



CHARTBOOK

Market Comment

Prepared by OceanFront Investment Counsel Inc.

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Market Comment

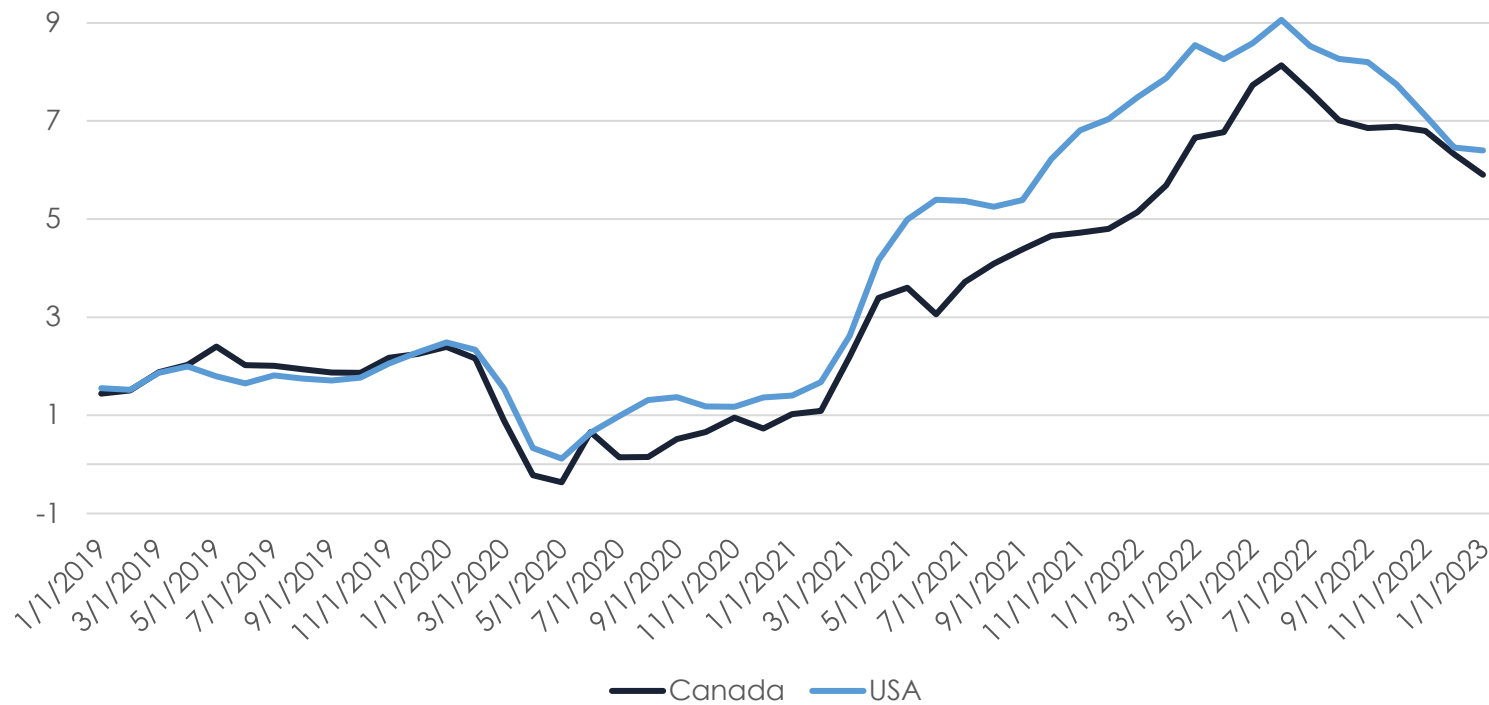
In February, the Federal Reserve announced a 25-basis point hike to its policy interest rate. In contrast to the Bank of Canada at its most recent meeting, where the Bank signaled a pause to its rate hikes, the Fed indicated that further hikes would be necessary to tame inflation. Inflation has steadily declined from its peak last year but remains well above the 2% target of the Fed and BoC.

