



Update On Your Discretionary Portfolio April 8, 2022

Dear Clients,

We hope everyone is doing well.

We wanted to provide an update on some recent updates to the portfolio, both in equity and fixed income. We will also summarize the first quarter of 2022 in the stock market, and provide some updated thoughts on the economy.

First, let's take a look back at the last three months, as it has been volatile and eventful, to say the least. Back in early January, we had set up the first of our semi-annual rebalances in the portfolio, which brought equity allocations back to the long-term target for each client. This had the effect of reducing equity exposure by a few percent after the strong gains of 2021. At the same time, we continued to increase our exposure to Canadian equity, while equally reducing US equity. Both for economic and stock valuation reasons, we felt that the Canadian market should benefit and outperform in the coming months and quarters. So far, that has turned out to be the case as the TSX ended March in positive territory year-to-date (up roughly 3%), while the US markets have continued to remain under pressure (S&P 500 down 5%; NASDAQ down over 9% at the end of the month).

Clearly, the conflict in Ukraine has been the most important story on everyone's mind, since the initial invasion began in late February. This, along with high inflation numbers and central banks beginning to unwind some of their accommodative practices, has led to market participants feeling uneasy and indeed fearful of what might be around the corner. It is at these times that it is most important to follow your investment strategy, and not trade based on the negative headlines that occur. Notably, on the date of the Russian invasion into Ukraine (February 24th), the S&P 500 index touched a low of 4,114.65. By the end of March, it had recovered to 4,530.41 (or 10.1% higher than the short-term low in February). We point this out only to show that making decisions out of fear likely isn't going to lead to positive outcomes as an investor.

As we have mentioned in previous correspondence, we first look at the expectations for the economy to shape our view of market performance. Inevitably, a strong economy translates to the bottom lines of many large businesses that are traded on the stock market. Earnings growth and stock market performance are very closely tied together. Recently, there has been a fair amount of discussion in the media about a potential recession, so it can help to look at what some historical indicators would suggest about the prospects for the U.S. economy. Our team at RBC's Global Portfolio Advisory Committee follows several of these indicators closely, and every one of them continues to show an expansionary U.S. economy (see this [recent article by Jim Allworth](#) for more detail). With that in mind, we continue to expect equities to perform well throughout the end of this year, with volatility likely to continue through this second quarter of 2022.

Portfolio Comments

Since our last letter in early February, there haven't been significant shifts in the equity model, but we did make a couple notable changes:

In early March, we initiated a position in Nutrien (NTR) based on the positive outlook for agricultural crop nutrients and their leading position in the industry. To fund that position, we sold our position in CGI Group (GIB.A), an information technology and consulting services company. CGI had been a decent performer in the model since we bought it, and held in better than most technology companies in recent months. We used that opportunity to lock in the gain, and shift to a sector that we wanted exposure to. We added an additional amount to Nutrien later in March when we trimmed part of our large position in Canadian Natural Resources (CNQ) after significant gains in the past few months. CNQ has more than doubled since we bought our initial position in March 2021, and we have used the recent strength to pare back the size of the position, and add to a couple companies that have underperformed, Magna (MG) and Park Lawn (PLC). On the US side, we sold the small position in DraftKings (DKNG) and added to our position in Xylem (XYL), a water technology company.

We were more active in the fixed income model this quarter. In February, we trimmed some of the mutual fund holdings to add an additional sleeve of 3-year GICs paying around 3%, after recent interest rate expectations have increased significantly. In late March, we sold all of our preferred share holdings, which have been by far the most successful fixed income instrument in the past year. However, fundamentals in that asset class are much different than they were a couple years ago when we were adding to them. In the past decade alone, there have been a couple different occasions where preferred shares lost roughly half of their value (or more) and at current valuations, the downside risk is much greater than any upside remaining. We decided to exit those positions after very strong gains, and redeploy that cash into some more GICs paying 3.55% annually. At the same time we sold the position we had in Capital Group World Bond Fund, and added a new holding (Pender Corporate Bond Fund), which has a very strong record of performance and we expect it to perform better in this difficult environment for fixed income.

As mentioned previously, volatility will likely continue during the next quarter, as there is still plenty of uncertainty for investors to contend with. We will continue to monitor the situation, but at this time are comfortable with our current equity exposure, while maintaining an underweight to fixed income.

Please feel free to contact us directly if you have any questions.

Best regards,

Ord Private Wealth Management
John, Tim, Liam & Kristen

FROM THE OFFICE OF:

John Ord, MBA | Senior Portfolio Manager | Ord Private Wealth Management | RBC Wealth Management | **RBC Dominion Securities Inc.**
Brookfield Place | 181 Bay Street, Suite 2350 | Toronto, ON M5J 2T3
T: 416-842-3331 | F: 416-842-3472 | Toll free 1-855-630-0770 | E: John.Ord@rbc.com
Visit us on the web: www.OrdPrivateWealthManagement.com

Tim Waller, CIM | Associate Investment Advisor | Ord Private Wealth Management | RBC Wealth Management | **RBC Dominion Securities Inc.**
T: 416-842-3328 | F: 416-842-3472 | Toll free: 1-855-630-0770 | E: Tim.R.Waller@rbc.com

Kristen Mejia-Chin | Associate | Ord Private Wealth Management | RBC Wealth Management | **RBC Dominion Securities Inc.**
T: 416-842-3337 | F: 416-842-3472 | Toll free: 1-855-630-0770 | E: Kristen.Mejia@rbc.com

Liam Connor | Associate | Ord Private Wealth Management | RBC Wealth Management | **RBC Dominion Securities Inc.**
T: 416-974-7012 | F: 416-842-3472 | Toll free: 1-855-630-0770 | E: Liam.Connor@rbc.com

***Please note that we cannot accept trading instructions by email for regulatory reasons.
Please call us to discuss any transactions in your account.***

