



Wealth Management
Dominion Securities



2021 Q4 commentary



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Jon Mitchell, Portfolio Manager

Listen, children, to a story
That was written long ago
'Bout a kingdom on a mountain
And the valley-folk below
On the mountain was a treasure
Buried deep beneath the stone
And the valley-people swore
They'd have it for their very own

Go ahead and hate your neighbor
Go ahead and cheat a friend
Do it in the name of heaven
You can justify it in the end
There won't be any trumpets blowing
Come the judgment day
On the bloody morning after
One tin soldier rides away

So the people of the valley
Sent a message up the hill
Asking for the buried treasure
Tons of gold for which they'd kill
It came an answer from the mountain
With our brothers we will share

All the secrets of our mountain
All the riches buried there

Now the valley cried with anger
"Mount your horses! Draw your sword!"
And they killed the mountain-people
So they won their just reward
Now they stood beside the treasure
On the mountain, dark and red
Turned the stone and looked beneath it
"Peace on Earth" was all it said

Go ahead and hate your neighbor
Go ahead and cheat a friend
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Released by Canadian pop Group The
Original Caste in 1969

After a Christmas and New Year's season that had a glimmer of familiarity (due the benefit of rapid tests that many of us did as a precaution before connecting with family and friends), January turned out to be a real roller coaster of news, and a similarly frenetic time in the investment markets. On the news front, there was a significant shift in how Canadians were viewing the pandemic as the month progressed. In a Maru Public Opinion poll conducted on January 14 and 15, 27% of Canadians polled indicated they would support the unvaccinated serving up to five days as part of a jail sentence for endangering others/overwhelming healthcare system, and 37% would support denying them publicly funded health care.¹ However, by the end of January, another poll conducted by Angus Reid indicated that 54% of Canadians polled agreed or strongly agreed with the statement "it's time to end restrictions and let people

self-isolate if they're at risk" (an increase of 15% since the same question was last asked, in early January).²

In a similar vein, the markets had some significant shifts in sentiment. On Monday January 24, the Dow Jones Index fell nearly 1,000 points (2.9%) to 33,275. As noted above, the New Year began with the Dow Jones cresting at 36,880 on January 5. In just three weeks, the Dow had corrected by 10%. The technology-heavy Nasdaq index set its high on January 4 at 15,819, which was the first day our markets in Canada were open in 2022, only to plunge 17% by January 24 to 13,162. With the strength in the energy and financial sectors here in Canada, our TSX index reached its zenith on January 16 at 21,543 and "only" corrected to 19,960, or by 7.4%. Concerns over inflation and higher interest rates were the main drivers of this sell-off. Things have moderated since then, as markets have gradually recovered.

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Pandemic update

A lot has changed since December 24, which is the day that there was an interesting change in the data while Omicron emerged as the dominant Covid-19 variant. The province of Ontario has an excellent interactive website, which illustrates COVID-19 cases by vaccination status. On December 24, the ratio per 100,000 of confirmed COVID-19 cases flipped from the unvaccinated as the leading group to the vaccinated.³ Over the course of the next few weeks, the rate for vaccinated cases per 100,000 peaked at 102, while the unvaccinated cases per 100,000 peaked at 79 for the same period.⁴

In early 2022, most provincial governments scaled back PCR tests of the general public, citing testing capacity issues, and the need to conserve them for health care workers and high-risk persons. Provinces distributed tens of millions of rapid tests throughout Canada and told their residents that if they tested positive on a rapid test, treat it as a confirmed case and start your isolation.

January has turned into the “month of Omicron,” when it has felt like where there really have been few places to hide from it, apart from our seniors, who have been essentially hunkered down in their residences for weeks now. Fortunately, Omicron appears to cause less severe illness compared to earlier strains but precautions should still be exercised.⁵

In a recent preliminary study based on medical records from Kaiser Permanente Southern California patients, none of the 52,297 patients who were infected with Omicron required mechanical ventilation in the ICU. Of the same group of patients infected with Omicron, 0.5% required hospital admission and only 0.26% were admitted to the ICU.⁶

Something else is happening at the same time as Omicron continues its dominance: some countries are actually eliminating all restrictions. Over the week of January 17, both the U.K. and Ireland lifted nearly all pandemic restrictions, including mandatory vaccine passports to gain entry into large-scale events. Scotland lifted many restrictions on gatherings, but has retained its passport system for large venues (though not for dining or gyms).

