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INVESTMENT COUNSEL INC.

CHARTBOOK
Market Comment

Prepared by OceanFront Investment Counsel Inc.

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TABLE OF CONTENTS

Chartbook Market Comment: **June 2022**

OCEANFRONT INVESTMENT COUNSEL INC.

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Market Comment

Looking at market returns for May can give a false impression that it was a quiet month. Markets were relatively flat, the TSX -0.2%, S&P500 0.0%, and Canadian bonds returned 0.0% (based on the return of the iShares Canadian Universe Bond Index ETF). These numbers hide the action throughout the month, where markets continued their fall before staging a vicious rally back of 7.5% on the TSX and 9.1% on the S&P500. The bull market in energy continues to be one of the only places for investors to hide from the bear markets in other assets. The price of WTI Light Crude Oil was up 9.5% in May.

Inflation continues to be of paramount importance for asset prices, as it is currently the primary (or perhaps the only) driver of central bank policy. Central banks like the Bank of Canada and the Federal Reserve have repeatedly stated that inflation is too high and will hike interest rates until it comes down. Should we see a peak and decline in inflation, this could compel central banks to back off from the interest rate hikes, which should be positive for stocks and bonds.

Bond Yields

Since reaching a high of about 3.1% in early May, the US 10 Year Treasury yield declined to about 2.75%. This follows the rapid move higher in yields from earlier this year when bonds adjusted to higher inflation and rate hikes from the Federal Reserve.

If this marks the end of the uptrend in yields, it has broad implications for the economy and financial assets. It suggests that bond markets expect inflation to cool off and the Federal Reserve hiking cycle to be relatively brief. Investors may be purchasing Treasurys as insurance against a further correction in stocks.

