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CHARTBOOK
Market Comment

Prepared by OceanFront Investment Counsel Inc.

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Chartbook Market Comment: **April 2022**

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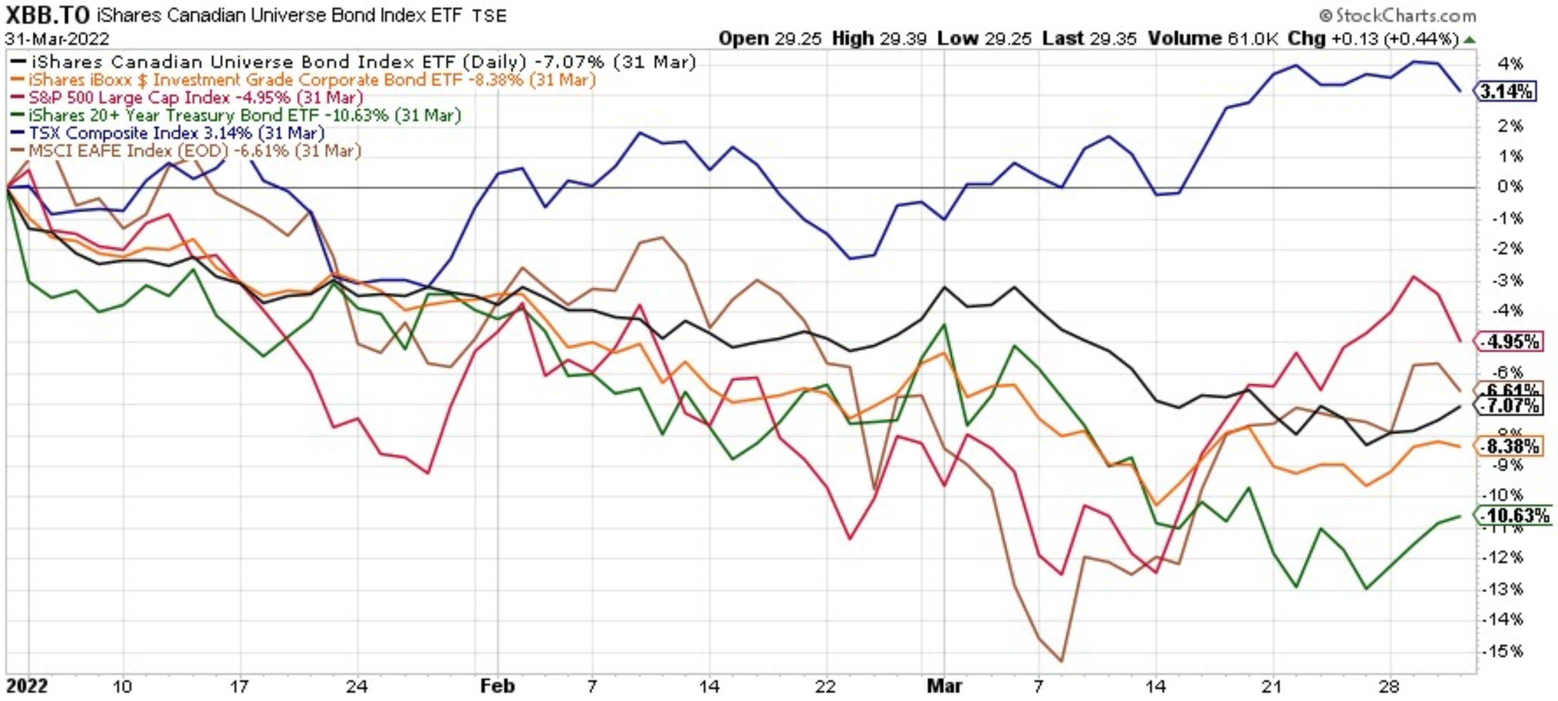
Market Comment

The Federal Reserve increased its benchmark interest rate in March to a range of 0.25%-0.50%. As inflation soared to 7.9% in the US, the Fed signaled there are more (potentially many more) hikes to come this year.

"We are attentive to the risks of further upward pressure on inflation and inflation expectations," Chairman Jerome Powell said. "The committee is determined to take the measures necessary to restore price stability. The U.S. economy is very strong and well-positioned to handle tighter monetary policy."