Pessimism remains very high among investors, as the consensus view is that we are approaching a recession. The expectation of a recession is clearly priced-in to bond markets. This, along with attractive yields, seems to have caused a renewed affinity for bonds after one of the worst years in history for bonds in 2022. This is somewhat of a “flight-to-safety” as bonds tend to outperform most other assets, especially stocks, during recessions.

Stock markets seem to be more optimistic than bond markets are, having staged a large rally since October, although the magnitude of the declines of 2022 is consistent with stock market declines prior to past recessions. Investing always involves risk and uncertainty, and investors today are clearly concerned. The good news is that this pessimism has depressed prices, which takes some risk out of the market. Like the famous Warren Buffett quote goes, be “greedy when others are fearful.”

Inflation

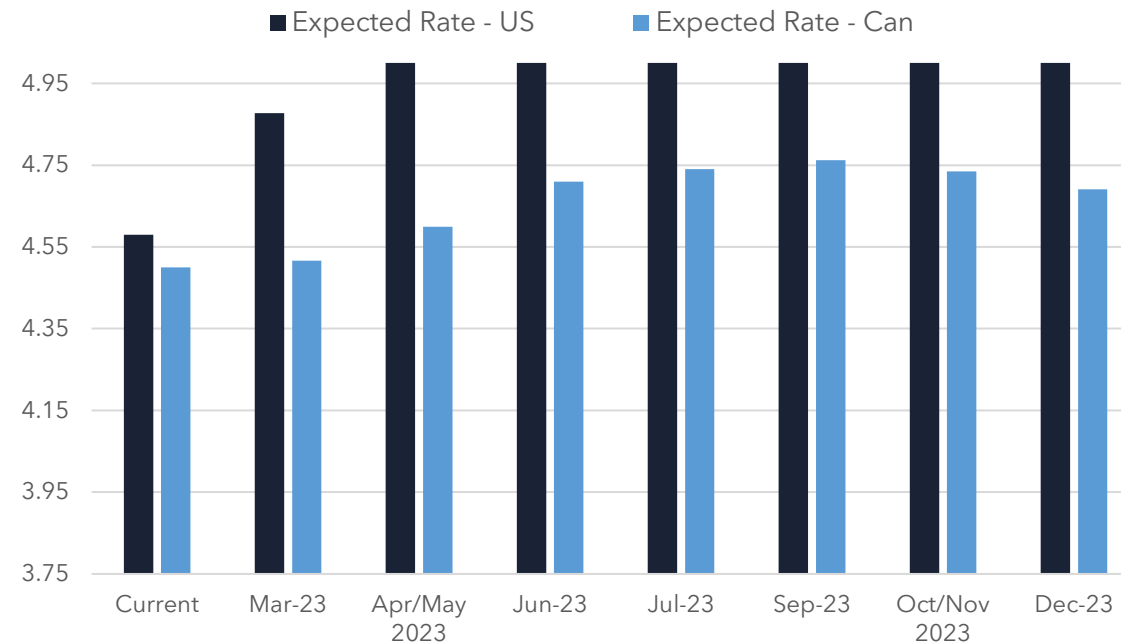
CPI Year-Over-Year Change (%)



The most recent data showed inflation at 5.9% YoY in Canada and 6.4% YoY in the USA.

