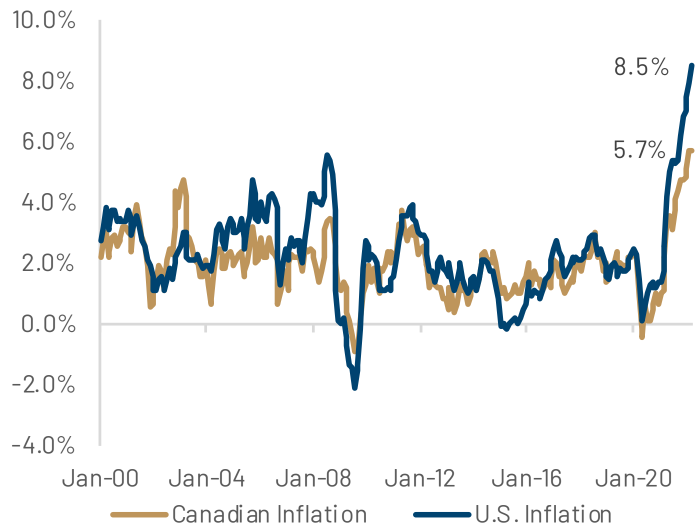
Quarterly Macro Overview Q1 / 2022

MATCO FINANCIAL

Investment markets have been volatile in the first quarter of 2022. Rising interest rates, rising inflation and the Russia-Ukraine geopolitical uncertainty have been weighing on markets. While several economic fundamentals remain very healthy, the market has been unable to gain meaningful traction. Our outlook for 2022 remains modest, but we anticipate reacceleration in 2023.

As we look out to the remainder of the year, there are a few primary roadblocks standing in the way of investment markets. First off, the Russia-Ukraine war is unthinkable. The humanitarian toll is horrific and takes precedence over all other considerations. That said, it is our job to consider the economic and investment implications. From that perspective, the Russian and Ukrainian economies account for only 3.5% of global GDP. These local economies will be directly impacted. Although rising energy prices and disrupted supply chains will indirectly impact the global economy, it will fade in the long term. The average duration of an international war historically lasts 6 months. The direct impacts of the war will linger for the Russian and European economies; however, the global economy is more likely to resume its expansionary course rather than being derailed. With respect to inflation, prices continue to experience upward pressure. Rising oil prices are pushing up gas prices at the pumps, while other consumer goods are also feeling the effects. These inflationary pressures are being felt at a time when the economy's growth rate is moderating. This combination is referred to as stagflation; stagnant economic growth in a rising price environment. Although this can threaten economic growth, several other factors have an equally significant impact, and many of them remain very strong. Building on the inflation issue, North American central banks find themselves between a rock and a hard place. On one hand, they would like to gradually increase interest rates so that economic growth is not derailed. However, rising inflation is forcing them to increase interest rates at a quicker pace, in hopes of curbing price pressures. The balancing act will be whether central banks can accomplish both: moderate inflation while not causing the economy to tip into a recession. It is not surprising that investors are left with some unease with all these concerns.

North-American Inflation

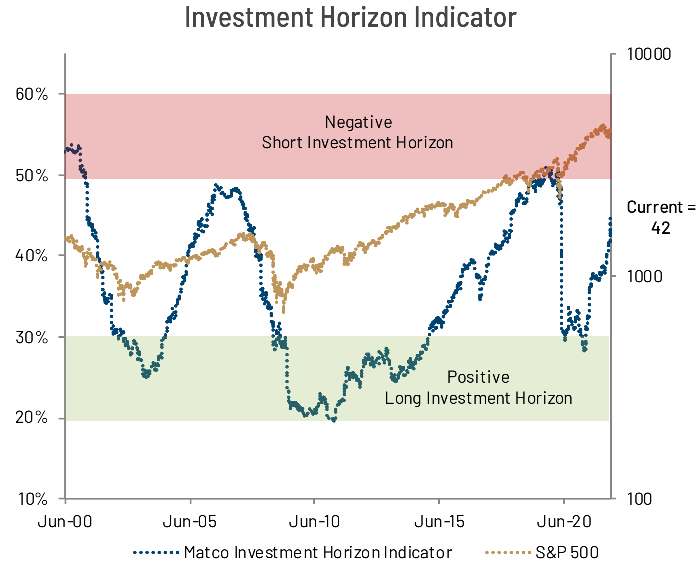


Source: Bloomberg

Nevertheless, several investment fundamentals remain very strong:

