RAYMOND JAMES | DOUGLAS DUNCAN wealth management

JUNE 2022 NEWSLETTER

MARKET REVIEW

The second quarter of 2022 has been very tough for investors as rising interest rates and international trade tension put pressure on asset valuations. Sectors such as banking and technology have not seen a reduction of earnings at this point, but share prices have dropped in anticipation of a recession. While we have been cautious with our asset allocations for a while, only investors with overweight positions in oil and gas shares or 100 per cent in daily interest accounts have been insulated from the correction from the peak in January. There has been an absolute bloodbath in early stage technology stocks, cryptocurrencies, marijuana companies, and any companies without current earnings. While we have not been participating in these more speculative investments, their price collapse has changed the psychology of the markets.

	June 30, 2021 Close	March 31, 2022 Close	June 30, 2022 Close	90-Day Change	One-Year Change
S&P 500*	**4,298**	**4,530**	**3,785**	**-16.4%**	**-11.9%**
S&P/TSX Composite	**20,166**	**21,890**	**18,861**	**-13.8%**	**-6.47%**

**USD currency*

Source: FactSet

Published for the friends and clients of

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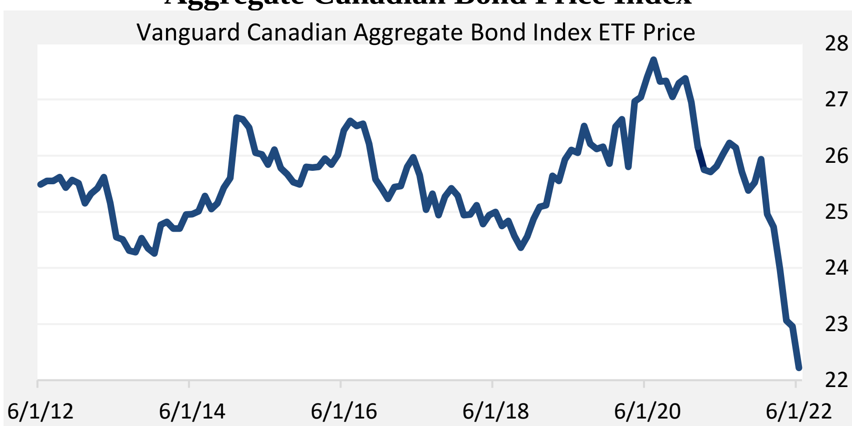
FIXED INCOME

Canadian T-Bills and Bonds Yields

	June 30, 2021	March 31, 2022	June 30, 2022	90-Day Change
3-Month	0.15%	0.73%	2.11%	189%
6-Month	0.18%	1.33%	2.63%	98%
1-Year	0.24%	1.98%	3.11%	57%
2-Year	0.44%	2.28%	3.09%	36%
5-Year	0.98%	2.39%	3.11%	30%
10-Year	1.40%	2.38%	3.22%	35%
30-Year	1.84%	2.35%	3.13%	33%