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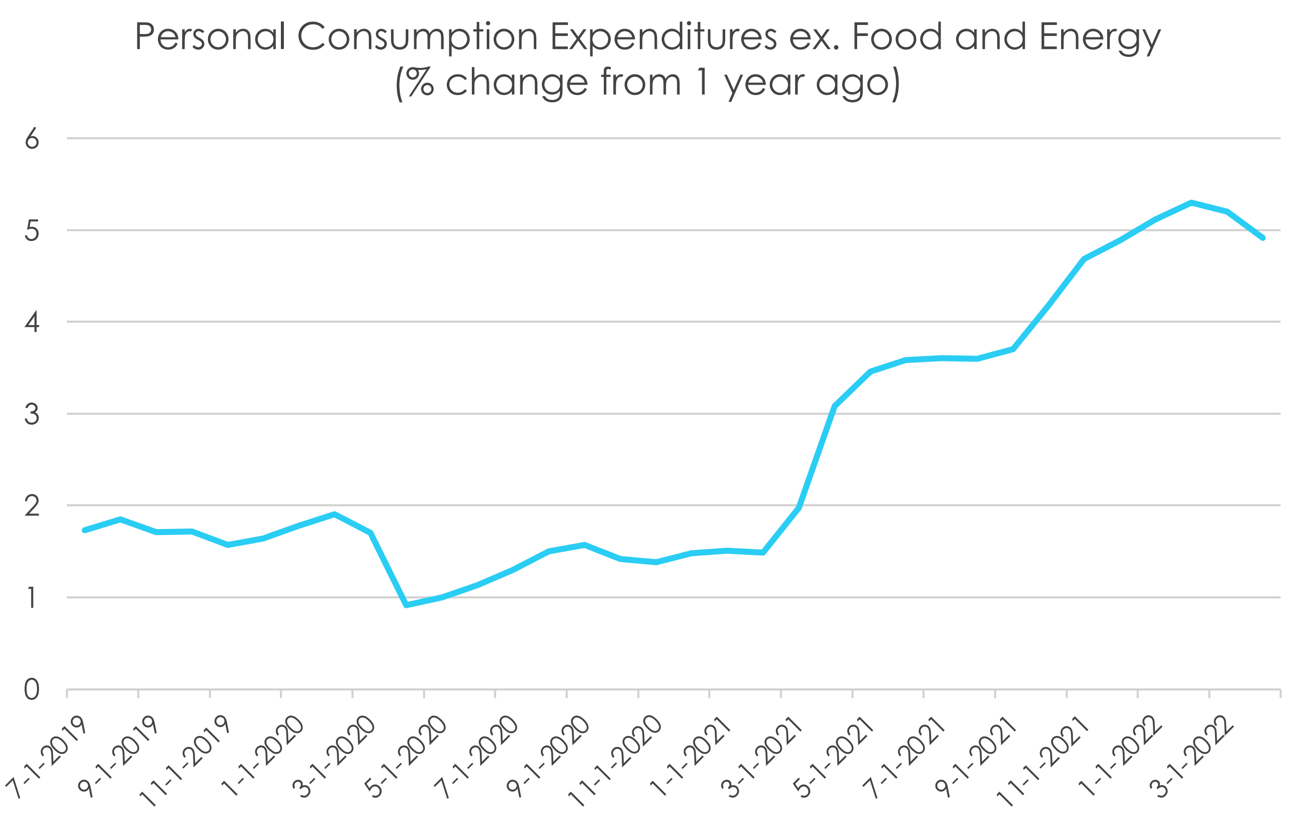
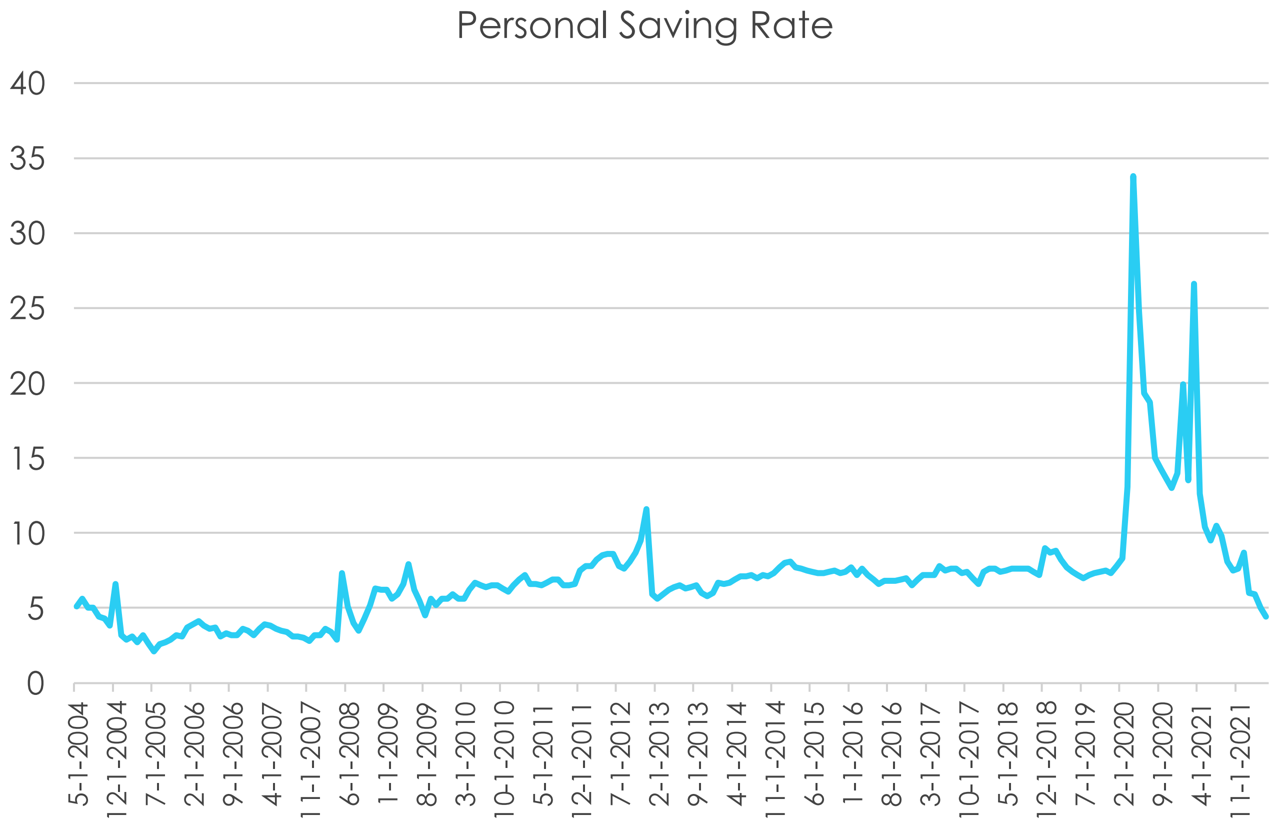
Inflation - USA

As measured by Personal Consumption Expenditures, inflation has declined for two straight months. If this continues, peaking inflation would be hugely important for the economy, as it will take pressure off consumers and businesses and may encourage central banks to back off of hiking interest rates. Interestingly, this measure and US 10 Year yields have both declined recently.



