OCEANFRONT
INVESTMENT COUNSEL INC.

CHARTBOOK

Market Comment

Prepared by OceanFront Investment Counsel Inc.

oceanfrontwealth.com

TABLE OF CONTENTS

Chartbook Market Comment: July 2022

OCEANFRONT
INVESTMENT COUNSEL INC.

CONTRIBUTORS

PORTFOLIO MANAGERS

Scott Keast, CIM, CFP®
Shane McMahon, CIM, CFP®
Adam Carris, CFA®, CIM®, CFP®

SENIOR WEALTH PARTNER*

Bruce Lindsay, CFP®, CH.F.C.®, CLU®

PORTFOLIO ADMINISTRATOR

Matthew Cameron, CFA®, CIM®

ASSOCIATE PORTFOLIO MANAGERS

Brendan Leathem, CFP®, CLU®, CIM®
Kim Reynolds, CIM®, QAFP®

* OceanFront Wealth Inc.

OCEANFRONT
INVESTMENT COUNSEL INC.

Market Comment

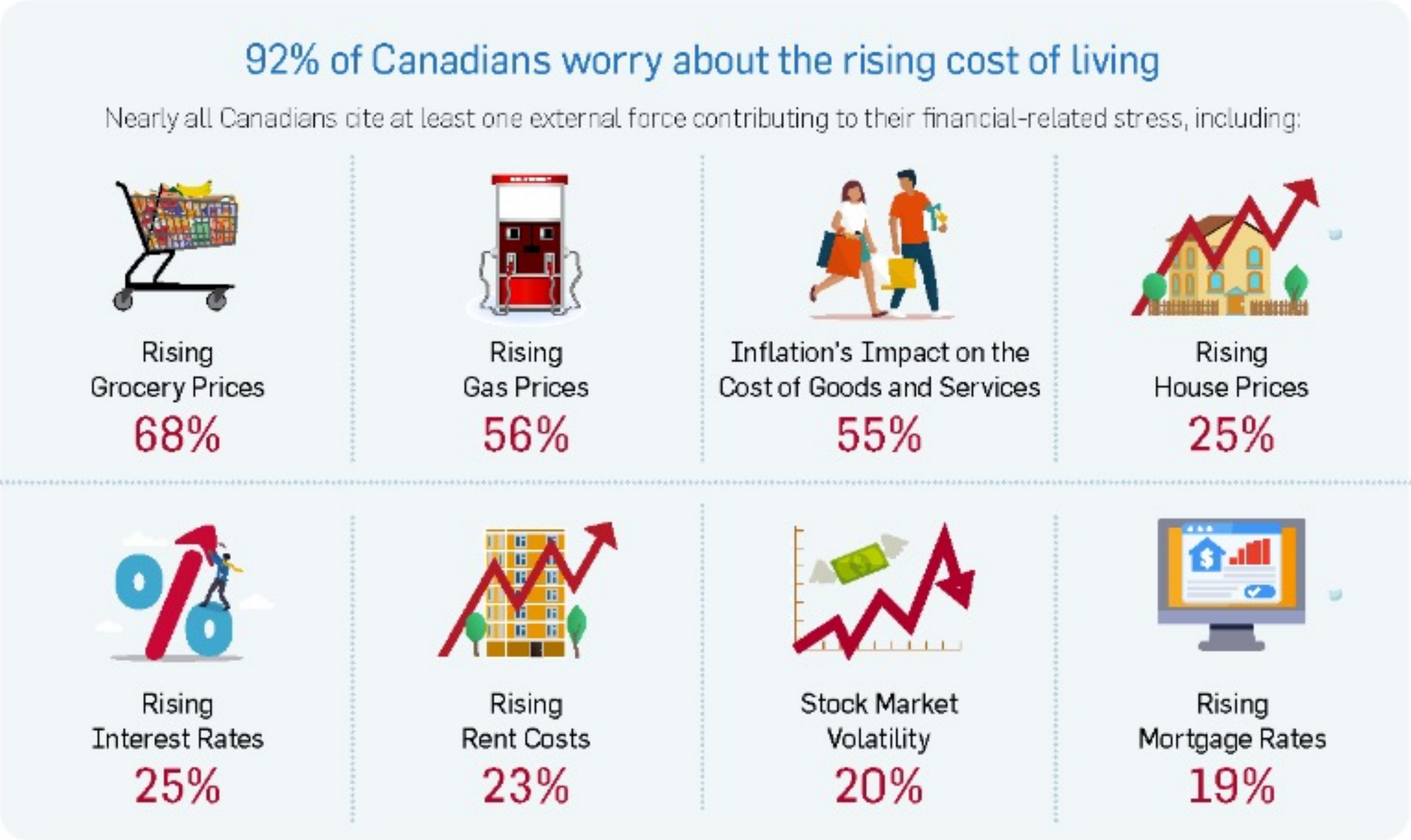
Most markets around the world fell in June, with China a notable exception. The TSX fell 8.7%, the S&P500 fell 8.3%, while the Chinese CSI 300 Index rose 10.4% as parts of China began to emerge from lockdowns. Bonds also fell in June, although they rallied after reaching a low during the month.