Interest Rate Expectations

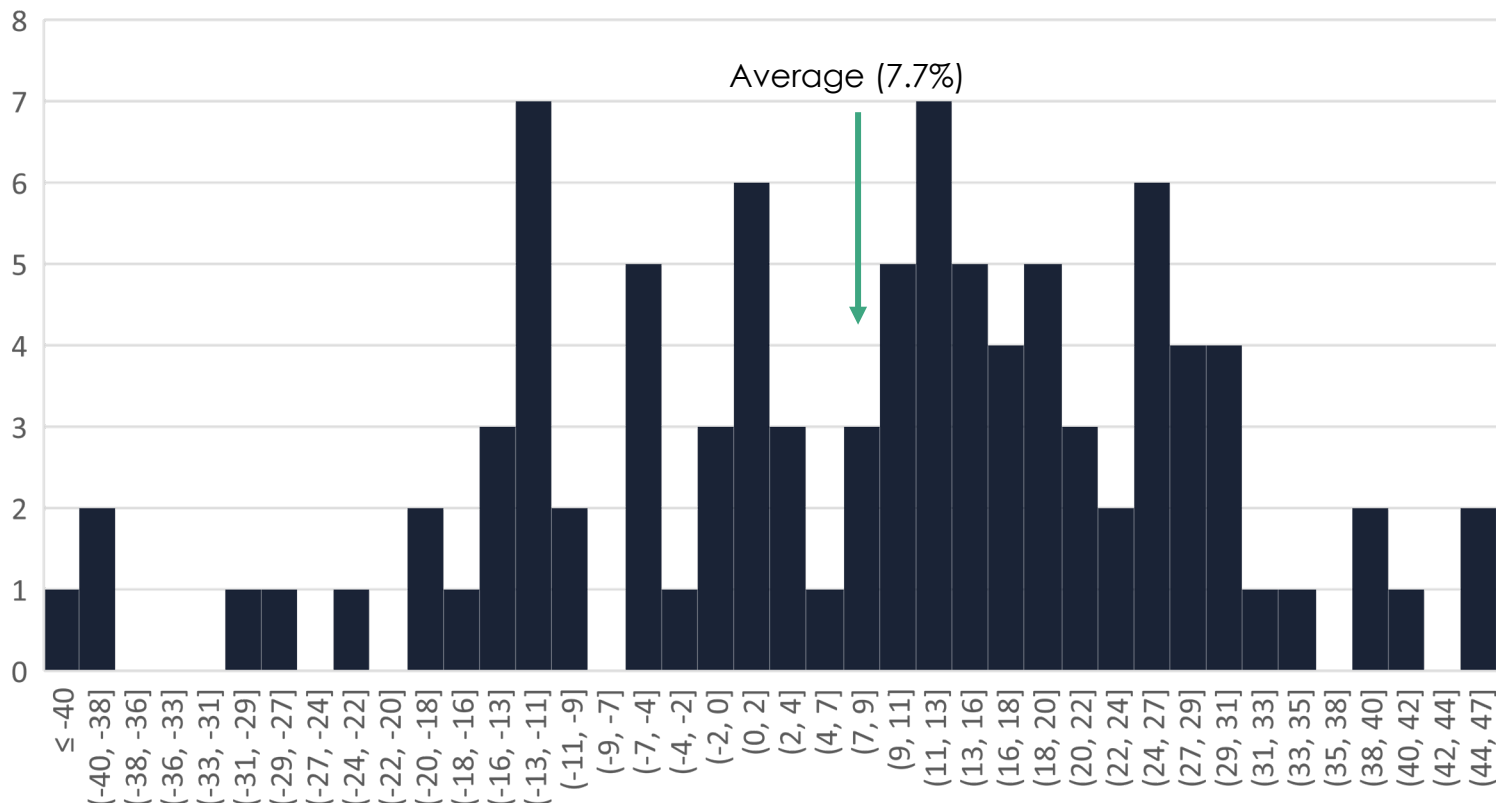
Expectations for future rates remain higher in the US than in Canada. Markets are pricing in a possibility of either one or zero more hikes from the Bank of Canada this year. Markets expect rates to remain at the peak or slightly decline into the end of the year.