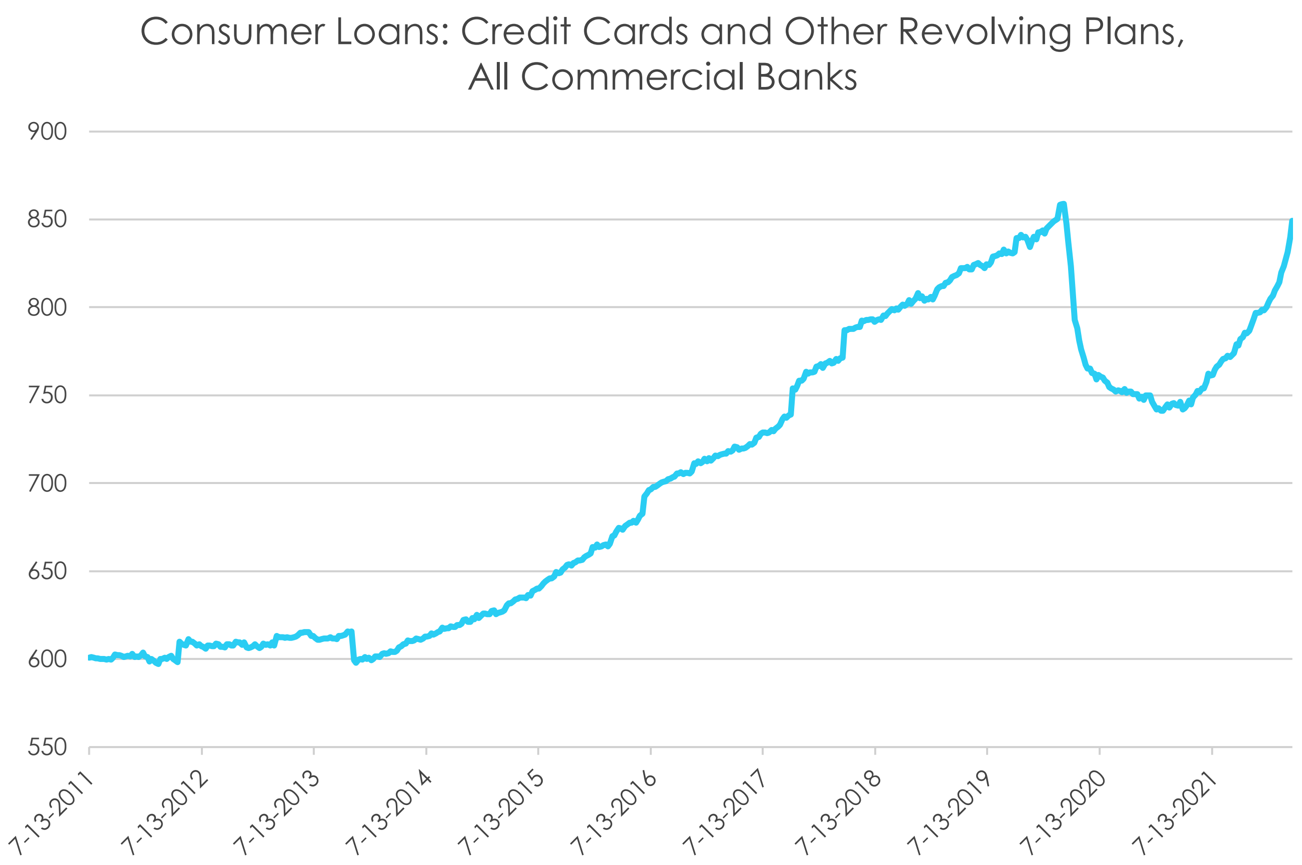
Personal Saving Rate - USA



After spiking following government stimulus during the pandemic, the Personal Saving Rate has fallen to the lowest level since the Global Financial Crisis. This suggests that consumers now need savings to help fund living expenses which are increasing due to inflation.

Consumer Debt - USA

While the savings rate declines, consumer debt has nearly increased back to the level it was pre-Covid. A deterioration in the consumer's finances is a significant risk for the economy as a whole.