"Flight to safety" assets like bonds and the US Dollar that tend to outperform during recessions have been rallying since mid-June. Bonds have been relatively strong the past couple of weeks, as the market appears to now be more afraid of a recession than it is of inflation. Signs of recession have yet to appear in the labour market, which remains extremely tight.

While an increased probability of an upcoming recession is concerning, the good news is that there are signs of a peak in inflation. A recession would most likely bring inflation down further, allowing central banks to loosen financial conditions or at least cease tightening them.

OCEANFRONT
INVESTMENT COUNSEL INC.

Inflation



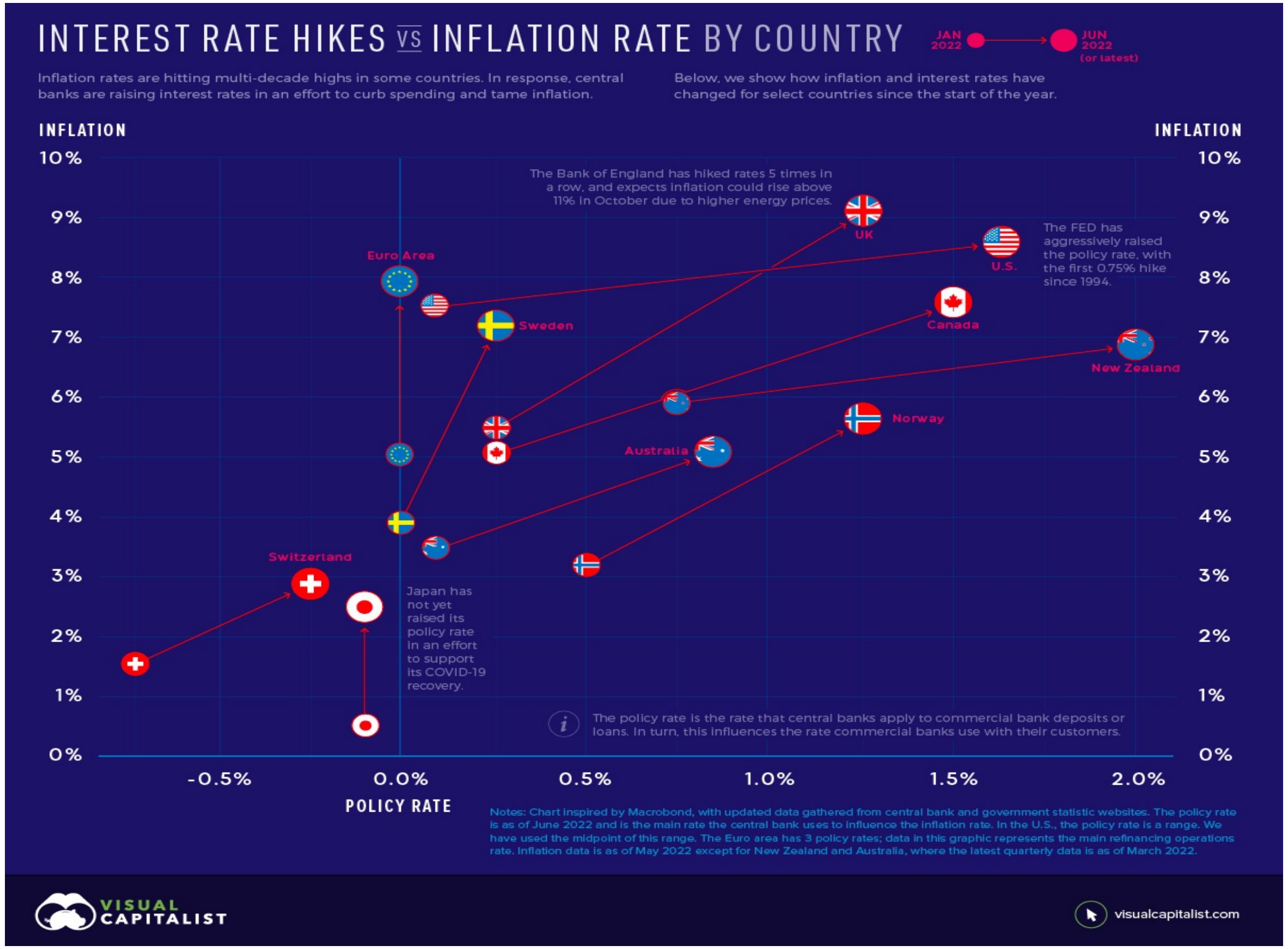
Consumers are becoming increasingly worried about inflation. Inflation plus the corresponding interest rate hikes by central banks have put household budgets under pressure.