Source: FactSet

Aggregate Canadian Bond Price Index



Source: FactSet

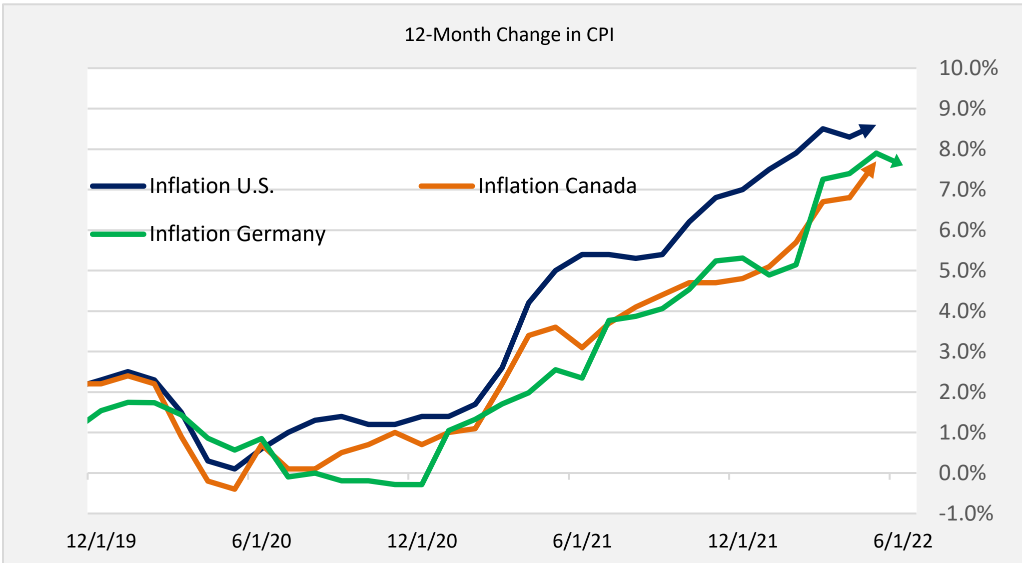
INFLATION

Due to rising inflation and the reduction of central bank bond purchases, interest rates have been rising, causing significant losses for anyone with a bond portfolio. We have been using daily interest accounts for the guaranteed portion of portfolios for years, so we have avoided bond losses. Currently, one year GICs are yielding four per cent. As well, high quality corporate bonds of five- to seven-year duration are available with close to five per cent yields, up from around one per cent two years ago. While this is a significant increase, the yield is still below the Canadian inflation rate of 7.7 per cent (Stats Canada, June 22, 2022). If inflation quickly returns to the pre-COVID two per cent level, those bonds may provide reasonable returns, but we have a hard time being enthusiastic about buying bonds below the current rate of inflation.

The U.S. Federal Reserve is currently increasing the Fed funds rate to dampen inflation, and their formidable challenge is to tame inflation without causing a recession. Equity markets and the bond yield curve are already pricing in at least a mild recession, but there are too many variables for anyone to pick a peak interest rate at this time.

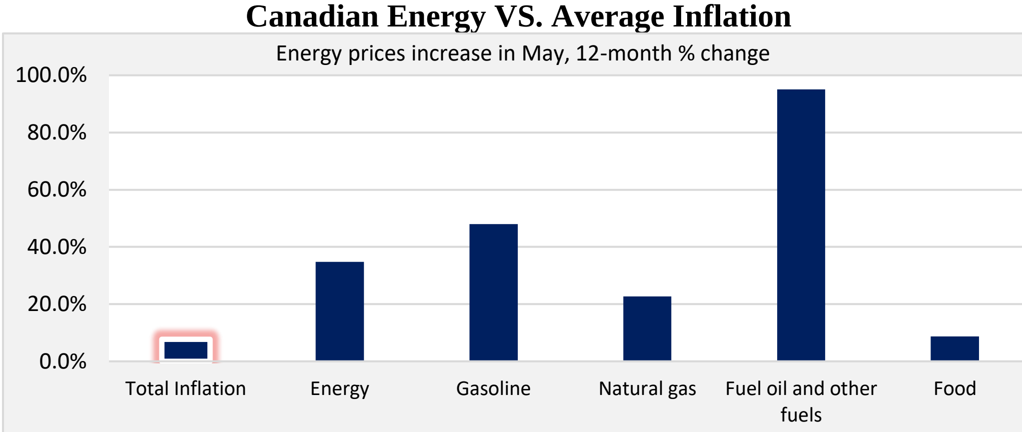
Energy and food are currently the largest contributors to inflation, and the prices of these are heavily influenced by the war in Ukraine. The longer that conflict persists, the more challenging it will be for central banks to reach their inflation targets, which will mean higher interest rates for longer or a deeper recession. While we may all be pleasantly surprised by an imminent diplomatic solution, it is hard to be optimistic at this point.