We are even starting to hear some messages of hope along these lines from some of our Premiers. Premier Jason Kenney tweeted on January 23, “once we start to see sustainable reduction in our hospitalizations from Omicron, then I think we can move to begin significantly relaxing public health measures.” On January 31, Saskatchewan Premier Scott Moe announced that his government plans

to end their vaccine passport system “on or before the end of February,” despite pushback from the medical community.⁷ He acknowledged that although he had three doses of the COVID-19 vaccine, he still contracted the virus, albeit he noted that his main symptom was “cabin fever.” In the aforementioned Jan. 31 Angus Reid poll, 62% of Saskatchewan residents polled agreed that all restrictions should be removed.

Nationally, the former leader of the Conservative party, Erin O’Toole, was ousted by a 73-45 secret ballot vote by Conservative MPs. I will let you at home sift through the details of why this happened, but I don’t think the Leader of the Official Opposition was thinking on New Year’s Eve that he would be out by Groundhog Day.

Medical update

Meanwhile, on the Pfizer front, Health Canada approved on January 17 the antiviral treatment known as Paxlovid as the first oral and at-home prescription medication cleared for use in Canada. Pfizer said they tested it in a randomized, double-blind study of more than 380 patients, which is only about 32,000 fewer patients than they had for their vaccine trials. The cost per dose is approximately \$700 USD, so the total cost of the 150,000 doses that Health Canada is expected to receive by the end of March is likely about \$133 million CDN.

Some researchers are cautious about Paxlovid, which is an understandable response to a newly approved drug. One of the key components of Paxlovid is a drug called ritonavir, which inhibits enzymes that metabolize drugs, and allows more of the active ingredient, nirmatrelvir, to work more powerfully against the COVID-19 virus. However, the ritonavir can similarly increase the potency of a range of other drugs the patient might be taking, in some cases, to a potentially dangerous level.⁸ For example, a person taking hypertension pills could see their blood pressure fall so much that they pass out, as Dr. Andrew Hill, a pharmacology researcher at Liverpool University, told National Post in a Jan. 25 article. In any case, Paxlovid provides us with an additional tool in treating COVID-19 (subject to one consulting with their health care professional, as with any new medication).

Investment observations

In the last commentary I wrote, I referenced the TSX setting a new all-time high of 21,100. The TSX ticked a little higher early into 2022, but as described above, briefly traded below 20,000 on January 24. The Dow Jones traded down more than 1,100 points, only to close 100 points higher the same day. Volatility returned with a vengeance in January 2022, as investors come to the realization that 1) inflation is here and not going anywhere

very soon, 2) interest rates are headed higher, and no one really knows how high they will go, and 3) valuations actually matter and earnings matter even more. Many of the high-flying, work-from-home stocks like Zoom, Peloton or Shopify have lost between 50% to 75% of their high values in the past three months.

Meanwhile, back at the oil and gas wells, the energy sector is starting 2022 just like it finished 2021: on an upwards ascent! The exploration and production sector of the TSX energy index gained 68% in 2021, and many producers are up 12–15% so far in January 2022. The most widely held Canadian companies, the large chartered banks, have kicked off 2022 with some steady gains as money flows into interest-sensitive sectors that are benefiting from higher interest rates.

In a surprise move on January 26, the Bank of Canada held interest rates unchanged, despite an inflation rate of 4.8%, the highest in 31 years. The market is expecting between four-to-six 0.25% hikes in 2022 (see table below). Homeowners with variable rate mortgages will likely be feeling the impact of their choice by the end of the year. The rapidity of rate increases could be the first shot across the bow in the Canadian real estate market, which has continued to set all-time highs in most major centres outside of the prairies.

Used cars are on a tear as well, posting a record all-time price recently, as new car inventories remain at an all-time low. We are starting to see sporadic empty shelves in the grocery stores here in Alberta, and I expect food inflation will be foremost issue for many Canadians, as it is a weekly buying pattern. Wage inflation could become a more serious issue in 2022, as many businesses are struggling to attract workers back to the job, especially those in the entry-level food and retail sectors. After seven years of falling or flat oil and gas exploration, during which thousands of highly trained energy workers left the industry, it may be difficult to attract new workers, even though the energy sector is absolutely flush with cash today.

