nothing definitive.

On the bearish side, there is a plurality of opinion but even there, it is generally accepted that inflation will indeed slow. However, in addition to weighing on corporate profits, this decline isn't expected to change the Fed's intention of bringing its policy rate into restrictive territory. Besides, a recession indicator with a

What's Diversification Got To Do With It?

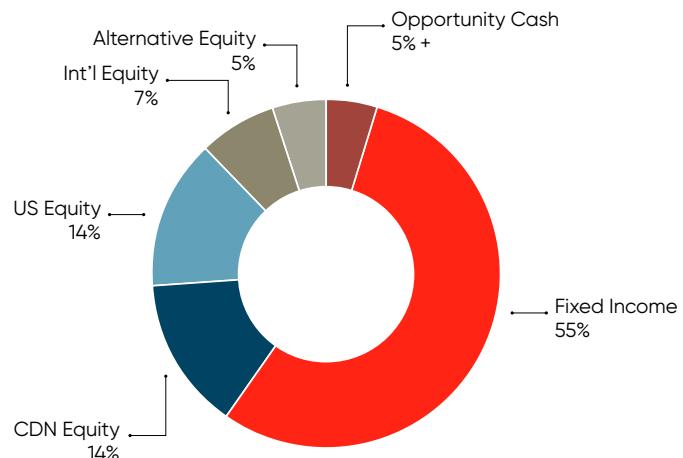
The markets are ending September volatile following the US Fed announcing another 75-basis point rate increase and stating that further rate hikes are needed to curb ongoing inflation. As mentioned in the CIO comments, this continues the tug-a-war between a bull and bear market. A case can be made on either side of the fence on whether we have seen the bottom of the market or if there is more downside to come. Some say that the market drop in June was the bottom and we are on track for inflation to slowly come down. Others say that yes inflation will slow down over the coming years, but corporate profits are going to be negatively affected by this as they have benefitted from the rise in prices caused by inflation.

When dealing with uncertain times, people are often confused on where is the best place to invest their money. They see equities dropping and become fearful, thinking they should cut their losses. In doing so, they would miss out on the potential recovery. Bonds are favorable right now as interest rates are at the highest they have been in years but as they continue to rise, the price of bonds also goes down. Lower-Risk fixed income assets like GICs are benefitting from higher interest rates, but by overweighting fixed income and locking



funds into a GIC for multiple years, you could potentially miss out an eventual market recovery in equities. There is not one asset class that is superior and really the place that you will find the most success right now is through a diversified portfolio. By having diversification with your asset classes and with the individual positions held in these asset classes, the swings of the market are not felt as strongly.

Conservative+ Investment Model Sleevet



Your Investment Policy

CONSERVATIVE ~ On the whole, you want fixed income investments. Although you can tolerate limited changes in the market value to ensure that your assets will grow, you prefer fixed income investments for reasons of stability. 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.



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