Rising interest rates and high inflation make for a very challenging investment environment for bonds. Certain members of the Federal Reserve board of governors have been vocal about how aggressive the Fed should be in raising rates. St. Louis Federal Reserve President James Bullard has called for hiking the benchmark rate as high as 3% this year to control inflation. Bond yields have already spiked higher, as the yield on a US 10-year treasury bond has increased to approximately 2.55%, up from 1.5% at the end of 2021. With inflation at 7.9% in the US, buyers of US 10-year treasuries at the current yield of 2.55% are facing an inflation-adjusted return of -5.35%.

Equity & Fixed Income Returns



The TSX (blue) was an outlier in the first quarter, returning 3.1%, while most stock and bond indices were down. The S&P500 (red) was down almost 5%, and the MSCI EAFE Index was down 6.6%.

The traditional role of bonds in a portfolio is to provide income and diversification since bond prices often rise when stock markets underperform. That hasn't been the case so far this year as stocks and bonds have sold off together.

For the quarter, the Canadian Universe Bond Index ETF (XBB) was down 7.1%, the US Investment Grade Corporate Bond ETF (LQD) was down 8.4% and the Long Term US Treasury Bond ETF (TLT) was down 10.6%.

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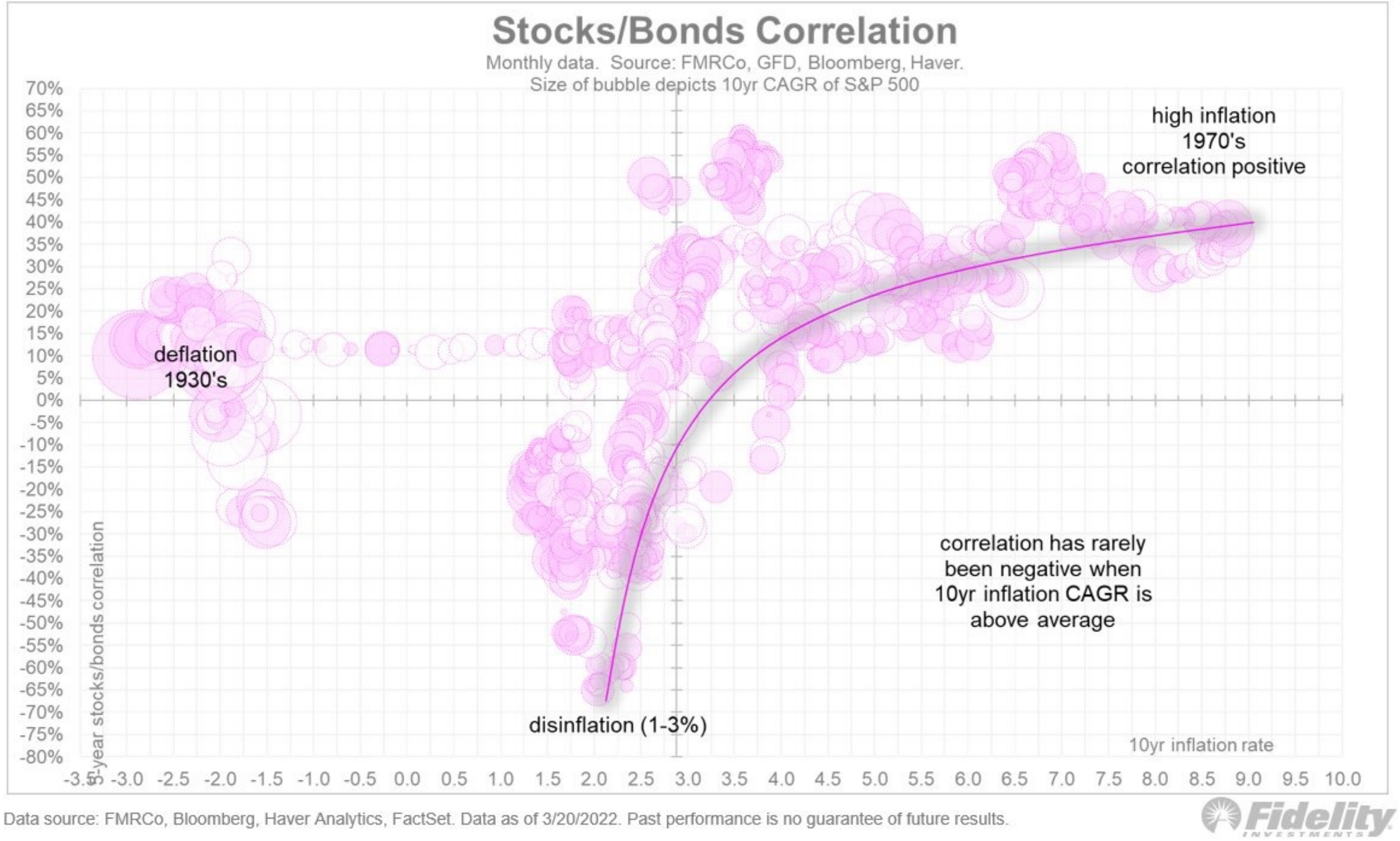
Stocks/Bonds Correlation

