RBC Dominion Securities Inc.
August 15, 2022

Market Update – August 15, 2022

Dear clients,

We hope you are all taking some time to enjoy the summer. Now that we are halfway through August and the third quarter of 2022, we wanted to provide some updated commentary on the stock market and the economy, while also touching on investor psychology.

No doubt many of you have heard the word "recession" talked about at length during the past few months. That word has a profound effect on market sentiment, as recessions coincide with large drops in business conditions and negative returns in equity markets. The fear of an impending recession can also cause some investors to make decisions based on their emotions, instead of decisions that are in line with their long-term portfolio strategy and financial plan. Often these emotional decisions are made at exactly the wrong time as in the past 8 weeks, despite all of the commentary around recession and inflation, the S&P 500 has risen 17.69% from its low on June 17th. We have pointed out many times in the past that trying to time the market is nearly impossible, and those that chose to sell at the height of panic in June have now missed out on a fairly significant rally. Timing the market requires you to be right twice: by getting out at the right time, but also putting your cash back to work at a more favourable

time. Maintaining discipline through market volatility is of utmost importance, but it can be especially tough when media commentary amplifies this negative sentiment. Extreme negative sentiment in the market can often lead to price swings in the opposite direction of the consensus expectation (as discussed in our May 20th market update found on our website here), which is exactly what has happened in the past two months. As we point out below, there is some potential for positive market performance in the second half of 2022.

Arguably, the most important factor to market sentiment right now is inflation. Everyone seems to be talking about it, as it does not just affect investors in the stock market. Everyone in society has to deal with higher prices at the gas pump; higher food prices; or higher rental and mortgage costs. With these higher prices, there is less for consumers to spend on discretionary items that fuel other parts of the economy, which is why it is so important for central banks to use their available tools to try and bring inflation back in line. Unfortunately, interest rate hikes by central banks can only be effective for part of the inflation that we have seen so far in 2022. Much of this inflation was caused by "supply-side" dynamics, which have in part been brought on by China intermittently locking down parts of their economy to fight COVID-19, and also the Russia-Ukraine war causing some commodities to spike in price with lower supply available. The positive news is that we are beginning to see inflation show signs of peaking in the United States, most prominently in the recent CPI and PPI reports that came out for July. It is important to convey that one set of monthly reports does not make a trend, however if we were to see additional signs of inflation easing in the coming months, that could lead to significant relief in the market narrative. Perhaps that could be enough to cause some investors to put their currently high levels of cash to work in equity markets, leading the indexes higher.

We pointed out above that the S&P 500 had risen 17.69% from its lows in mid-June. Impressively, the tech-heavy NASDAQ has done even better, as it is up 23% from its low on June 16th. The sentiment shift toward growth-oriented stocks in the past two months has been notable. Additionally, there are some key technical levels (including the 50, 100 & 200 day moving averages) that the NASDAQ has broken above in recent weeks which are generally seen as a bullish sign, as they often coincide with a marked improvement in investor

sentiment. For our discretionary clients, the semi-annual rebalance that was done in early July increased their equity exposure back to their individual long-term target. This has turned out to be pretty good timing so far, and goes to show how rebalancing during volatile markets can have a profound positive effect on portfolios in the long run.

We understand these have been difficult markets to navigate for the past several months. We hope our consistent communication has been a benefit to you. Our monthly "Not Your ORDinary Newsletter" will come out in the first week of each month, and we will supplement that letter with any important updates in between to keep you informed.

Thank you for your continued trust in our team, and we hope you enjoy the remainder of the summer!

John, Tim, Liam & Kristen