 Source: FP Canada, OceanFront Investment Counsel Inc.

Inflation & Rate Hikes

Around the world, most central banks have responded to high inflation by raising their policy interest rates. This chart shows the interest rate response plotted against the inflation in each country. In Canada, for example, inflation has increased from about 5% to about 7.5%, and the interest rate has increased from 0.25% to 1.5%.

Japan and the Eurozone have yet to increase interest rates. Inflation has remained low in Japan but is high in Europe.



OCEANFRONT INVESTMENT COUNSEL INC.

Inflation Expectations

10-year breakeven inflation expectations (the difference in yield between inflation-indexed bonds and nominal bonds of the same maturity) have fallen quite dramatically in the past few weeks, a sign that inflation could have peaked.

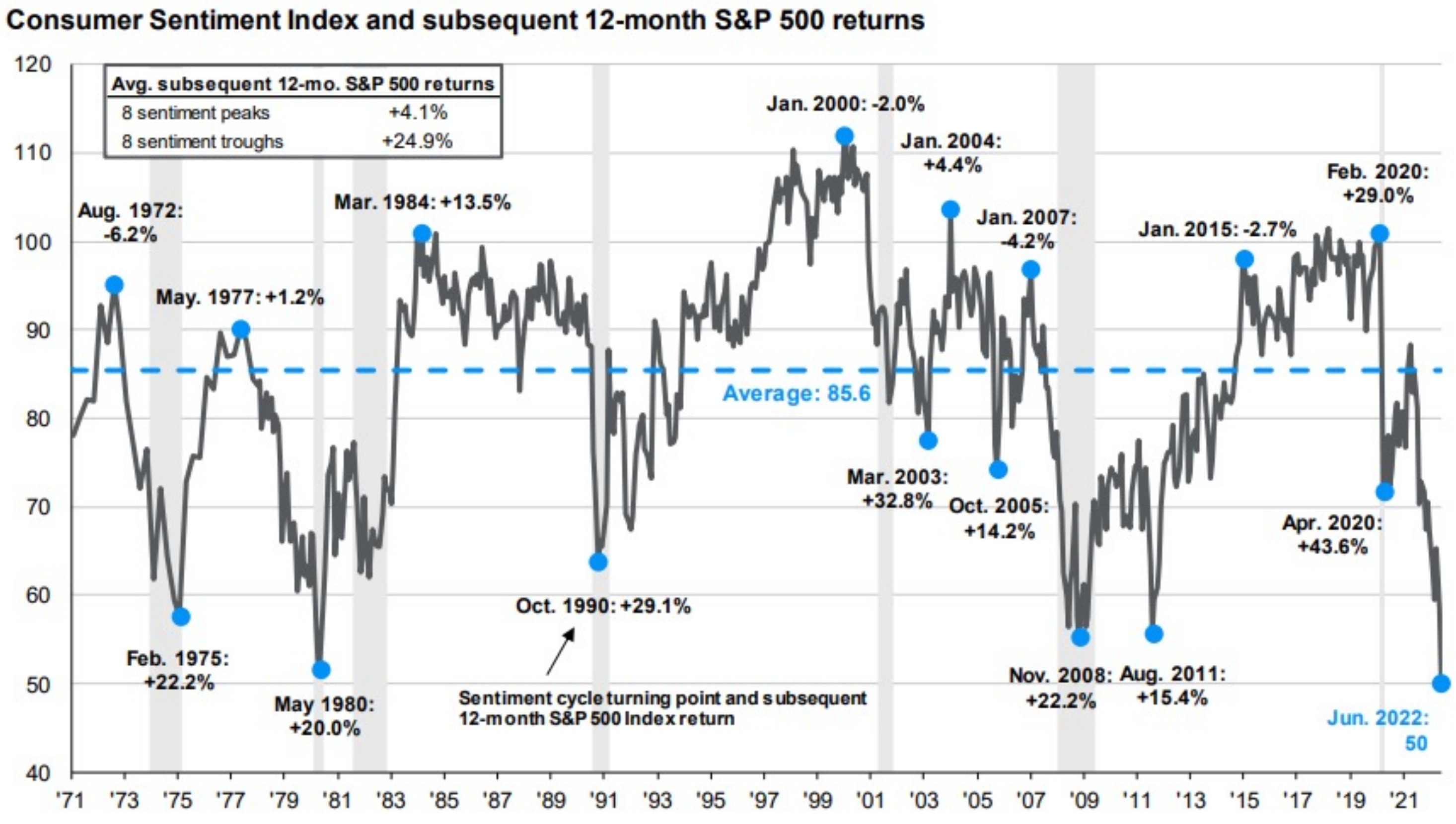
This would generally be good news for the economy unless it is signaling that inflation will decline due to the economy entering a recession.

