Building your financial future

Team Chartier, Grandmaison
Wealth Management Advisors and Portfolio Managers

Award recipient for the **6th** consecutive year

2021 Awards of Excellence
Portfolio Management
Montreal

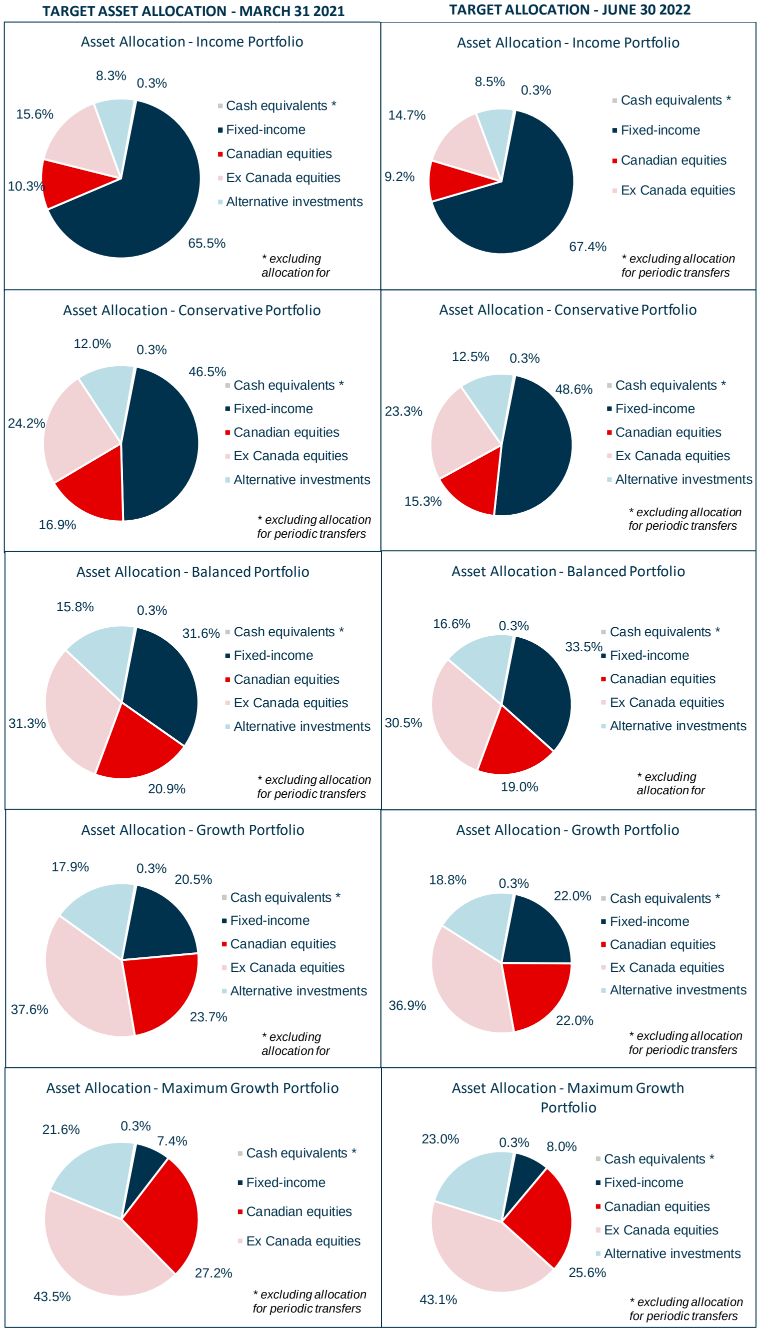
Our expertise, your success

2nd QUARTER 2022 SUMMARY

Asset Allocation Strategy

Recent portfolio changes did not alter the strategic asset allocation during the quarter. The main adjustment is the complete removal of emerging market equities from the non-Canadian equities. The other changes observed are due to market movements.

TARGET ASSET ALLOCATION - MARCH 31 2021 | **TARGET ALLOCATION - JUNE 30 2022**



Portfolio Model Revisions

We have withdrawn all of our investments in emerging market equities, as we believe they will be more affected by inflation than those in developed countries. However, a recovery may occur, but certainly slower than in Canada or the U.S. As a result, we sold the RBC Emerging Markets Equity Fund, and added two new stocks to the portfolio. These are Intact Financial Corporation (IFC) on the Canadian side and Microsoft (MSFT) on the U.S. side.

The recent market decline allowed us to buy these stocks at attractive prices, and considering the fundamentals of both companies, we believe they will remain stable in this environment of uncertainty and continued volatility. In addition to offering a 2% dividend, IFC offered a potential gain of approximately 20% at the time of purchase. As for MSFT, the yield expectation is around 40% and provides a dividend of nearly 1%.

In addition, and in the same defensive spirit, we introduced Costco Wholesale (COST), which had fallen sharply during the month of May. To finance the purchase of COST, we sold Alimentation Couche-Tard (ATD), which had reached an all-time high during the same period.

We are pleased to see that this transaction protected the portfolio during this volatile period, as ATD was down 13% since the sale while COST was up almost 3% as of June 30, 2022.

Finally, there was a 20-for-1 stock split of Amazon during the quarter; investors received 20 shares for each one they owned at the time of the split. Thus, the price of a share was divided by 20, but the split makes Amazon's stock more tradable in the market.

Google has announced a similar split (20 for 1) that will take place during the third quarter.

2nd Quarter Highlights

After some respite at the end of the first quarter, volatility has returned to the markets over the past three months. One bad news after another and fears of a recession are being felt. It is difficult to turn a blind eye to a situation in which the vast majority of asset classes have fallen since the beginning of the year.