Data as of February 24, 2023

Historical Returns

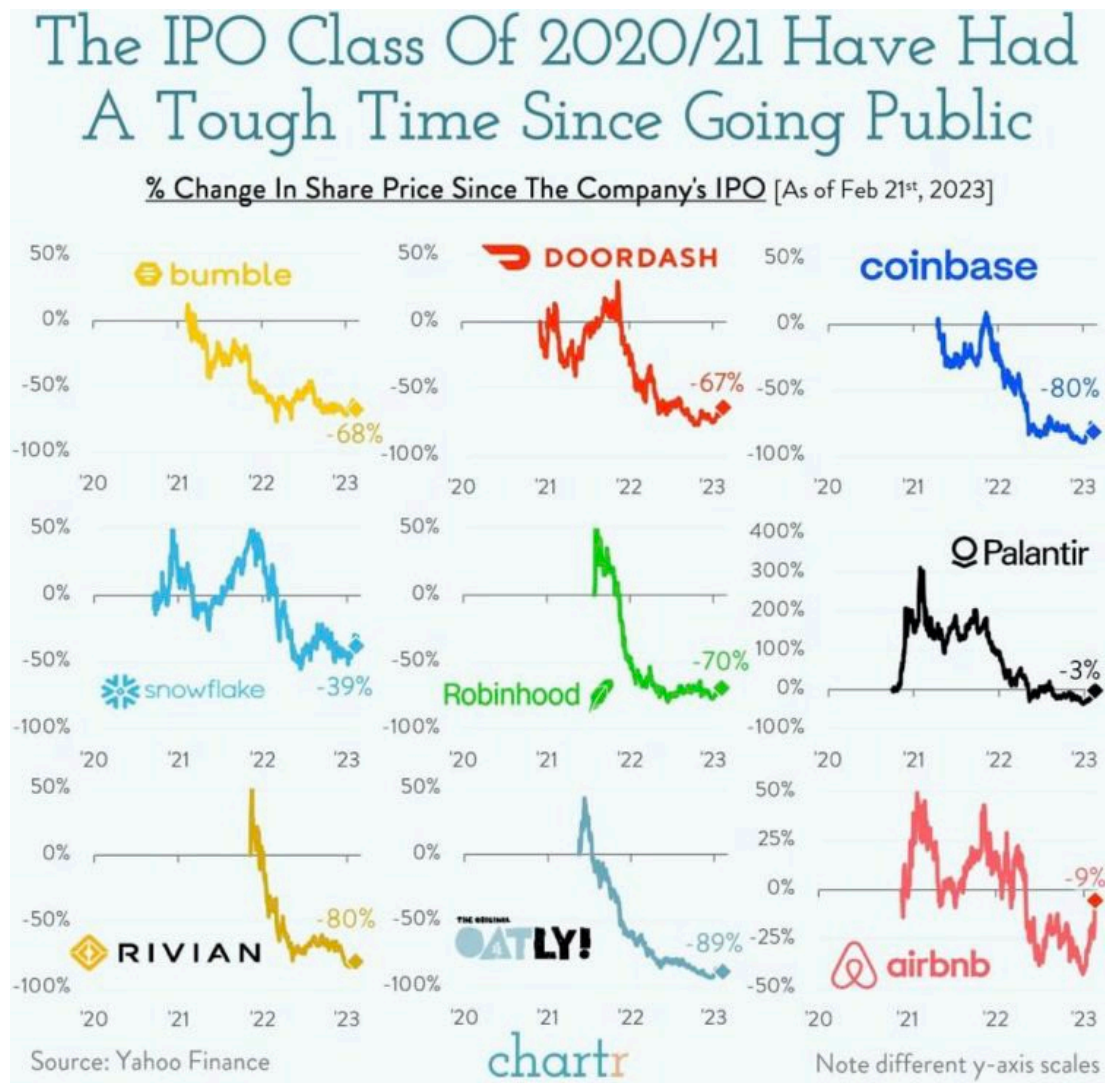
Frequency of S&P500 Annual Returns by Bucket (%)



The Historical Returns chart shows the distribution of annual price returns of the S&P500 dating back to 1928. The average return over this period is 7.7%. Actual annual returns were within 1% of the average just three times!

The most commonly occurring return buckets were -9% to -11% and +9% to +11%. There is a wide range of possibilities in any given year, and investors are unlikely to receive the average return on equities unless they hold for the long term.