Due to their historical low-to-negative correlation, stocks and bonds have traditionally been effective complementary parts of investment portfolios. This means that bonds tend to perform well when stocks underperform and vice versa.

This relationship has fluctuated over time. As we saw this quarter, there are certain environments where stocks and bonds have been positively correlated.

The chart shows this historical relationship. During periods of high inflation, bonds and stocks tend to move together. During periods of relatively low inflation, the negative correlation and diversification benefit exists.



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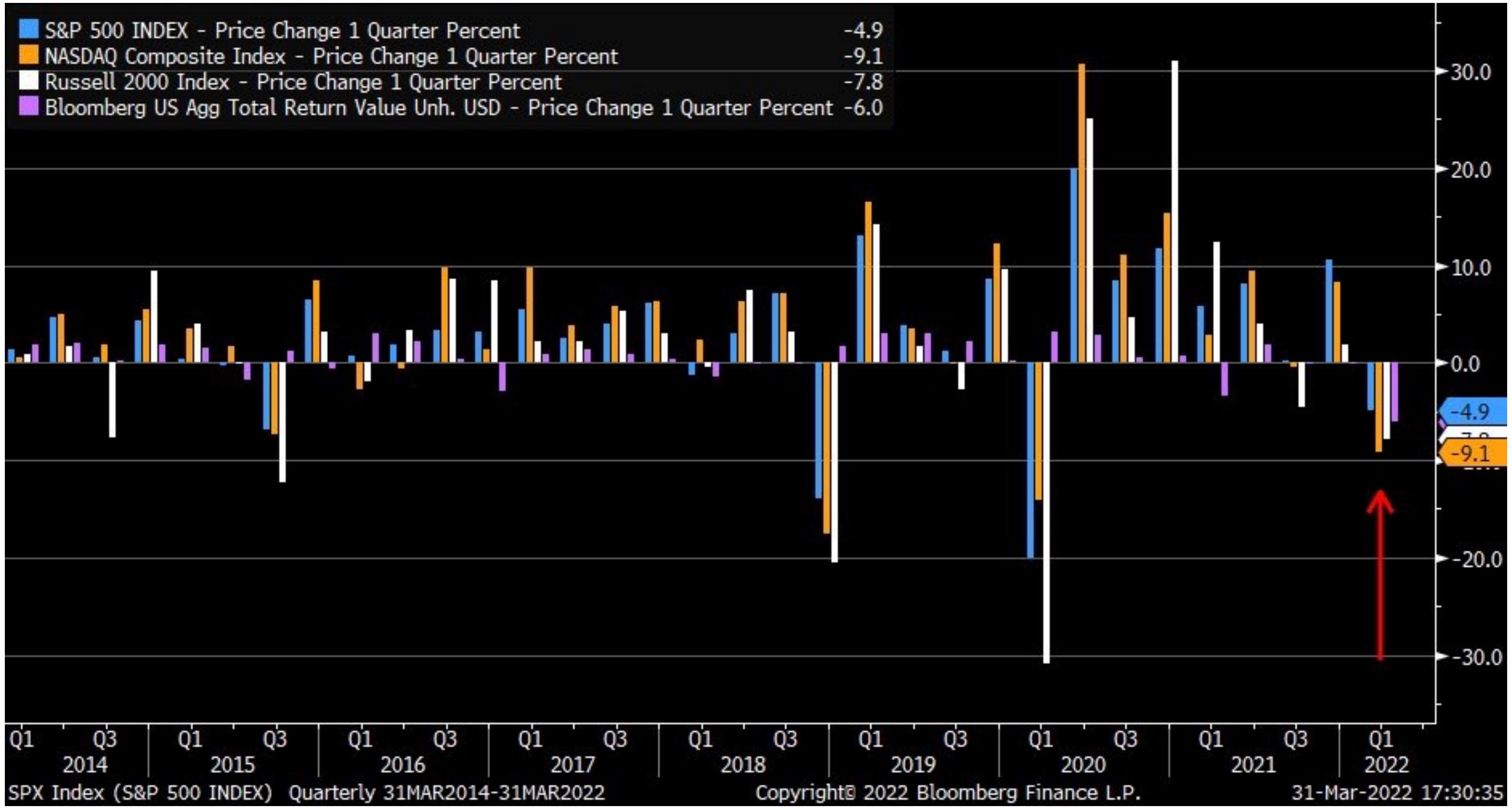
Stocks/Bonds Correlation (cont.)