OCEANFRONT
INVESTMENT COUNSEL INC.

Consumer Sentiment

Sentiment is typically a contrarian indicator. When it is extremely negative or bearish, it is a signal that markets may be near a bottom.

In this case, consumer sentiment, as measured by the University of Michigan, is lower than at any point in the last 50 years. Past extreme readings have been associated with double-digit 12-month forward returns in the S&P500.



Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management.
Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs. Subsequent 12-month S&P 500 returns are price returns only, which excludes dividends. Past performance is not a reliable indicator of current and future results.
Guide to the Markets – U.S. Data are as of June 29, 2022.

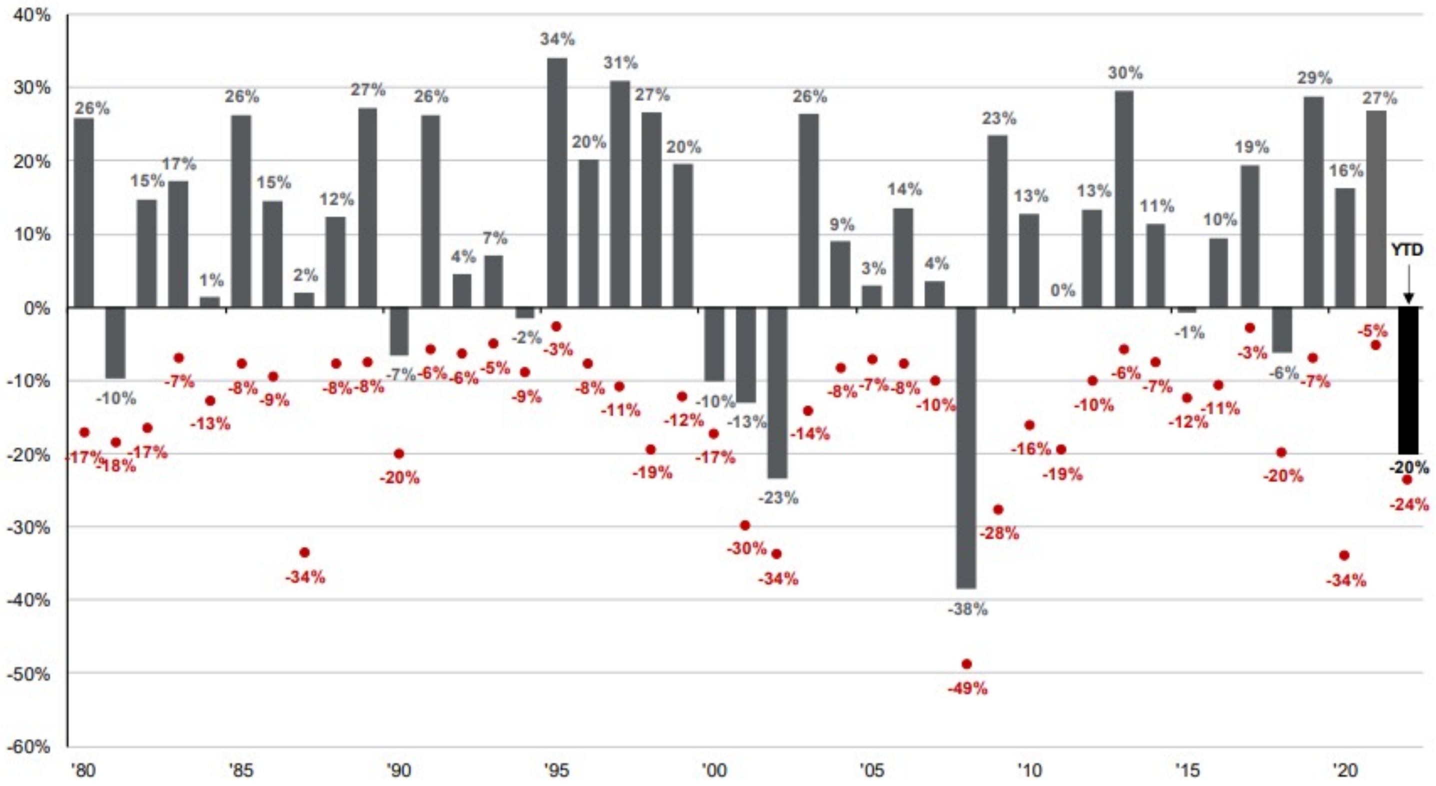
J.P.Morgan ASSET MANAGEMENT

OCEANFRONT INVESTMENT COUNSEL INC.