Here are a few illustrations that I clipped in the past few months, which illustrate some of the market issues. The last one, courtesy of Richardson Wealth, illustrates the dominance of the RBC and TD over the last 21 years, but also shows how other Canadian businesses have been like a rising phoenix (which then eventually crashes). The most recent example is tech darling Shopify, which supplemented RBC for nearly two years as the company with the highest market capitalization in the land.

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So strap in and enjoy the ride in 2022 – we are still optimistic that stocks will out-perform bonds, which are being hampered by rising interest rates and inflation, but the ride will have its share of potholes!

| BoC Rate Hike Expectations: Overnight Index Swaps | | | |
|---|-------------|----------------|--------------|
| Meeting | # of Hikes | Implied Rate Δ | Implied Rate |
| Jan-22 | 0.54 | 0.14 | 0.29 |
| Mar-22 | 0.98 | 0.24 | 0.40 |
| Apr-22 | 1.96 | 0.49 | 0.65 |
| Jun-22 | 2.61 | 0.65 | 0.81 |
| Jul-22 | 3.42 | 0.86 | 1.01 |
| Sep-22 | 4.06 | 1.02 | 1.17 |

Source: RBC Wealth Management, Bloomberg; data through 1/3/22

The above 4.06 figure implies four 0.25% interest rate hikes by September 2022. As of this writing, this is likely a conservative estimate.



Books I've read recently will return next quarter!

Notable quotes

“The rights of every [person] are diminished when the rights of one [person] are threatened.” – John F. Kennedy

“Freedom is the sure possession of these alone who have courage to defend it.” – Engraved in stained-glass south window in Canada’s parliament.

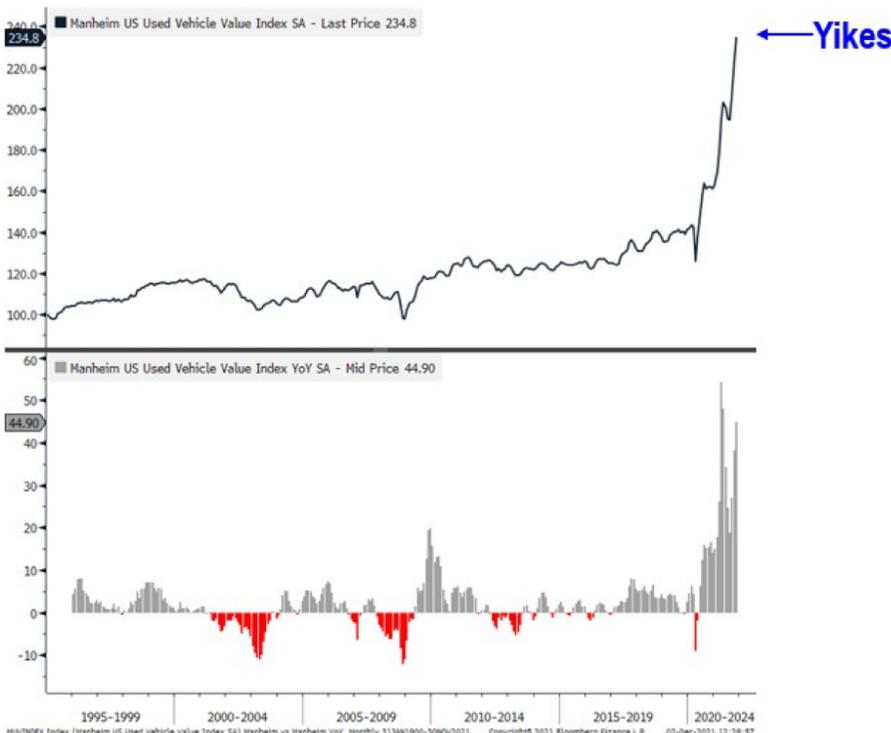
“If there is no struggle, there is no progress. Those who profess to favor freedom and deprecate agitation, are men who want crops without plowing up the ground, they want rain without thunder and lightning. They want the ocean without the awful roar of its many waters. This struggle may be a moral one, or it may be a physical one, and it may be both moral and physical but it must be a struggle. Power concedes nothing without a demand. It never did and never will.” – Frederick Douglass, African American slave and abolitionist who escaped through the underground railway in 1838.