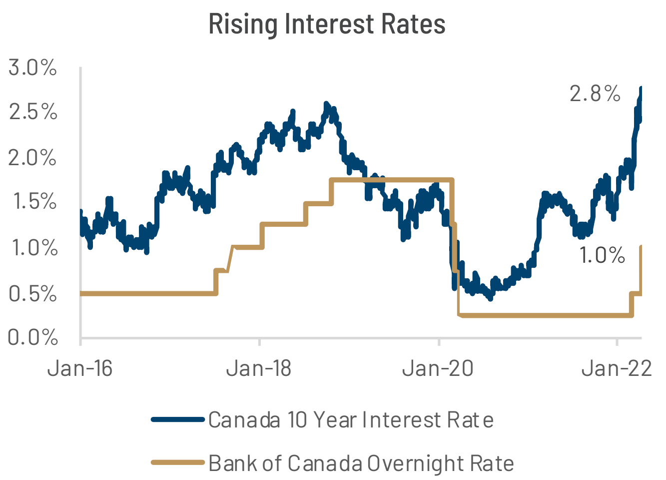
- Job growth in both Canada and the U.S. has been double the long-term average
- Company profits in Canada and the U.S. continue to grow at a pace of approximately 10%, with positive revisions of 8% and 3% respectively.
- Most companies continue to beat their quarterly earnings expectations

The strong economic fundamentals we referred to are highlighted in Matco's Investment Horizon Indicator, shown to the right. This indicator combines consumer confidence, interest rates, employment, financial conditions, economic conditions, and stock market valuations to produce an objective outlook. A lower rating of 20-30 suggests the runway for economic and investment growth is long, while a higher reading of 50-60 suggests the runway is much shorter. The indicator has been rising since mid-2021, with a current reading of 42. This reading suggests we are progressing through the investment cycle, but the horizon remains healthy. When looking at the indicator in combination with the S&P 500, it's track record of signaling significant market corrections is apparent. We will continue to monitor our indicator as it progresses closer to 50, but this will likely be a story for mid-2023 or potentially beyond; stay tuned.



Source: Bloomberg, Matco Financial Inc.

In the meantime, the market has several challenges to navigate this year. Investors need to remember that we are two years into an economic expansion that we anticipate lasting four years. Although counterintuitive, a moderation of economic growth and a stock market that trades sideways are likely to pave the way for economic reacceleration in 2023. If investors become too short-sighted and focus all their attention on the wall of worry *[see our March 31 Insight Blog]*, they risk not capitalizing on this reacceleration.



Source: Bloomberg

To ensure our client portfolios can resume their cruise speed, here's what we're doing.

- Maintaining an overweight to equities
- Protecting our fixed income assets against rising interest rates and inflation
- Focusing on companies with sustainable earnings growth in all market conditions
- Focusing on companies with lower valuations

In combination, these focuses will allow our portfolios to navigate a challenging 2022 while capitalizing on a reaccelerating economy in 2023. Our M-Factor investment process drives our discipline and risk management.

The next twelve months will present both opportunities and challenges. Continued economic growth will support equity markets, while decelerating growth, inflation and rising interest rates may cause bouts of volatility. As always, our primary objective is to protect and grow our client's portfolios over the long term.

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Sector allocation, top 10 holdings, and country allocation based on percentage of portfolio assets

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