This chart shows quarterly returns of US stock indices (S&P500 in blue, Nasdaq in orange, and Russell 2000 in white) and a US bond index (purple). As illustrated, over the past several years, bonds were up during stock market corrections in 2020, 2018, and 2015 but have fallen with stocks in 2022.

Rising interest rates and high inflation make for a challenging environment for bonds, and investors have had to look beyond this asset class for portfolio diversification in 2022.

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Commodities

Alternative assets like commodities are an option for portfolio diversification.

Commodities have been among the best performing assets of 2022, from energy to agriculture to metals. The basket of commodities in the chart has YTD returns ranging from copper at 6.8% to natural gas at 51%.

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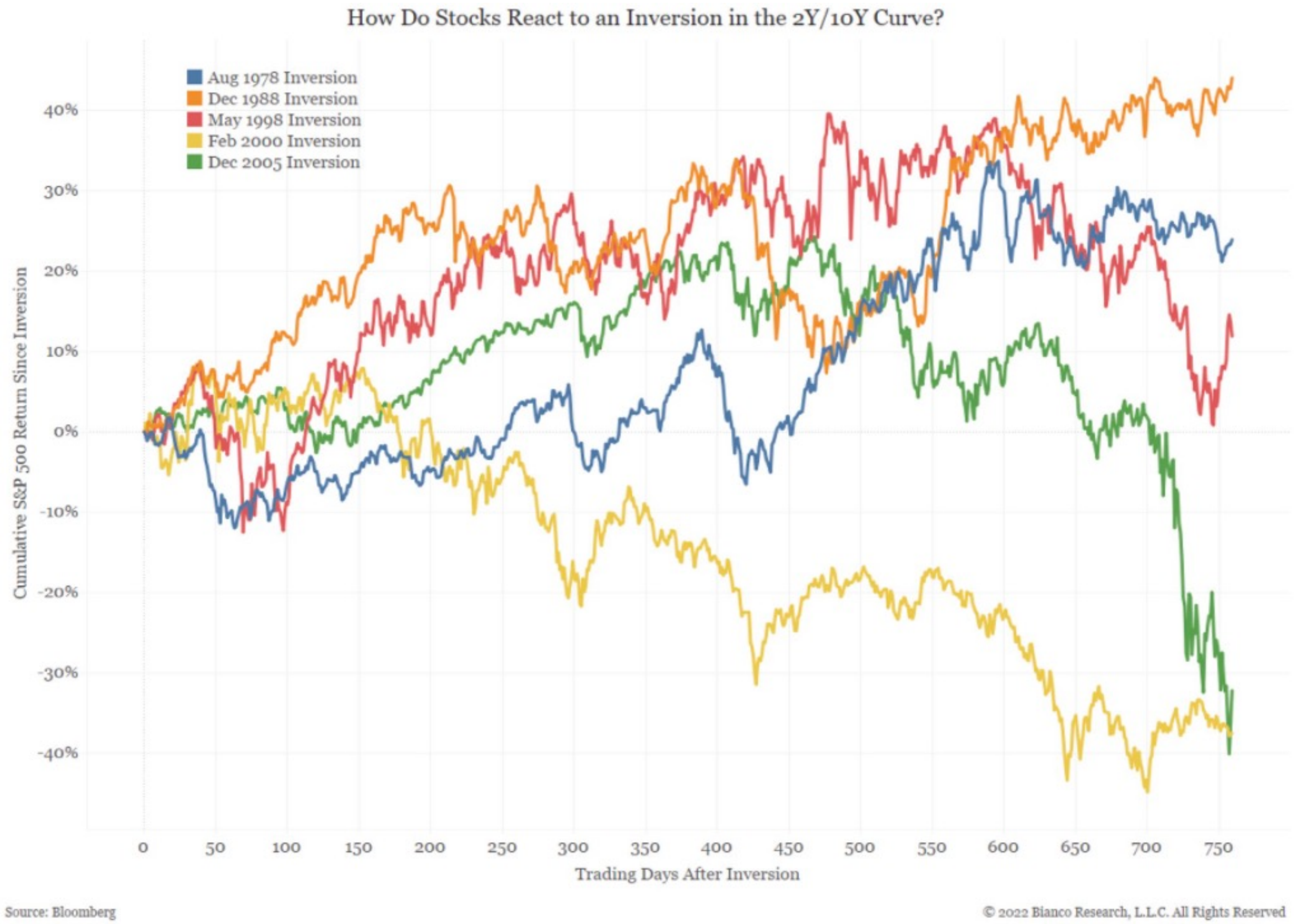
Yield Curve