Intra-Year Drawdowns

S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.0%, annual returns were positive in 32 of 42 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2021, over which time period the average annual return was 9.4%.
Guide to the Markets – U.S. Data are as of June 29, 2022.

J.P.Morgan
ASSET MANAGEMENT

Most years see a significant drop in the stock markets during the year. The bars on the chart show the annual return of the S&P500, while the red dots show the intra-year drawdown, the lowest year-to-date return the index had during the year.

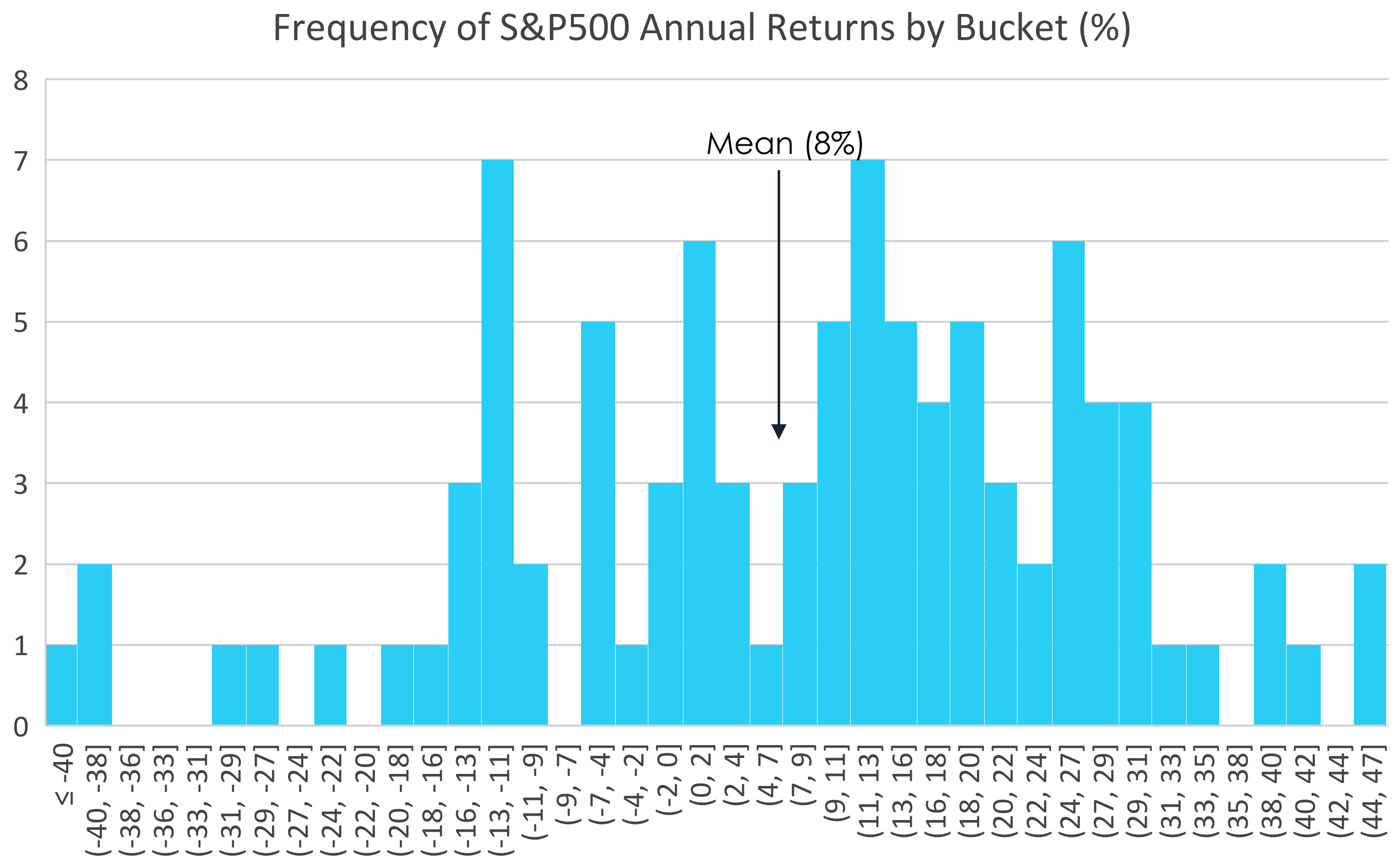
In many cases, the index staged a substantial rally after the low. This year, we have experienced a drawdown of about 24% on the S&P500.