Three-Year Inflation Trend



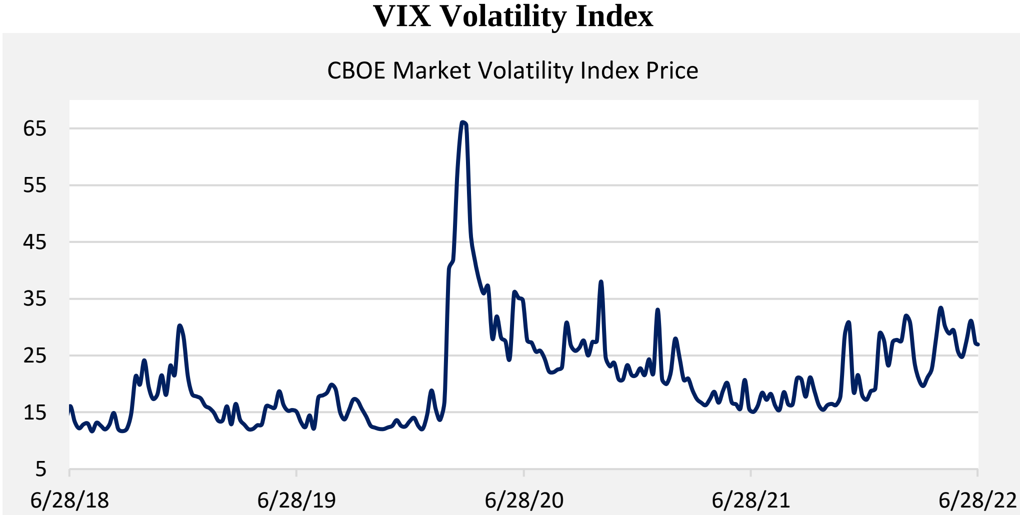
Source: Stats Canada, FactSet

Canadian Energy VS. Average Inflation



Source: Stats Canada

VIX Volatility Index



Source: FactSet

The VIX volatility index, a measure of investor sentiment, is elevated since last summer but is still not close to the levels (and great buying opportunity) of the COVID panic in the spring of 2020. Based on the relatively high level of investor fear, we think that the market is currently reasonably valued and current purchases will likely do well over the next 18 months or so. If this index rises due to further price declines and more investor fear, we will become more confident to commit new capital to equities.

HOUSE OF PAIN

Holding	*52-Week High (CAD)*	*June 30, 2022 Close*	*Per cent Change*
Bitcoin*	**$68,906.48**	**$18,902.00**	**-72.6%**
Netflix, Inc.*	**$700.99**	**$174.87**	**-75.0%**
Tilray*	**$22.17**	**$4.01**	**-81.9%**
Shopify, Inc.	**$222.87**	**$40.22**	**-82.0%**
Peloton Interactive*	**$129.70**	**$9.18**	**-92.9%**

*USD Prices Source FactSet

The price performance of the investments above is representative of some of the very popular stocks of 2021. Netflix and Shopify are highly successful companies, but valuations grew ahead of company fundamentals and have since reset sharply. Peloton and Tilray have some company specific problems leading to their price collapses, and Bitcoin's price is a barometer of investor's speculative appetite. While we have not recommended the more speculative "hot" sectors, many investors worldwide have experienced very nasty losses over the last 12 months. It will take time for confidence to rebuild and for these investors to participate in equity markets again.

HIGH QUALITY U.S. COMPANIES

Holding (USD)	*52-Week High*	*June 30, 2022 Close*	*Per cent Change*
Nike	**$179.10**	**$102.20**	**-42.9%**
JPMorgan	**$172.96**	**$112.61**	**-34.9%**
Home Depot	**$420.61**	**$274.27**	**-34.7%**
Google/Alphabet	**$3030.93**	**$2179.26**	**-28.1%**
Apple	**$182.94**	**$136.72**	**-25.3%**
Costco	**$612.27**	**$479.28**	**-21.7%**

Source FactSet

The companies in this table are among the best businesses in the world, and have all corrected significantly in 2022. While we can't pick the bottom of the market, these are all companies that we own or would like to own in the future. Higher interest rates or a deeper than expected recession could reduce their prices further but we feel that purchases today will look good 12 to 18 months from now.

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SUMMARY AND STRATEGY

If we look at news headlines of chronic government deficit spending, rising interest rates, the bursting of speculative asset bubbles, and the increasing use of international tariffs and sanctions, it becomes hard to be optimistic about the economy. However, we are very confident that the companies in your portfolios are of the highest quality and have resilient business models. If clients have capital in daily interest accounts that they wish to invest in equities, we would suggest perhaps 20 per cent of that amount now and the remaining 80 per cent over the next three to 12 months. As specific opportunities arise, Meaghan and Mark will be in contact with you. If you have any questions about your financial situation, please reach out to us.

SAVE THE DATE

After deferring our last two client appreciation events due to health concerns, we are pleased to announce that we will host another client appreciation event at the Nanaimo Golf Club on September 14, 2022, from 4 PM to 8 PM. Dinner and drinks will be provided, and we will have live music from Bill and Donna Konsorado. Please mark your calendars, and look out for your invitation in the mail in the coming month. Have a great summer!

Thank you for your business!

Mark Duncan	Meaghan Douglas	Ian Douglas	Lisa Cajolet	Heath Dean
Senior Financial Advisor	Senior Financial Advisor	Consultant	Administrative Assistant	Administrative Assistant

If you have friends or family members who have expressed an interest in finding a new advisor, we would be delighted to hear from you. Just call our office at 250-729-2830, and we'll take it from there. Thanks!