RBC Dominion Securities Inc.
May 10, 2022

Commentary on Recent Market Volatility

May 2022

Dear clients,

We hope you are doing well, and looking forward to the warmer weather that *should* be arriving any day now. We wanted to provide you with our comments on current market conditions, as no doubt this has been an uncomfortable time for investors.

Volatility in the stock market has continued to persist in recent weeks, with large swings in either direction to start the year. At the same time, rising interest rates have caused bond prices to go lower as well, which has meant fixed income investments have not offered the usual diversification benefits that has occurred in a more "risk-off" environment. We'd like to offer some perspective on these periods of market weakness, and also touch on some of the main factors causing the unease in markets.

Global equity markets have had a rough start to 2022 so far. However, it is important to keep in mind that these periods of market weakness are not uncommon. For example, the U.S. equity market has averaged one decline of over

10% every year since 1975, with an average drawdown of nearly 20%. Despite this, the U.S. market has generated a positive annual return in 35 of the past 46 years. These numbers show that dealing with market volatility is part of the investing experience, albeit not the most pleasant one. It is all the more important during these times to maintain composure and keep longer term goals in mind. We have seen significant drops in the market several times since the beginning of 2018 (and of course many more over a longer time period). However, by maintaining investment discipline, and not selling at inopportune times, investors have been rewarded for their patience after the volatility subsides.

Currently, the economy is dealing with a few important concerns: the war in Ukraine and its effect on commodities; China's strict policy of lockdowns to contain the spread of COVID-19 and the supply chain issues that presents; and finally the persistence of inflationary pressures across global economies. This last issue is likely the primary reason for market weakness, and the concern that investors have is that inflation continues at extremely high levels for a longer time period.

Inflation expectations have been creeping higher for some time, leading to the relatively aggressive actions undertaken by central banks who have been raising interest rates rather forcefully.
At the moment though, there are a few reasons for some optimism on inflation going forward (for some added context, please read the recent Q&A from RBC Global Asset Management chief economist, Eric Lascelles here.) Recent inflation readings in the U.S. have started to show a bit of slowing growth in core prices (which excludes food and energy). Basically, inflation may remain elevated but it also appears close to peaking, which would mark an important change in the trend as we move into the second half of 2022. This would provide some credence to the Federal Reserve's recent decision to maintain their current projection of 50bps hikes over the next two meetings, rather than going even more aggressive in the short term.

As mentioned above, both equity and bond markets have been under pressure to start this year. It is a rare occurrence that both are negative at the same time, as fixed income often acts as a counter during periods of equity volatility. However, with interest rates rising, bond prices have felt the pressure as well. The silver lining to this repricing of bonds, is that they now offer a better opportunity for future returns now that interest rates are at a higher level. Over time, that can lead to a better overall return for the asset class than if interest rates remain extremely low. We still prefer equities over fixed income at this time, but there is at least a chance to make a little bit of money in fixed income going forward, which will benefit those with more conservative portfolios.

Periods of market turbulence, such as the one we are experiencing, can understandably cause some angst. Yet, it is a relatively normal phenomenon that occurs quite often in markets. The post-COVID period (April 2020 – December 2021) where market drawdowns were limited to 5% or less, was more of an outlier than it was normal. The key risk remains whether inflation becomes entrenched in the expectations of businesses and consumers. We'll be keeping a close eye on this, along with the odds of a U.S. recession, which currently remains quite low.

As always, reach out to us directly if you have any questions or concerns related to your portfolio.

Best regards,

Ord Private Wealth Management
John, Tim, Liam & Kristen