Wealth Management
Dominion Securities

RBC Dominion Securities Inc.
May 11, 2022

Update On Your Discretionary Portfolio

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Dear clients,

We hope everyone is doing well.

In addition to our comments on the market and economy from yesterday's correspondence (which can be accessed here), we wanted to provide a more specific update on some recent updates to your portfolio.

Over the course of the last year and a half, we have made a conscious effort to shift our equity exposure more towards Canada, and reduce the relative US and global equity exposure. We did this because the US equity markets had performed extremely well in previous years, and throughout 2020, while the Canadian market had lagged behind in part due to extreme amounts of liquidity in markets boosting higher growth companies, predominantly found in the US. The result was a Canadian stock market that was trading at a historically high discount to the US, and we expected that over time the discount would return closer to the mean, resulting in outperformance for the Canadian stock market.

At the beginning of 2021, the equity model was split geographically as follows: 35% Canadian, 50% US, 15% global. Throughout 2021 and into our semi-annual rebalance in January 2022, we shifted the equity mix to 42.5% Canadian; 42.5% US; 15% Global, which is a fairly significant move. As the Canadian market has held in better during the tough start to 2022, the percentage of Canadian equity is now roughly 45% in the model based on the outperformance. The discount between the Canadian market and the US is still near those high historical levels, and we continue to believe that the gap will narrow over the coming months and years. Going forward, we currently plan on maintaining this higher Canadian equity allocation, and may even add to it opportunistically.

Portfolio Comments

Since our last letter in April, we did make a couple changes in the Canadian equity model. We also did a partial rebalance of our US equity model. We remain neutral in our equity allocation.

On the Canadian side, we sold our position in National Bank (NA), as we removed our previous overweight position in the Canadian banks. We split the proceeds between several companies (Algonquin Power, Brookfield Infrastructure, Minto REIT and Telus) that also pay decent dividends, which resulted in very little change in yield. One other small change was trimming some of our Element Fleet (EFN) position to add to our existing position of Nutrien (NTR).

As mentioned, we did a rebalance of our US equity model. We adjusted weightings of many of the companies in the model to increase exposure to our higher conviction names, while trimming a few positions to lock in recent profits (ie. Prologis, Palo Alto Networks, AbbVie). We also made the decision to sell our Netflix (NFLX), Starbucks (SBUX) and Teladoc (TDOC) positions, and replaced them in the model with McDonalds (MCD) and Raytheon (RTX). We have been increasing quality within the US model for many months, and this continues that trend.

There were not any changes to our fixed income model since the last letter. One positive note to follow up on: our decision to sell the entire preferred share position in late March has turned out to be very good timing. Shortly after, the preferred share market started to drop pretty hard, and is off roughly 8% since we sold. Fixed income is finally at a point where the return profile is more attractive than it was. Should interest rates continue to rise, then pressure could remain on the sector. However, if the bond market's current rate expectations are a little aggressive, then we could see a bit of a rebound in bond prices. As a reminder, we have been underweight fixed income for a long time in the portfolio, and shifted some of the allocation to the alternatives sleeve during 2020. We still remain underweight for the time being.

Volatility remains the name of the game currently. We are still constructive on equities long term, and we do still expect a more positive second half of 2022 for equity investors. As always, we will continue to monitor the situation and make any changes necessary.

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

Best regards,

Ord Private Wealth Management
John, Tim, Liam & Kristen