

RBC Dominion Securities Inc.

St. Peter's Church

Navigating Choppy Waters



Wealth Management
Dominion Securities

Performance Review

- Main Church Account = -10.6% YTD; \$81,808 market value
 - Music Fund Account = -12.6% YTD; \$28,565 market value
 - Sub-Account (Holding TD Bank shares) = -11% YTD; \$55,775 market value
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- Performance drag generally equally attributable to credit and equity holdings

Headlines – 1H Financial Markets

The worst first half for equity and credit markets in over 40 years

- Multi-decade high inflation, with a spike in bond yields and central banks finally turning aggressively hawkish
- Fixed income dropped 12% and equity markets are down 20-30%
- Ukraine war and China further aggravate commodity supply, leading to rising energy prices (which have since subsided some)
- Economic data and corporate earnings generally still strong, but GDP estimate trend is down

Details – 1H Financial Markets

1. Total US market -11% YTD, the worst start to a year ever and the 11th worst 6 month period
2. US consumer sentiment has dropped precipitously and is hitting a multi-year low (note: often a lagging indicator with markets performing well after troughs)
3. Valuations have dropped (16x P/E) but only really to 2018-2019 levels back when rates were still low
4. Inflation is at it's highest level in decades although there are some signs that the slope is changing
5. ISM new orders vs inventories are trending recessionary
6. Yield curve flipping in and out of inverted

Outlook – 2H Financial Markets

Expect volatility to continue through rate increase cycle

- Growing risk of central banks ‘over-shooting’ and pushing economy into recession
 - Most likely a ‘shallow’ recession but could be prolonged given monetary response options are more muted
- In aggregate, valuations aren’t cheap (as the discount rate has increased) → but there are pockets of value
- Credit becoming increasingly attractive
- US economy generally still strong (but slowing) but geopolitical & monetary concerns weigh
- Housing markets (especially Canada) may become a concern
 - Mitigant: small aggregate exposure for Canadian banks & consumers generally healthy