OCEANFRONT
INVESTMENT COUNSEL INC.

S&P500 Calendar Year Returns

Dating back to 1928, the average return of the S&P500 index, excluding dividends, is about 8% per year. During this period, the S&P500 has had a return close to the mean (7%-9%) only 3 times! It is much more common to experience a positive or negative return in the low double digits than a return between 7%-9%. It is also more common to experience a very high annual return of between 24%-31% than the average return.

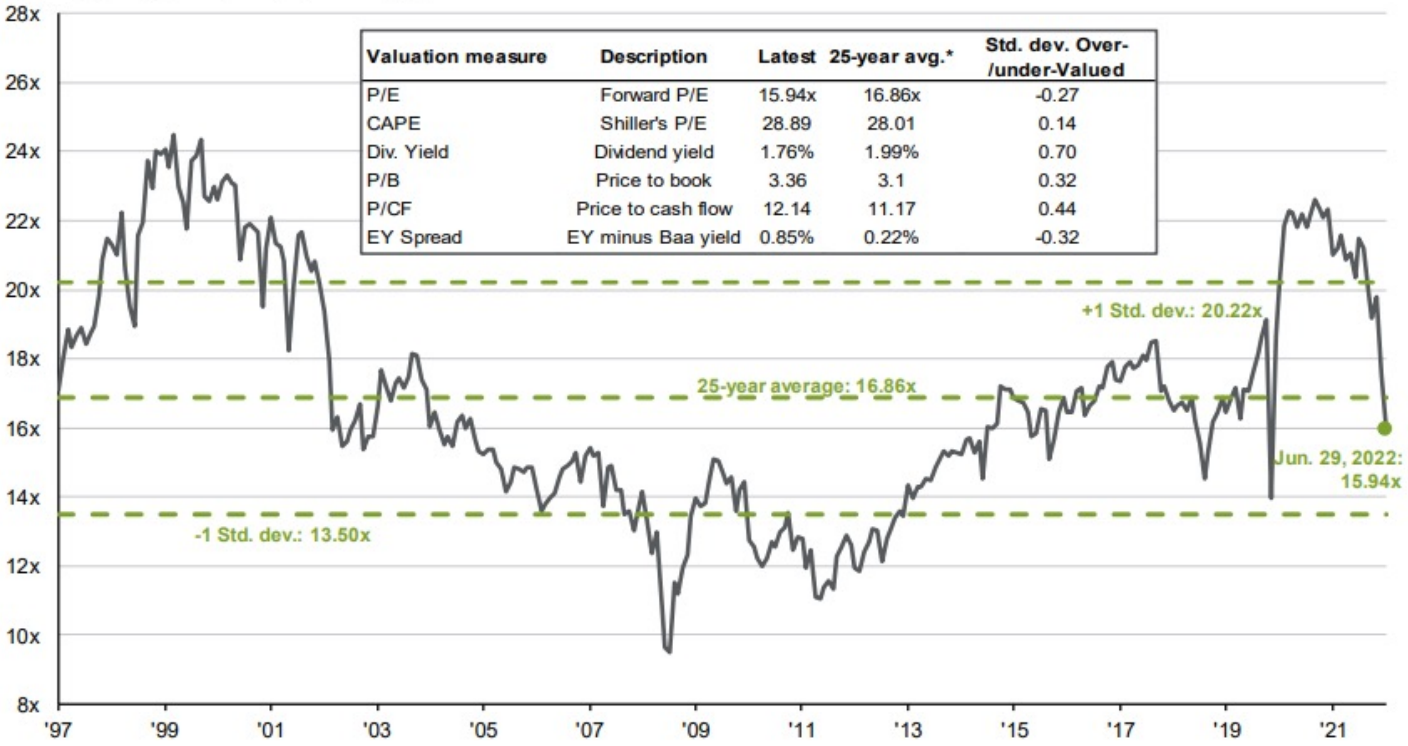
In investing, there is a wide range of outcomes, and the average of these outcomes rarely occurs. Volatility is the price of admission for stock investors, but investors can expect strong returns from this asset class over the long term.



OCEANFRONT
INVESTMENT COUNSEL INC.