Recently, there was an inversion in the US government bond yield curve, where the yield on a 2-year treasury exceeded the yield on a 10-year treasury. It is unusual for a long-term bond to yield more than a short-term bond (all else being equal) because investors usually demand more yield as compensation for the higher duration risk on the long-term bond.

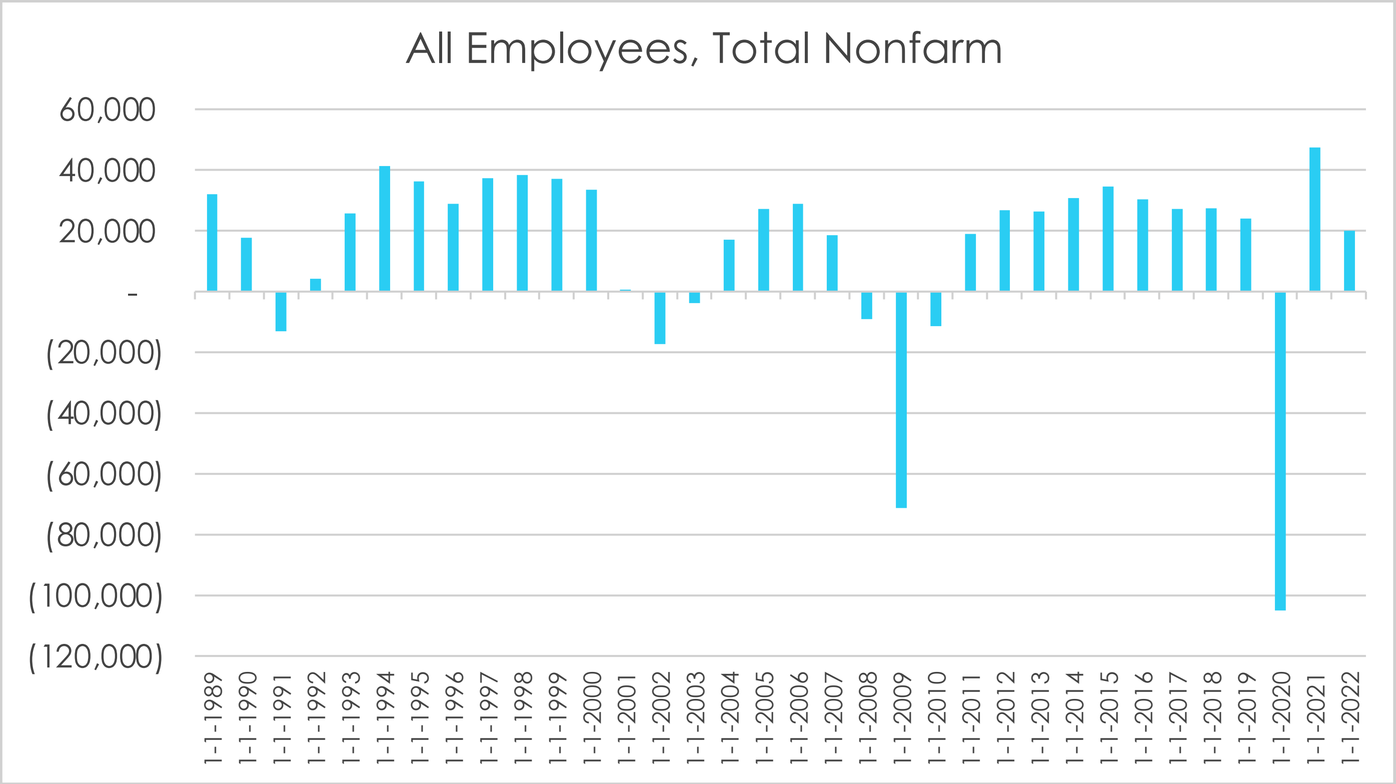
This event is an indicator of an upcoming recession, although it has not always been accurate, and subsequent stock returns have been mixed.