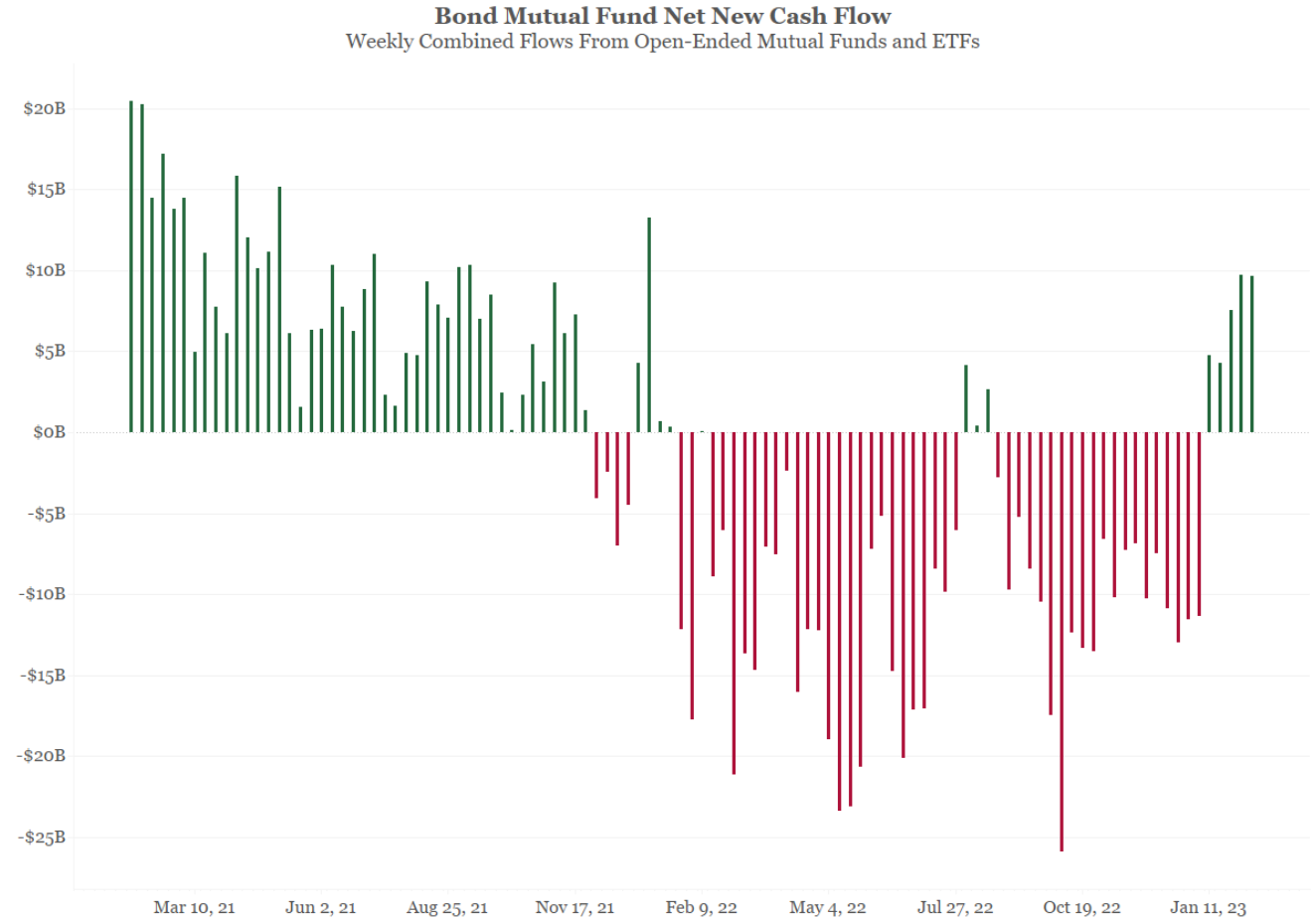
2021 IPO Returns



This chart shows the returns of some of the more speculative stocks in the market, several recent IPOs (initial public offering, or when a company's stock first becomes publicly traded). Popular stock Coinbase, for example, has seen an 80% decline in value since its IPO.

Bond Fund Flows

With 2022 being one of the worst years ever for bond investors in terms of performance, bond funds saw large outflows of capital, as one would expect. As bond yields have reached more attractive levels, money is flowing back into bond funds so far this year.



