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NATIONAL BANK FINANCIAL WEALTH MANAGEMENT

MOTT LIOKOSSIS WEALTH MANAGEMENT GROUP

# March 2022 Commentary

February posted solid gain of 2.22% in our hypothetical equity model[1]. This cut our year-to-date loss to -0.60% while global equities[2] are at -7.8% already in 2022. We're a little more upbeat about being basically flat two months into the year than we normally would be, more below.

### *Market Update*

One of the inputs to our risk management tool is 'market breadth'. This refers to how many stocks in a given market or index are participating in whatever the overall index is doing. Specifically, much of 2021 featured a 'narrowing' market. This means that while the headline number for a given stock market index – like the S&P500 – might be advancing, there are fewer and fewer names actually delivering the performance. The performance becomes more concentrated, or narrow. Beneath the surface of the positive headline, many stocks were not doing well. That is often a sign of potential

[1] If you are new to this newsletter, our reference to a 'hypothetical equity model' bears explaining. Because every client's portfolio is slightly different and customized, we track a 'hypothetical' model to represent our results. This model contains the same investments as the equity portion (i.e. the 'engine') of your portfolio. It excludes the bonds. Each trade is done at the same time and price as your portfolio.

Our *Hypothetical Equity Model* closely approximates the actual performance of your equities before fees. It gives us context, allowing for various types of analyses & comparisons.

[2] Global stock market represented by *EWI785 World Stock Equal Weight Index,* Courtesy SIA Charts

weakness. It will tend to resolve itself with a market decline where the most pain is felt among those aforementioned small number of leading stocks. For this reason, our model will tend to become cautious well before the trouble becomes obvious.

We spent the last three quarters of 2021 treading water, holding extra cash and reducing risk. Fast forward to 2022 and things have suddenly changed. While the story isn't finished being written, so far this year we have a complete reversal of 2021. The leading tech stocks, and with them the NASDAQ index, have gotten hammered while our model has hardly a scratch. The global stock market[3] is down just shy of 17% from it's peak in 2021 while our hypothetical equity model is down only 3%.

***Canada's Place in the Pecking Order***

As we have written many times, Canada's stock market is more in tune with energy than other stock markets. As energy prices surge, Canada tends to benefit. For this reason, Canadian stocks overall have been outperforming the global market of late.

Satisfyingly, our model picked up this turn of events many months ago. In addition to holding some cash, we started rotating away from U.S. and International stocks, and specifically our long-held overweight in technology stocks, and more in Canada. We have more invested in Canada right now than at any point in our history including, for the first time ever, Canadian banks. We aggressively sold technology and bought energy and banking.

It's been amazing to watch, but also nerve wracking for one specific reason. Since 2013 when we started our current model portfolio, commodities have not enjoyed a sustained bull market. Occasionally they have surged for a short stint, only to collapse just as quickly and disappoint us. The question is, does this leg-up in commodities have legs?

We think it might, maybe for a couple of years. Titanic global forces are pushing energy up and with it inflation.

***Geopolitical Earthquake***

Geopolitical events rule the day. Russia's invasion of Ukraine could evolve into something really big. To understand what is likely to happen, it is important to understand why Putin has made this move. To us, it seems simple. Russia views the encroachment of the West and NATO toward their border as a threat to their security and thus, unacceptable. Our view is that a compromise is unlikely. Putin wants Crimea, independent status for Ukraine's Eastern Donbas territory, and permanent neutral status for Ukraine (i.e. no NATO) as a buffer with the West. We believe that it will be up to the latter to acquiesce or this situation will escalate.

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[3] SIA Charts: represented by EWI785 World Stock Equal Weight Index

In overly simplified terms, it's the exact opposite of the Cuban missile crisis. The U.S. would not tolerate the Soviet Union installing offensive missile capability 90 miles off the Florida coast. So it is with Russia and NATO forces in Ukraine. We believe Russia will not bend. This is not a comment on who is right or wrong, it's simply how we see the reality of the situation.

Nice sidebar on politics, what does this have to do with our portfolio? For as long as this situation persists, we expect poor overall stock market performance but buoyant energy stocks. If and when it reverses, our energy stocks will get hit hard as the general market recovers. The question is how much profit will we pile up, how much will we leave the global stock market in the dust, before such a reversal happens? If this lasts a couple of years, we could build enough margin that even if we give up a good chunk on the reversal, it will leave us way ahead before we rotate out of energy once again. The reality is that it will likely turn out in a way that we simply can't predict. Call us in 2024 for the answer.

### ***Tax Season***

It's that time of year. As always, Stephanie has done an incredible job of preparing your tax package and checklist. You should have it by now. We expect you to receive the last of your expected tax slips by the end of March. Also, you can make life a little easier by signing a form that will give your accountant the ability to downland your tax slips directly from our system. If you are interested and have not already done this, just let us know.

