GAVIN HOCKEY WEALTH SPECIALISTS

2022 Outlook

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Stocks Stage Year-end Upswing – Large-capitalization US and Canadian stocks staged a year-end upswing, underpinning a strong quarter, and year, for North American equities. The fourth quarter opened with the passage of the bipartisan Infrastructure and Jobs Act that sent risk assets higher. The momentum stalled, albeit temporarily, in late November by fears surrounding Omicron (COVID-19 variant). At the same time, inflation prints crossed 6% for the first time since 1990 forcing the Federal Reserve to walk back its use of "transitory inflation". Eventually, most markets climbed the "Wall of Worry". The most significant deviation came from China which suffered from stringent COVID policies that exacerbated an economic slowdown.

Bonds finished the quarter flat. However, most sovereign debt instruments had losses in 2021 as yields moved higher. Yield curves flattened, with short-dated bonds hit as central banks turned more hawkish. The US 2-year yield increased from 0.28% to 0.73% during the fourth quarter.

INDEX TOTAL RETURN	4Q21	1-YEAR
MSCI All Country World Index (USD)	6.67%	18.54%
S&P 500 Index (USD)	11.03%	28.71%
S&P/TSX Composite Index (CAD)	6.47%	25.09%
MSCI Emerging Markets (USD)	(1.31%)	(2.54%)
MSCI EAFE Index (USD)	2.69%	11.26%
Barclays Global Agg Bond Index (USD)	(0.67%)	(4.71%)
Barclays US Agg Bond Index (USD)	0.01%	(1.54%)

Source: Bloomberg

All (Bumpy) Roads Lead to Equities – Financial journalists often glorify markets, emphasizing the extreme moves over long timeframes as though it was an effortless journey. Often lost in stargazing at historical charts is that it is seldom a straight line, there are many head-fakes in either direction and markets often consolidate - neither continuing the existing trend nor veering along a new path. Our expectation for 2022 is for volatility to highlight the difficult path in staying the course, testing investor patience often.

The pace of growth for the world economy appears to be slowing despite a few tailwinds. The bond market is picking up on this, with the yield curve flattening along with slowing ISM readings, job creation and other economic indicators. Lapping difficult year-over-year comparisons in the first half the year, it is likely to lead to a challenging backdrop for equities.

The handling of the COVID crisis has resulted in rising dissatisfaction with political leaders. Citizens in an increasing number of countries are pushing back on restrictions and rejecting leadership by (or for) the elite class. It is unlikely coincidental that this is occurring with inflation readings at multi-decade highs, December CPI was 7%. Inflation is often the tipping point (see Tiananmen Square and The Arab Spring) for uprisings.

Structural headwinds have not gone away for most major economies. Unfavorable demographics, excessive debt and regulation have crimped growth for much of the recovery since 2009 and these issues remain. The US Federal Reserve certainly is not oblivious to this fact and has attempted to "let the economy run hot". However, the market now appears to be pushing back, pricing in four rate hikes and lifting commodity prices further despite economic indicators rolling over. A moderation in commodity prices would suggest the December CPI was the top for this cycle. However, this has not occurred. Moreover, net long positions in the US dollar imply that meaningfully more support for the greenback is not on the horizon. A stronger US dollar would slow commodity prices.

With this as the backdrop coming into 2022, We have become more constructive on quality and interest rate sensitive investments. To make room, commodity positions have been reduced along with small capitalization names. Gold remains a healthy position and should perform well with declining nominal yields, unstable equity prices or geopolitical unrest (Russia/Ukraine or China/Taiwan).

Four Federal Reserve rate hikes are currently priced-in to the markets. However, the tightening cycle could intensify the economic slowdown and impair equity performance. This would likely force the Fed to depart from their plan. The contrary view is that the cycle will remain in force as COVID restrictions and supply chain bottlenecks diminish. As we get deeper into 2022, year over year economic comparisons ease. With growth stocks feeling the brunt of the recent sell-off, our focus will turn to quality names within this style group.