Source: Investment Company Institute, Bloomberg

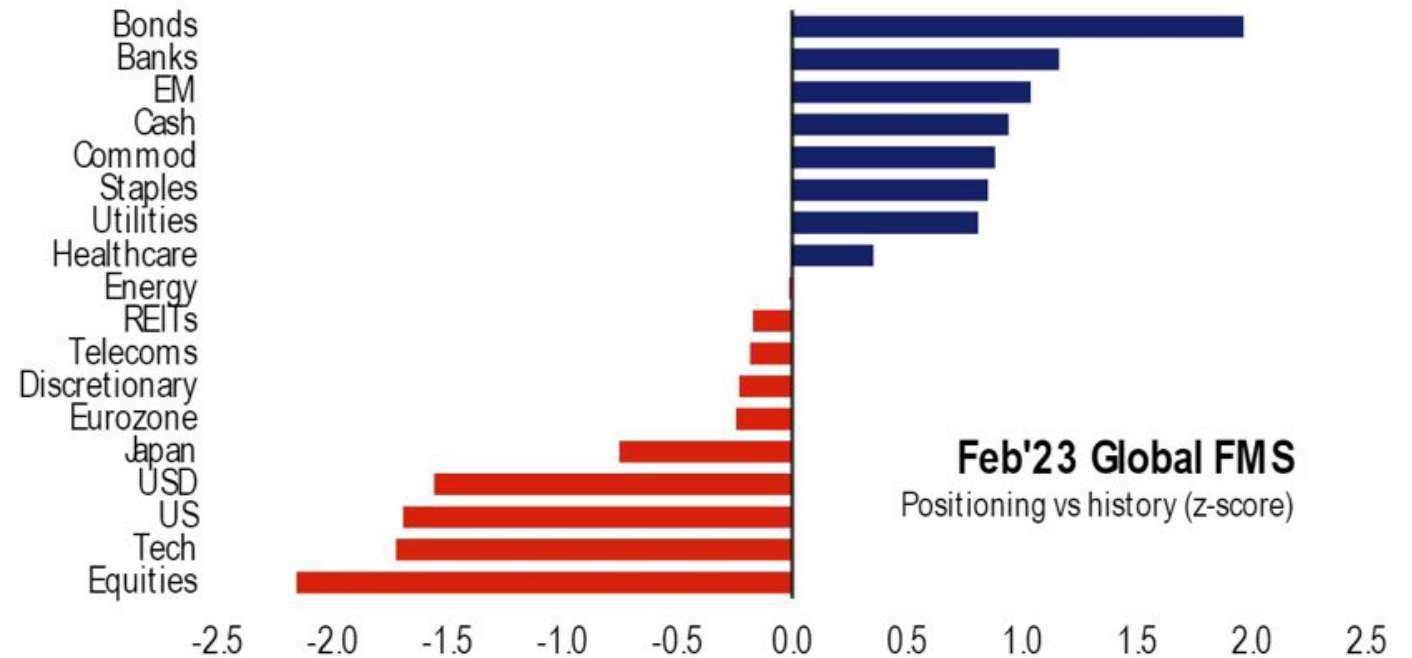
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Positioning

According to the February Bank of America Fund Manager Survey, bonds are currently the heavily preferred asset class for Fund Managers. Bonds tend to outperform when interest rates are declining, such as when central banks cut rates to stimulate the economy during a recession. This suggests pessimism towards other asset classes like equities.

Chart 24: Investors are OW bonds and UW equities vs history

FMS positioning vs history (z-score)



Source: BofA Global Fund Manager Survey.

BofA GLOBAL RESEARCH



Bond Positioning

Chart 15: FMS investors are net OW bonds for the 1st time since Apr'09

Net % say they are OW bonds



Source: BofA Global Fund Manager Survey

The January Bank of America Fund Manager Survey showed that investors are the most overweight in bonds in their portfolios since March of 2009, the bottom of the Financial Crisis bear market.

Recession Fears

Recession fears in this survey reached a peak in November of 2022 and have since declined. The previous two peaks in this data coincided with bear market bottoms.

Chart 4: Recession fears down sharply
Net % saying recession likely next 12m



Source: BofA Global Fund Manager Survey.

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