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## March 2022 Portfolio Review[4]

Mott Liokossis Hypothetical Model sector breakdown at the end of February 2022:

| | |
|---|---|
| Cash | 12.73% |
| Diversified Global Equity Portfolio | 37.70% |
| Energy | 15.08% |
| Diversified Canadian Equity Portfolio | 11.83% |
| Chemicals | 5.92% |
| Wholesale | 5.67% |
| Metals & Mining | 5.65% |
| Banking | 5.42% |

[4] If you are new to this newsletter, our reference to a 'hypothetical equity model' bears explaining. Because every client's portfolio is slightly different and customized, we track a 'hypothetical' model to represent our results. This model contains the same investments as the equity portion (i.e. the 'engine') of your portfolio. It excludes the bonds. Each trade is done at the same time and price as your portfolio.

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## Hypothetical Model Growth Portfolio Holdings at the end of February 2022:

| % Held | Security | Symbol | Sector | Price | Yield |
|---|---|---|---|---|---|
| 12.73% | Cash | | | | |
| 5.42% | Credicorp Ltd. | BAP | Banking | $ 191.65 | 0.00% |
| 6.52% | Equinor | EQNR | Energy | $ 39.86 | 1.58% |
| 8.56% | Cheniere Energy Inc. | LNG | Energy | $ 168.40 | 0.39% |
| 5.67% | McKesson | MCK | Wholesale | $ 348.40 | 0.65% |
| 5.65% | Nucor Corp. | NUE | Metals & Mining | $ 166.78 | 1.03% |
| 5.92% | Sociedad Quimica Y Minera SA | SQM | Chemicals | $ 83.86 | 2.34% |
| 37.70% | SIA ML Global Tactical Pool | SWI220 | Global Equity Portfolio | $ 24.53 | 9.28% |
| 11.83% | BMO SIA Focused CDN EQ ETF | ZFC | Canadian Equity Portfolio | $ 40.16 | 0.95% |

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**Monthly Returns**

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Yearly Returns | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2021 | -2.76% | 2.22% | | | | | | | | | | | -0.60% | YTD |
| 2021 | 1.62% | 5.68% | -3.36% | 0.16% | -0.85% | 0.93% | 0.28% | 7.23% | -4.67% | 1.70% | 0.60% | 0.51% | 9.93% | |
| 2020 | 4.33% | -3.90% | -8.54% | -0.42% | 9.70% | 2.13% | 5.75% | 4.27% | -2.33% | -1.79% | 7.32% | 6.07% | 22.93% | |
| 2019 | 1.36% | 5.01% | 3.75% | 3.46% | -1.58% | 2.58% | 0.97% | 1.13% | -3.33% | -0.78% | 3.76% | 2.09% | 19.73% | |
| 2018 | 2.84% | 0.81% | -0.31% | -0.79% | 5.53% | 8.19% | -0.60% | 8.18% | -2.65% | -14.70% | -0.14% | -2.73% | 1.60% | |
| 2017 | -1.26% | 3.11% | 0.49% | 3.26% | 1.45% | -3.95% | 0.50% | 2.31% | 3.43% | 7.33% | 2.38% | -3.57% | 16.08% | |
| 2016 | -3.29% | -2.97% | -3.70% | -3.30% | 5.04% | 1.01% | 3.03% | -0.56% | 1.02% | -1.70% | 1.56% | 0.82% | -3.36% | |
| 2015 | 9.73% | 2.78% | 3.71% | -8.98% | 10.69% | -4.34% | 7.93% | -5.39% | -3.05% | 0.23% | -0.08% | 1.84% | 13.89% | |
| 2014 | 6.39% | 6.38% | -5.18% | -4.67% | 1.52% | 1.94% | -1.25% | 5.18% | -2.40% | 0.44% | 5.70% | 3.57% | 18.08% | |
| 2013 | 6.00% | 4.20% | 3.95% | -2.83% | 9.64% | -3.67% | 4.06% | 3.65% | 3.29% | 3.42% | 4.68% | 2.66% | 45.96% | |

Monthly & Annual Returns for the Mott Liokossis Hypothetical Model Growth Portfolio.
Performance reflects actual trades executed in our maximum growth model and does not include fees or expenses.
We use this hypothetical model as the basis for our clients' portfolios.

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| Growth of $10,000 | Jan. 04, 2013 - February 28, 2022 |
|---|---|
| Mott Liokossis Model (MA02) | $35,125 |
| World Stock Equal Weight Index (EWI785) | $19,902 |
| Canadian Stocks (XIC.TO) | $21,759 |
| Canadian Bonds (XBB.TO) | $12,572 |
| Commodities (DBC) | $11,308 |

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