To better understand the context, it is important to remember that the main catalyst for these fluctuations is the aggressive monetary tightening by central banks to fight rising inflation. The massive outpouring of liquidity by central banks into the financial markets since 2020 is the main cause. Shortages due to the war in Ukraine and the disruption of the supply chain in China have accentuated this trend.

However, in recent weeks we have seen a slowdown in inflationary expectations and a recovery in spending on durable goods and services, which is consistent with a normalization of inflation.

On the other hand, measures of underlying growth in the U.S. are robust, with rising wages and the level of oversaving keeping household finances on track.

Finally, equity markets appear to have already discounted a significant economic slowdown, so investors with a long-term horizon should look past these fluctuations and stay the course.

Annualized S&P 500 return following the start of a bear market*

Date of 20% drawdown	Next year	Next 3 years	Next 5 years	Next 10 years
21-Oct-1957	25.7%	9.8%	5.8%	7.6%
28-May-1962	21.2%	12.9%	8.4%	5.7%
29-Aug-1966	24.3%	8.4%	5.9%	3.4%
29-Jan-1970	11.1%	10.9%	-3.4%	2.6%
27-Nov-1973	-27.4%	2.1%	-0.1%	5.6%
22-Feb-1982	32.6%	17.6%	20.2%	15.6%
19-Oct-1987	26.5%	14.2%	16.4%	19.1%
12-Mar-2001	0.3%	0.7%	3.3%	3.1%
09-Jul-2008	-27.4%	4.8%	7.7%	10.4%
12-Mar-2020	61.6%	n/a	n/a	n/a
Bear market average	14.8%	9.0%	7.1%	8.1%
Global average	9.9%	8.7%	8.5%	8.0%

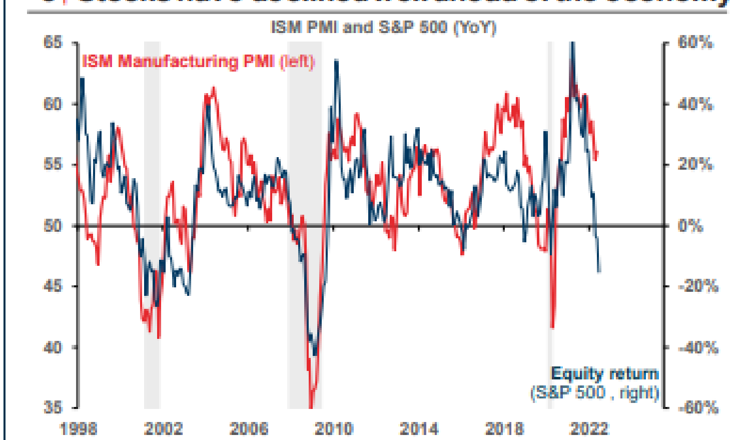
CIO Office (data via Refinitiv & Bloomberg). *Total return since 1988, price return before that.

As a reminder, since 1950, the return of the S&P 500 in the year following the bear market threshold (20%) as crossed this month has been positive 8 times out of 10.

Bear markets are an unavoidable part of life, and although unpleasant, let's keep in mind that their impact tends to dissipate over time.

Outlook

Clearly, the current economic environment is conducive to further volatility over the next quarter. The return to an uptrend should occur when a net slowdown in inflation is observed and when central banks signal the end of their rate hike cycle.



5 | Stocks have declined well ahead of the economy

CIO Office (data via Refinitiv)

At this point, our economists are not ruling out a recession, however, the current bear market is not creating the conditions for such a situation, and we are still seeing very little damage to the real economy as shown in (chart 5) to the left.

The current recession risks are more likely to be found in international equities, an asset class in which we significantly reduced our weighting in the first quarter.

We will be closely monitoring central bank forecasts over the coming months, and more than ever, we continue to be selective in our investment choices. We favour quality, stable companies with sustained revenue and earnings growth over time, which will allow portfolios to weather this difficult period.

What about bonds?

Unquestionably, the first half of 2022 has been a trying time for fixed income. It is therefore normal to wonder about the future of this asset class. Since there is generally no particular concern about the ability of quality borrowers to pay interest and repay principal when due, we believe that these declines in fixed income values are temporary.

A typical bond is issued at a price of 100; the issuer has a contractual obligation to pay annual interest on the 100 principal and to repay the 100 principal in full at maturity. Along the way, since the bond is "tradable" (or resalable in the market), its price is evaluated daily based on supply and demand. In the recent environment of rising interest rates, the current price of a previously issued bond has fallen, so that a prospective buyer would get the same return on that bond purchased at a discount as he or she could get from the same borrower on a new bond issued at a higher rate. However, once interest rates stabilize, the price of the bond will gradually return to 100, reaching it at maturity. In other words, the bondholder eventually earns the expected return when he or she buys the bond, but the distribution of the return over time is uneven (lower return from purchase until the price drops, higher return from that point until maturity).

Looking forward, the increase in rates on fixed income securities makes them more attractive and justifies their presence in portfolios as an element of diversification.

Recognition

We would like to acknowledge the excellent work of National Bank's Economics and Strategy group who won the prestigious Consensus Economics 2021 Forecast Accuracy Award.

They were recognized for the quality of their research, their commitment to producing regular forecasts and their ability to accurately identify trends and levels of key indicators over a 24-month forecast cycle.

With this in mind, we will continue to share with you Stéfane Marion's Economic Impact capsules on a regular basis, which we believe are very relevant in keeping you informed of market developments.

The entire Chartier Grandmaison team wishes you a great summer, and despite this period of uncertainty, we remain faithful to our investment discipline to accompany you in your financial success.

"A goal without a plan is just a wish." - Antoine de Saint-Exupéry