“The world is too dangerous a place to live in, not because of the people who do evil, but because of the people who sit and let it happen.” – Albert Einstein

“The real danger comes from the Fed encouraging or inadvertently tolerating rising inflation and its close cousin of extreme speculation and risk taking, in effect standing by while bubbles and excess threaten financial markets.” – Former Federal Reserve Chairman Paul Volcker

Manheim Used Car prices

Since 1995



Source: Fundstrat, Bloomberg

Chart source: Fundstrat, “FLASH: Covid-19 Update,” December 23, 2021

WTI Oil Price vs. Historical US SPR Release... Since 1990

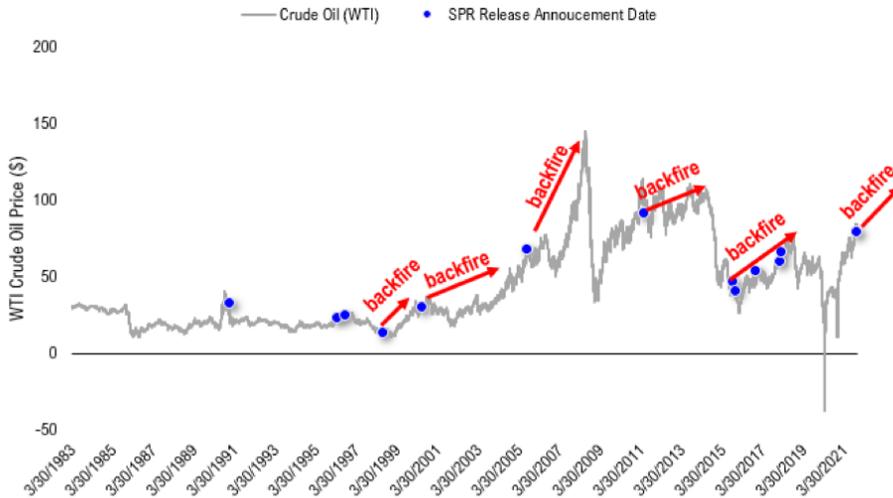
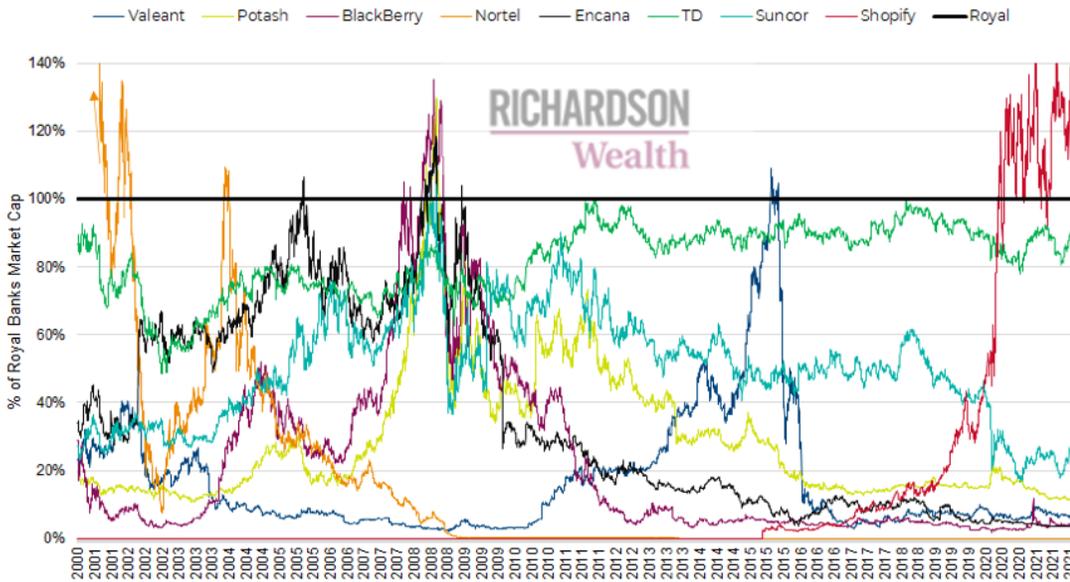


Chart source: Fundstrat, "FLASH: Covid-19 Update," December 23, 2021

The above illustrates that whenever the U.S. federal government believes they can tamp down energy prices by releasing barrels from the Strategic Petroleum Reserve, it typically backfires and energy prices continue their ascent.