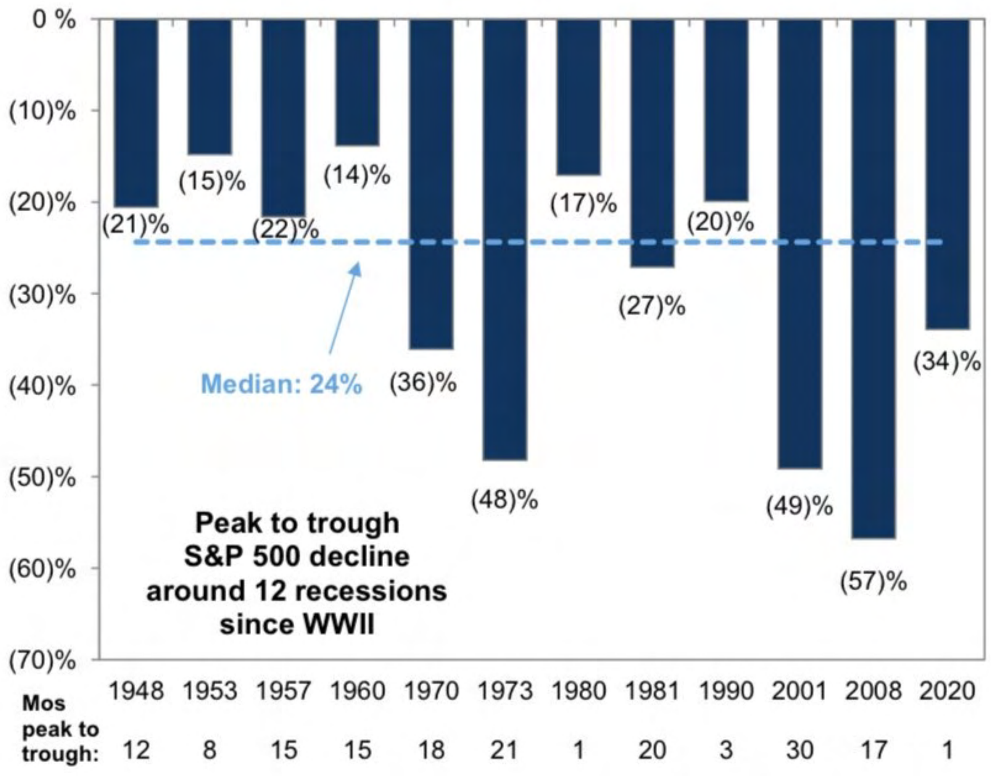


Recession Drawdowns

If a recession does arrive, what kind of returns can we expect from stocks? Dating back to World War II, the median drawdown of the S&P500 during recessions has been about -24%, but with a wide range of outcomes.

The current drawdown on the S&P500 is about -21%. Because stock markets are forward-looking, they tend to begin their decline before the recession officially begins and bottom before the recession officially ends. If we do have a recession, it's possible the worst of the correction in stock markets could already be over.

Exhibit 4: S&P 500 has contracted 24% from peak to trough around the median recession since WWII



Source: Goldman Sachs Global Investment Research

Intra-Year Drawdowns

S&P 500 Index: Max Intra-Year Drawdowns vs. End of Year Total Returns (1928 - 2022)

