Wealth Management
Dominion Securities

RBC Dominion Securities Inc.
July 14, 2022

Update On Your Discretionary Portfolio

Semi-Annual Rebalance

July 2022

Dear clients,

As we pass the halfway point of 2022, many of the same questions that arose during the first few months of the year remain embedded in investor's minds. How long will inflation keep rising? Will supply chain issues be resolved in the near future? How high will central banks raise interest rates, and will there ultimately be a recession? While these are all important questions to consider, none of them should be the first consideration for investors looking to build their wealth into the future.

Everyone has heard the old adages of "buy low, sell high" and "be greedy when others are fearful". However, when the actual situation arises when many investors become fearful, it can seem like an extremely difficult proposition to keep your focus on the longer term and to stay invested in equity markets. Implementing a disciplined portfolio rebalancing strategy helps to remove the emotion from these decisions to avoid the short-term mistakes that many investors make during volatile periods in the stock market. This past week, we implemented our semi-annual rebalance within your portfolio, much like we did earlier this year. In January, we were reducing equity from existing overweight levels back to the client's long-term target. This time, due to the recent drop in equity markets, we ended up adding some back in order to get to the same long-term equity target.

We don't know with certainty what markets will do in the next couple of months, however we do know that based on following this rebalancing strategy, we were selling equity in January near all-time highs, and buying equity in July after prices in stocks have come off significantly (or, put another way: sold high, bought lower). A reminder that every time in history that the Canadian and U.S. stock markets have fallen significantly, they have recovered and eventually reached new all-time highs. There is no reason to believe this time would be any different.

Portfolio Comments

Within the Canadian equity portfolio, there were no additions or subtractions to the model. However, due to the rebalancing of position weights, we were net buyers of companies such as Nutrien (NTR); Canadian Natural Resources (CNQ); Bank of Montreal (BMO) and Granite REIT (GRT.UN). On the other side, we were net sellers of Element Fleet (EFN), Royal Bank (RY), Waste Connections (WCN) and Kinaxis (KXS) after recent strength brought those companies above their model weightings.

In the US equity model, we did make a couple of changes to the portfolio. We sold our remaining stake in Activision Blizzard (ATVI), which had held its value quite well this year based on their upcoming acquisition by Microsoft. We used the removal of ATVI to fund an increase in our NVIDIA (NVDA) position, as we felt that NVDA's valuation had become increasingly attractive and we like the semiconductor space longer term. Additionally, we sold our position in General Electric (GE) and increased the weightings in both McDonalds (MCD) and Raytheon (RTX). We were net buyers of companies such as Amazon (AMZN); Prologis (PLD); Nike (NKE) and

Costco (COST), and net sellers of Abbvie (ABBV); Nextera Energy (NEE) and Visa (V) during this rebalance.

Overall, our weightings in the equity model remain as follows: Canada (45%), United States (40%), Global (15%). Canadian equity still trades at a decent discount to the US, so we still see some longer term advantage to that market. That said, there are still many quality sectors and companies in the US that we want to keep exposure to. We maintain our Neutral weight to equities that we have had since removing our Overweight stance in January 2022.

On the fixed income side, we did want to take advantage of the higher yields that are available in the bond market, and made a decision to buy some individual discounted bonds (one government, and one corporate) that offered some very tax effective yields. We also sold one of our investment grade mutual funds during the rebalance, in order to make room for the individual bonds. We are still a slight underweight to fixed income, with our Alternatives sleeve holding that additional weight. Alternative sectors such as market-neutral and merger arbitrage have maintained their value extremely well through 2022 (close to flat on the year), and have remained a positive investment relative to fixed income in the past couple of years.

We expect it will continue to a be a very data-dependent market in the coming weeks and months. Any signs of inflation beginning to abate in the monthly data will help investor sentiment, but that will have to wait until at least the July inflation reports. Recent data shows that many commodity prices are significantly off of their annual highs, and supply chains are showing signs of strengthening, so there are at least some potential positive signs out there. Patience will be the name of the game for investors as the economy works through these issues.

We will continue to monitor economic and market conditions, and will make any additional changes to the portfolio if required. We hope that everyone is enjoying the summer, and finding time to spend with family and friends.

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

Best regards,

Ord Private Wealth Management
John, Tim, Liam & Kristen