Price-Earnings Ratio

S&P 500 Index: Forward P/E ratio



Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	15.94x	16.86x	-0.27
CAPE	Shiller's P/E	28.89	28.01	0.14
Div. Yield	Dividend yield	1.76%	1.99%	0.70
P/B	Price to book	3.36	3.1	0.32
P/CF	Price to cash flow	12.14	11.17	0.44
EY Spread	EY minus Baa yield	0.85%	0.22%	-0.32

Source: FactSet, FRB, Refinitiv Datastream, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since June 1997 and by FactSet since January 2022. Current next 12-months consensus earnings estimates are $240. Average P/E and standard deviations are calculated using 25 years of history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Price-to-book ratio is the price divided by book value per share. Price-to-cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure. *P/CF is a 20-year average due to cash flow availability.
Guide to the Markets – U.S. Data are as of June 29, 2022.

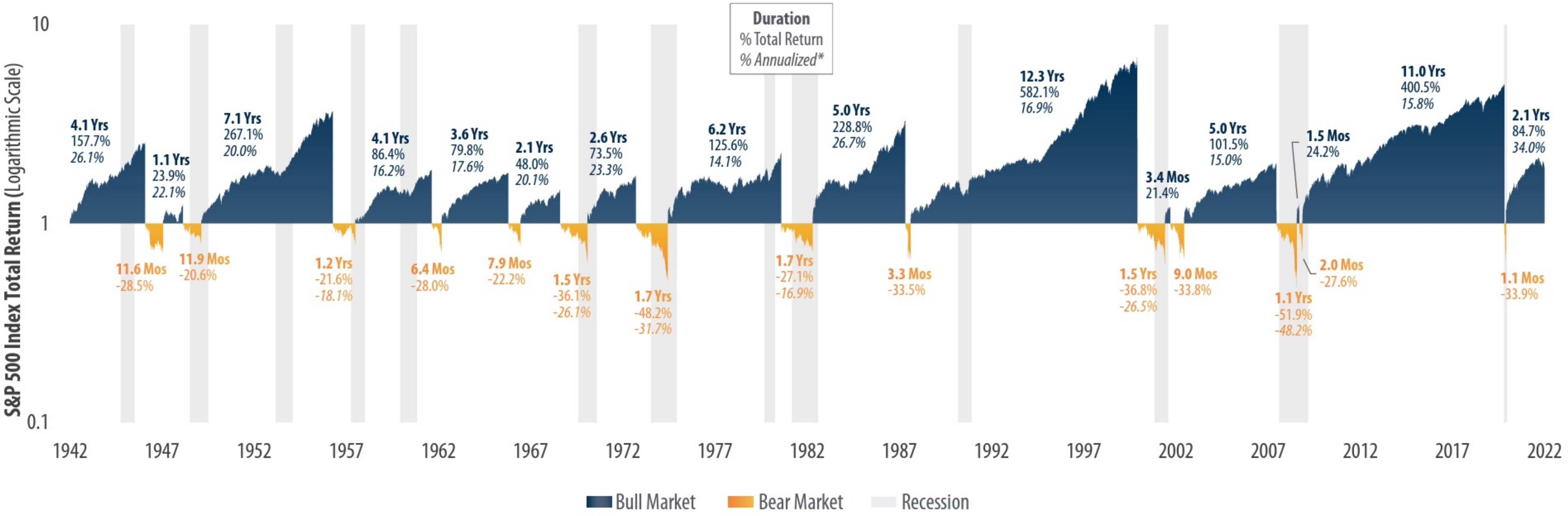
J.P.Morgan
ASSET MANAGEMENT

Stock valuations based on forward earnings expectations of S&P500 stocks are now slightly cheap compared to their average of the past 25 years.

The key here will be if forward earnings expectations stay steady because if we enter a recession, we will likely see earnings expectations fall considerably. In such a scenario, stocks would appear to be expensive based on their current prices, and we would likely see prices fall even further to compensate for this.

OCEANFRONT
INVESTMENT COUNSEL INC.