The chart shows returns of the S&P500 3 years after each yield curve inversion from 1978 to 2005.

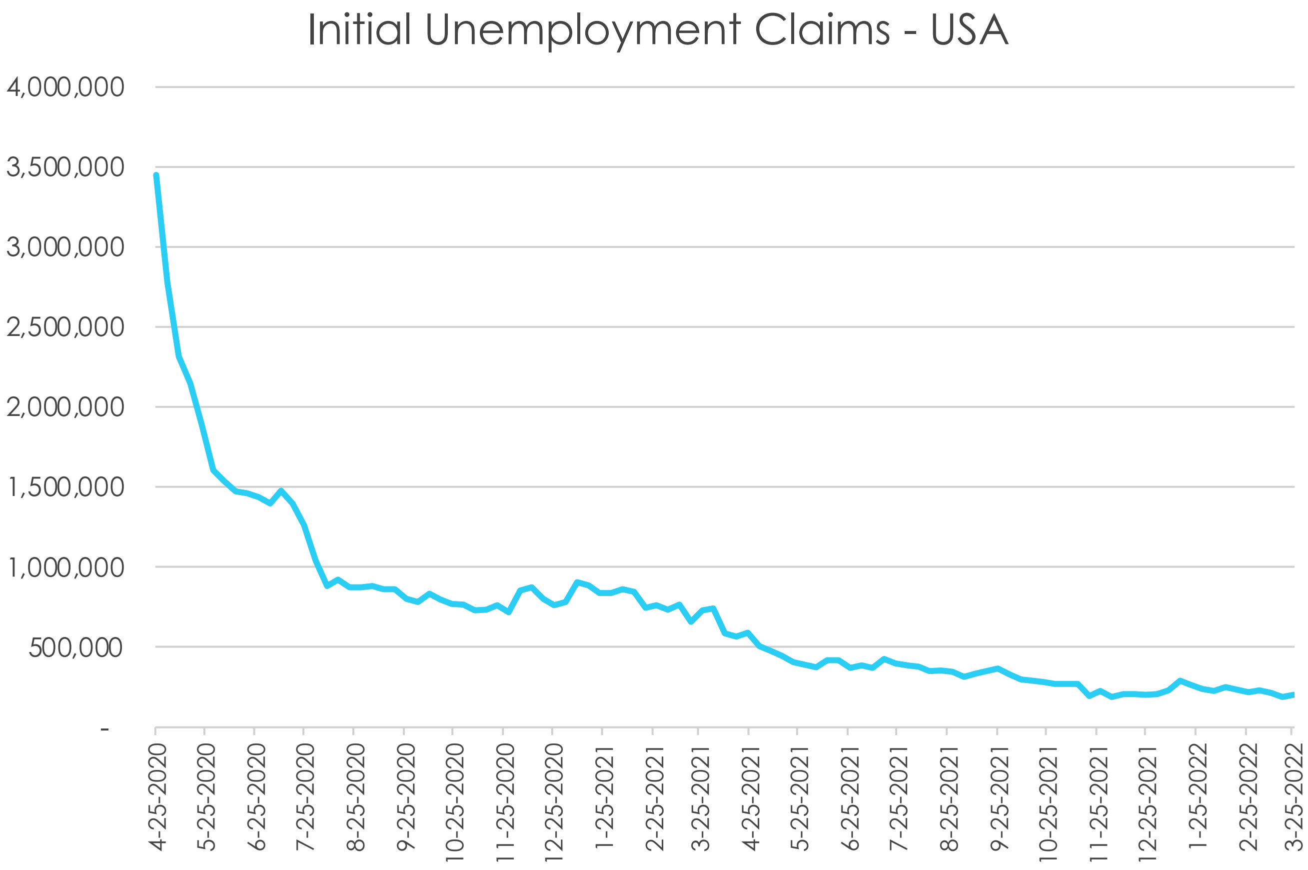


Employment – USA

Job growth in the US was strong in the first quarter as the economy continued to bounce back from the 2020 recession. Nearly 20,000 jobs were added in the first quarter of 2022. Compared to prior years dating back to 1990, this would be a solid number for an entire year's job growth.



