MARKET & ECONOMIC SUMMARY

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MARKET SUMMARY

First Quarter 2022

S&P/TSX Composite TR

Q1	YTD	1 year
↑3.8%	↑3.8%	↑20.2%

S&P 500 TR (USD)

Q1	YTD	1 year
↓4.6%	↓4.6%	↑15.7%

MSCI EAFE GR (C$)

Q1	YTD	1 year
↓6.8%	↓6.8%	↑1.0%

ICE Bof AML Canada Brd Mkt TR

Q1	YTD	1 year
↓6.8%	↓6.8%	↓4.2%

FIRST QUARTER HIGHLIGHTS

- S&P/TSX Composite hits an all-time high of 22,152.90 on March 22nd
- S&P 500 hits 9-month low of 4,157.87 on March 8th
- Canadian dollar range-bound with a high of $0.8031 USD on Jan 12th
- WTI Oil hits 14 year high on March 8th closing at $129.44 USD
- Bank of Canada increased overnight rate by 0.25% to 0.50% in Q1

SUMMARY

The start to 2022 has been a volatile one. High inflation, rising interest rates and commodity prices, and geopolitical tensions with war are weighing on global economies, supply chains and consumers.

The S&P500 and Nasdaq were down 4.6% and 9.0% respectively YTD with the MSCI EAFE Index, which captures performance for large and mid-cap companies in 21 developed markets across Europe and Asia, down 6.8% with significant geopolitical events. The TSX however, significantly benefitted from both the inflationary trends and geopolitical events as a value and commodity-based economy posting a gain of 3.8%.

U.S. and Canadian yields rose on inflation news and expectations of more, larger rate hikes by the Fed and Bank of Canada. The yield curve continued flattening throughout Q1, and inverted at one point, reflecting tighter interest rate policy and forecasts for slower economic growth and potential recession.

Broader expedient lifting of COVID restrictions following the trucker protests that started in January have helped in generating economic activity with major institutions including National Bank, CIBC and Scotiabank revealing plans to bring staff back to Canadian offices. Deloitte became the first major corporation to end its mandatory vaccination policy and masking of employees in Canadian offices.

In March, Canada and the U.K. began talks on creating a comprehensive free-trade agreement. Representatives from both governments stated they were committed to concluding negotiations relatively quickly and having an agreed upon plan in place soon.

Fed chair Powell said inflation “is much too high” and “a severe threat”; currently 7.9% and a 40-year high. He noted as the U.S. economy no longer required pandemic-related emergency stimulus, it might be appropriate to raise rates more aggressively to get inflation under control. The Fed increased rates from a range of 0%-0.25% to 0.25%-0.50%, in March, its first increase in three years. Furthermore, they signaled six more hikes by year end. Powell stated the Fed was ready to make a 0.50% hike if required.

In Canada, inflation surged to 5.7%, its highest level since 1991, and the eleventh consecutive month above the Bank of Canada's 1-3% target range. According to Statistics Canada, prices rose across all major components with housing costs contributing the most. In lockstep with the Fed the Bank of Canada raised rates 0.25% to 0.50% for the first time since the pandemic began. Bank of Canada governor Macklem said the economy is now ready to adjust to a normal, higher interest rate setting.

> *"Rest assured when the central bank transitions from price stability to promoting full employment fixed income will be a comforting asset class to own." – Matthew Jenkinson*

STRATEGIC NOTES

In an environment of rising interest rates, the performance of fixed income is brought into question and whether it's adding value to the portfolio. The most valuable characteristic fixed income adds to a portfolio is diversification. It is important to understand fixed income prices are inversely correlated to interest rates due to how they are mathematically valued.

Central banks have two core mandates: price stability (inflation management) and full employment. During tough economic conditions a central bank will lower interest rates which increases available dollars for lending to stimulate the economy to expansion, promoting business activity and increasing employment. If economies expand to much then inflation, defined generally as to many dollars chasing too few goods, materializes creating price instability. Central banks will then raise interest rates to decrease available dollars for lending which restricts business activity, contracting the economy, and lowering demand for goods restoring price stability.

Fixed Income benefits a portfolio the most during difficult economic times when the central bank lowers interest rates to support the economy and stimulate full employment. Fixed Income rises when all other asset classes are struggling because of a fundamental valuation methodology linked to the central bank's actions.

Economic history of the business cycle shows a transition to supporting full employment happens <u>*after*</u> the central bank attains price stability. Price instability is characteristic of the mid to late phase of the business cycle when all other asset classes have been accelerating in value. At Eastport we are not "market timers". We build portfolios using fundamental analysis including economics of the business cycle for long-term success, and fixed income is a core part of portfolio diversification during a significant portion of the business cycle. Rest assured when the central bank transitions from price stability to promoting full employment fixed income will be a comforting asset class to own.

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The information in this letter is derived from various sources, including CI Investments, Signature Global Asset Management, Cambridge Global Asset Management, Globe and Mail, RBC GAM, National Post, Bank of Montreal Economics, Yahoo Canada Finance, OilPrice.Com and Trading Economics. Index information was provided by Morningstar, TD Newcrest and Bloomberg. Eastport portfolio returns are net of all investment management fees but do not include an advisory fee. This material is provided for general information and is subject to change without notice. Every effort has been made to compile this material from reliable sources; however, no warranty can be made as to its accuracy or completeness.