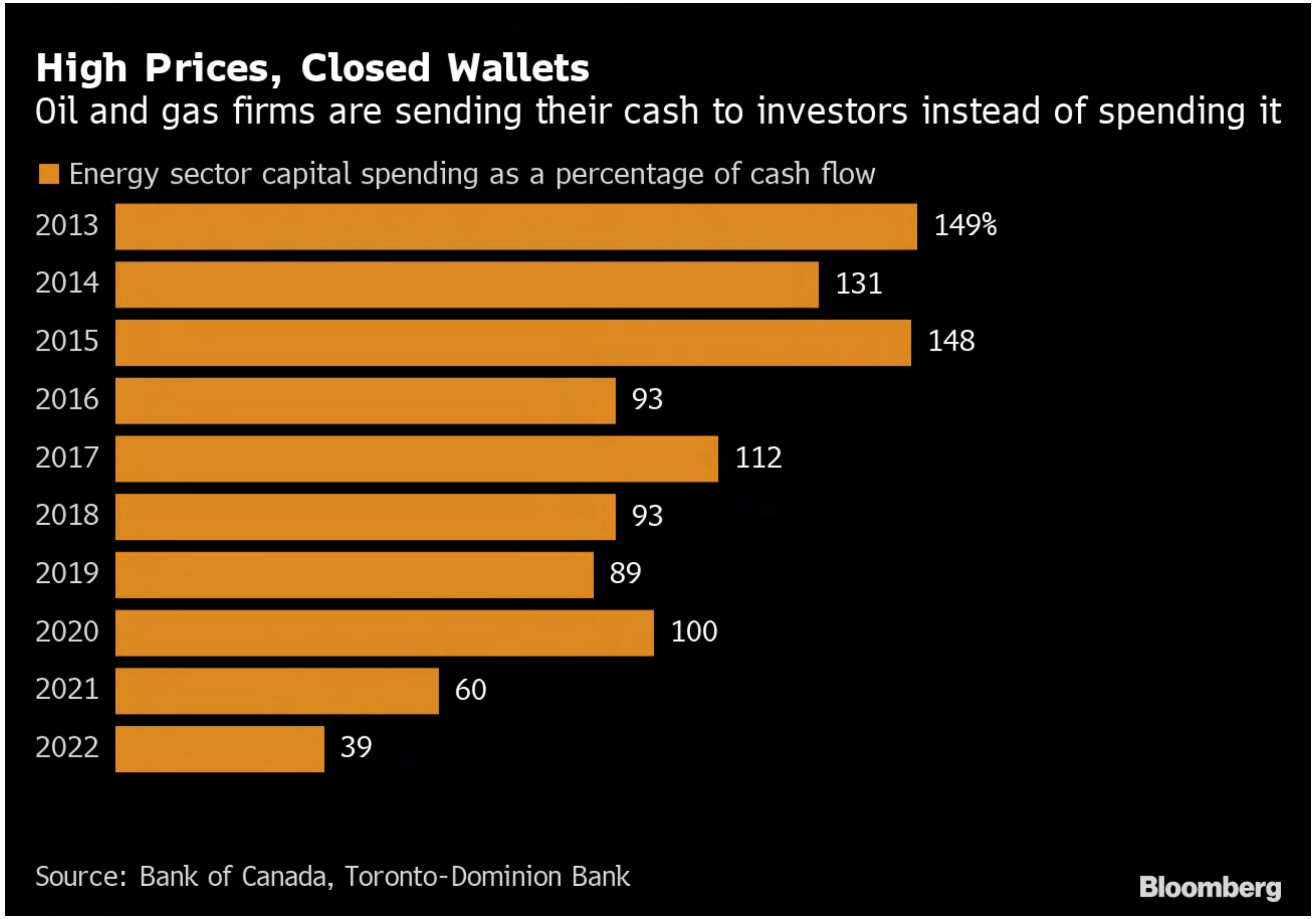
History of Bull and Bear Markets



Bear markets are not fun to experience, but it is important to remember that markets have always recovered, and a new bull market has followed every bear market with plenty of opportunity.

OCEANFRONT
INVESTMENT COUNSEL INC.

Oil & Gas Capital Expenditure



One of the only bull markets recently has been in oil and energy stocks. In the past, a high price of oil like we have now would lead Oil and Gas firms to increase spending and drill new wells to bring more product to market to sell at high prices. This time around, there has been very little of this supply response to higher prices, with firms choosing to return cash to investors instead. This suggests that any drop in oil price will need to come from a decrease in demand rather than an increase in supply.

OCEANFRONT
INVESTMENT COUNSEL INC.

DISCLAIMER

Any opinion expressed herein is based solely upon the author's current analysis, and interpretation of such information is subject to change. It does not necessarily represent the opinions of OceanFront Investment Counsel Inc. The particulars contained herein were obtained from sources believed to be reliable, but we cannot guarantee their accuracy or completeness. Individuals should consult with their professional advisors, including tax advisors, prior to making investment decisions. This report is for your general information only and does not constitute tailored advice offered to an individual. Certain statements may contain speculative information, which involves known and unknown risk, uncertainties, and other factors which may cause the actual results, performance, or any achievements of OceanFront Investment Counsel Inc., or industry results, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements, and are not suitable for everyone. Past performance is not indicative of future results. This information has been prepared by Scott Keast and Shane McMahon of OceanFront Investment Counsel Inc.

E&OE

OCEANFRONT
INVESTMENT COUNSEL INC.