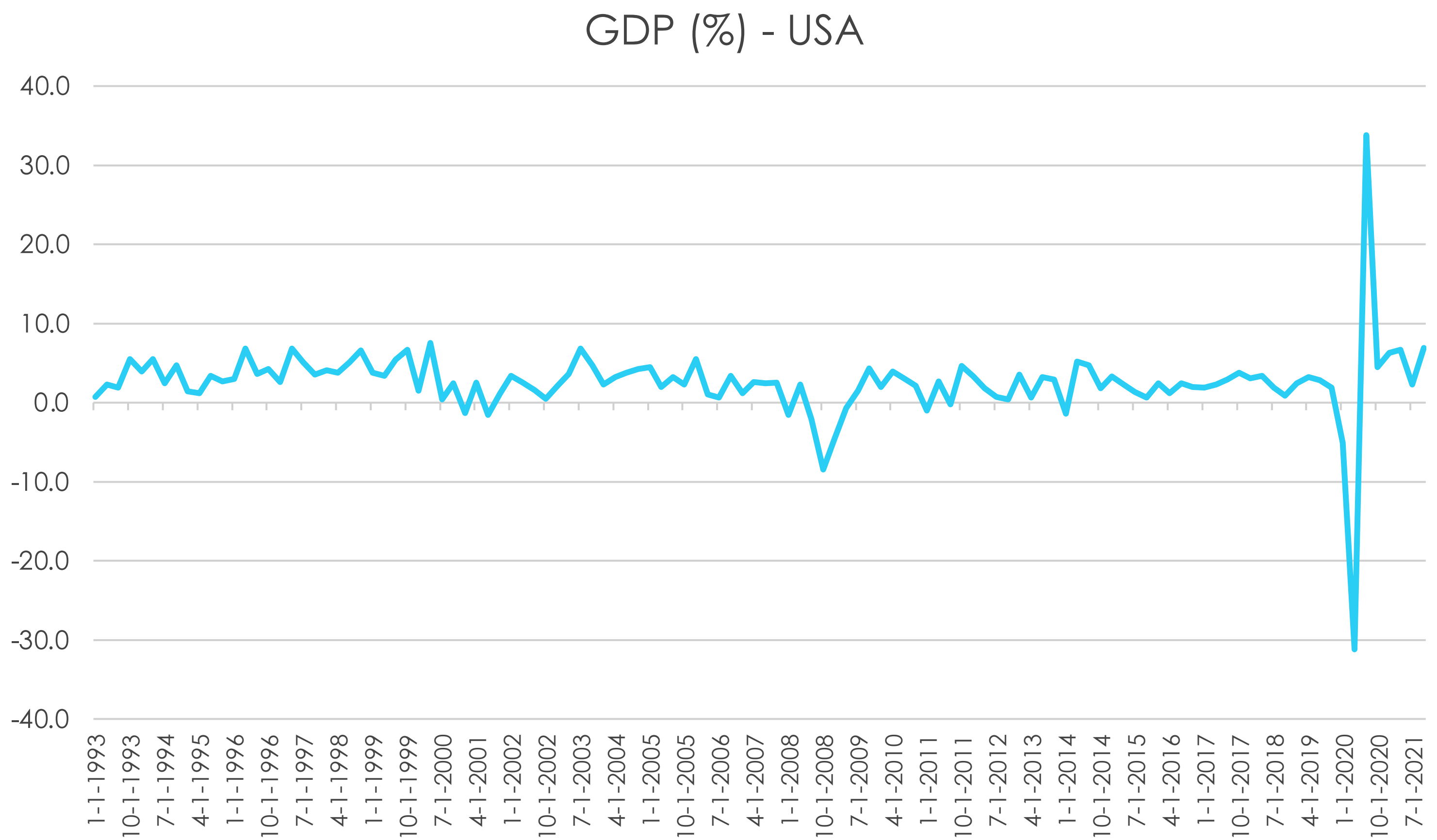
Initial Unemployment Claims



Unemployment claims in the US are at multi-decade lows. Initial unemployment claims are a leading indicator for the economy, which means they typically begin to increase prior to a recession. The current reading is a sign of strength in the US economy.

GDP - USA

Economic growth continues to be strong in the US. Excluding the sharp snap back in 2020 following the COVID shock, the most recent reported quarter was the highest quarterly growth since 2000.



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E&OE

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