Year	DD	TR	Year	DD	TR	Year	DD	TR	Year	DD	TR	Year	DD	TR
1928	-10.3%	43.8%	1947	-14.7%	5.2%	1966	-22.2%	-10.0%	1985	-7.7%	31.2%	2004	-8.2%	10.9%
1929	-44.6%	-8.3%	1948	-13.5%	5.7%	1967	-6.6%	23.8%	1986	-9.4%	18.5%	2005	-7.2%	4.9%
1930	-44.3%	-25.1%	1949	-13.2%	18.3%	1968	-9.3%	10.8%	1987	-33.5%	5.8%	2006	-7.7%	15.8%
1931	-57.5%	-43.8%	1950	-14.0%	30.8%	1969	-16.0%	-8.2%	1988	-7.6%	16.6%	2007	-10.1%	5.5%
1932	-51.0%	-8.6%	1951	-8.1%	23.7%	1970	-25.9%	3.6%	1989	-7.6%	31.7%	2008	-48.8%	-37.0%
1933	-29.4%	50.0%	1952	-6.8%	18.2%	1971	-13.9%	14.2%	1990	-19.9%	-3.1%	2009	-27.6%	26.5%
1934	-29.3%	-1.2%	1953	-14.8%	-1.2%	1972	-5.1%	18.8%	1991	-5.7%	30.5%	2010	-16.0%	15.1%
1935	-15.9%	46.7%	1954	-4.4%	52.6%	1973	-23.4%	-14.3%	1992	-6.2%	7.6%	2011	-19.4%	2.1%
1936	-12.8%	31.9%	1955	-10.6%	32.6%	1974	-37.6%	-25.9%	1993	-5.0%	10.1%	2012	-9.9%	16.0%
1937	-45.5%	-35.3%	1956	-10.8%	7.4%	1975	-14.1%	37.0%	1994	-8.9%	1.3%	2013	-5.8%	32.4%
1938	-28.9%	29.3%	1957	-20.7%	-10.5%	1976	-8.4%	23.8%	1995	-2.5%	37.6%	2014	-7.4%	13.7%
1939	-21.2%	-1.1%	1958	-4.4%	43.7%	1977	-15.6%	-7.0%	1996	-7.6%	23.0%	2015	-12.4%	1.4%
1940	-29.6%	-10.7%	1959	-9.2%	12.1%	1978	-13.6%	6.5%	1997	-10.8%	33.4%	2016	-10.5%	12.0%
1941	-22.9%	-12.8%	1960	-13.4%	0.3%	1979	-10.2%	18.5%	1998	-19.3%	28.6%	2017	-2.8%	21.8%
1942	-17.8%	19.2%	1961	-4.4%	26.6%	1980	-17.1%	31.7%	1999	-12.1%	21.0%	2018	-19.8%	-4.4%
1943	-13.1%	25.1%	1962	-26.9%	-8.8%	1981	-18.4%	-4.7%	2000	-17.2%	-9.1%	2019	-6.8%	31.5%
1944	-6.9%	19.0%	1963	-6.5%	22.6%	1982	-16.6%	20.4%	2001	-29.7%	-11.9%	2020	-33.9%	18.4%
1945	-6.9%	35.8%	1964	-3.5%	16.4%	1983	-6.9%	22.3%	2002	-33.8%	-22.1%	2021	-5.2%	28.7%
1946	-26.6%	-8.4%	1965	-9.6%	12.4%	1984	-12.7%	6.1%	2003	-14.1%	28.7%	2022	-18.7%	?

Note: Closing Prices (does not include intra-day or dividends)

COMPOUND

@CharlieBilello

Stocks are a volatile asset class. It's common for them to have double-digit losses during a given calendar year and then recover throughout the remainder of the year, sometimes posting a positive return for the year despite a significant drawdown.

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Data as of May 18, 2022

YTD Returns vs. Rest of Year

Stock returns to begin 2022 have been among the worst starts to a year in history. The top 5 worst starts to a year dating back to 1928 (excluding 2022, which is incomplete) all had a significant bounce for the remainder of the year.

The Five Previous Worst Starts To A Year Ever Usually Bounced Back

S&P 500 Index Returns From Day 100 Until The End Of The Year

	S&P 500 Index Returns	
Year	**YTD Return On Day 100**	**Return Rest of Year**
1932	-38.1%	37.6%
1939	-12.9%	8.8%
1940	-26.2%	15.0%
1962	-14.6%	3.3%
1970	-23.7%	31.0%
2022	-16.5%	?
	Average	19.1%
	Median	15.0%
	% Positive	100.0%
	Average Year	5.0%
	Median Year	7.3%
	% Positive All Years	67.0%

Source: LPL Research, FactSet 05/25/2022 (1928 - Current)

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 stock index was first launched in 1957.

Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.

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The Value of Remaining Invested

Time Invested Since Jan. 3, 2000	Dollar Value	Annualized Performance
Fully invested into S&P 500	$32,421	6.06%
Missed 10 best days	$16,180	2.44%
Missed 20 best days	$10,176	0.08%
Missed 30 best days	$6,749	(1.95%)
Missed 40 best days	$4,607	(3.8%)
Missed 50 best days	$3,246	(5.47%)
Missed 60 best days	$2,331	(7.02%)

DATA SOURCE: JPMORGAN.

Market volatility can be stressful and make it tempting to sell and take risk off the table. However, this comes with an opportunity cost in the form of missing out on future returns.

The chart shows the return an investor would have received from investing in the S&P500 from January 3, 2000, to December 31, 2019, which was 6.06% annualized. If this hypothetical investor had missed just the ten best days over this 20-year period, that return would drop to just 2.44% annualized.

It is not possible to invest directly in an index.

DISCLAIMER

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E&OE

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