A historical look at past challengers to Royal Banks position as Canada's largest company by market cap it often does not end well



Sign up for Richardson Wealth's daily Launchpad at: <https://www.richardsonwealth.com/launch-pad>

Chart source: Richardson Wealth, "Launchpad," January 18, 2022.

Canadian Natural Resources may have a run at RBC in the next couple of years – look out if oil prices break US 100/barrel (the record was US 140 back in 2007).

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Team updates

- With the latest Omicron wave, we have shifted mostly to work-from-home as a team. We will wait and see when the province removes their Emergency Health Order, which remains in place as of this writing.
- We continue to use Webex for our client meetings until further notice. Our clients are getting pretty adept with the e-signature forms that James and Pauline are using.
- Jon is enjoying the winter weather the most it seems, honing his skiing skills at a local hill and with a few trips to Marmot Basin in Jasper. Pauline is underway in creating her Pysanka egg masterpieces, while James and his wife are raising a new puppy.
- As always, we are open to speaking to any of your friends that may benefit from a second opinion on their investments or current wealth plan.

• Finally, we would like to recommend that you circle back to our website from time to time, as we are using that as one of our primary points of contact to post salient articles on our firm's views, along with details on relevant government programs and announcements. You can access it here: ca.rbcwealthmanagement.com/jon.mitchell/

Again, stay safe and take care. We have a lot to be thankful for, living in Canada. Do your best to enjoy the positive moments each day, and please support your local businesses whenever you can.

Below is a table of the performance of various sectors of the market in the third quarter of 2021, and for the 2021 results / 3-year rolling periods.

| Investment index | Q4 2021 return | 2021 YTD return | 3-year compound return |
|--|----------------|-----------------|------------------------|
| S&P/ TSX composite index | 6.5 % | 25.1 % | 17.5 % |
| S&P 500 (C\$) | 10.6 % | 27.7 % | 22.9 % |
| NASDAQ comp (C\$) | 7.9 % | 20.5 % | 29.8 % |
| Short-term comp bond index | -0.5 % | -0.9 % | 2.5 % |
| iShares U.S. High Yield Bond Index ETF (XHY, C\$ Hedged) | 0.6 % | 3.7 % | 6.5 % |
| US\$ / C\$ | -1.1 % | -0.8 % | -2.5 % |
| Gold bullion (C\$) | 3.7 % | -4.2 % | 9.7 % |
| Global gold mining index (XGD – C\$) | 11.0 % | -6.0 % | 16.9 % |

¹ Maru Public Opinion, "The unvaccinated," January 14/15, 2022

² Angus Reid Institute, "Incidence of Omicron: One-in-five Canadians report COVID-19 infection in their household since Dec. 1," January 31, 2022

³ "COVID-19 cases by vaccination status," <https://covid-19.ontario.ca/data/case-numbers-and-spread>

⁴ "COVID-19 cases by vaccination status," <https://covid-19.ontario.ca/data/case-numbers-and-spread>

⁵ Anthony Furey, "FUREY: Canadian public health report shows Omicron much milder so far," Toronto Sun, Dec. 22, 2022

⁶ Joseph A. Lewnard, Vennis X. Hong, Manish M. Patel, Rebecca Kahn, Marc Lipsitch, Sara Y. Tartof, "Clinical outcomes among patients infected with Omicron (B.1.1.529) SARS-CoV-2 variant in southern California," Jan. 11, 2022. Retrieved: <https://www.medrxiv.org/content/10.1101/2022.01.11.22269045v1>

⁷ David Shield, "Sask. premier plans to scrap proof of vaccination requirement by end of February," CBC News, Feb. 1, 2022.

⁸ Tom Blackwell, "Pfizer anti-COVID pill's dangerous interaction with common drugs will narrow its benefit, experts say," National Post, Jan 25, 2022.



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