OPTIMUM®
Asset Management

Financial Outlook December 2022

By Martin Delage, Canadian Chief Investment Officer

Annus Horribilis

For many of us, 2022 was a year of consequence. Whether because of the war in Ukraine, inflation at levels not seen since the 1980s or decidedly negative investment returns, as shown in the chart below, we all have a reason to want to put 2022 behind us and finally move on to 2023.

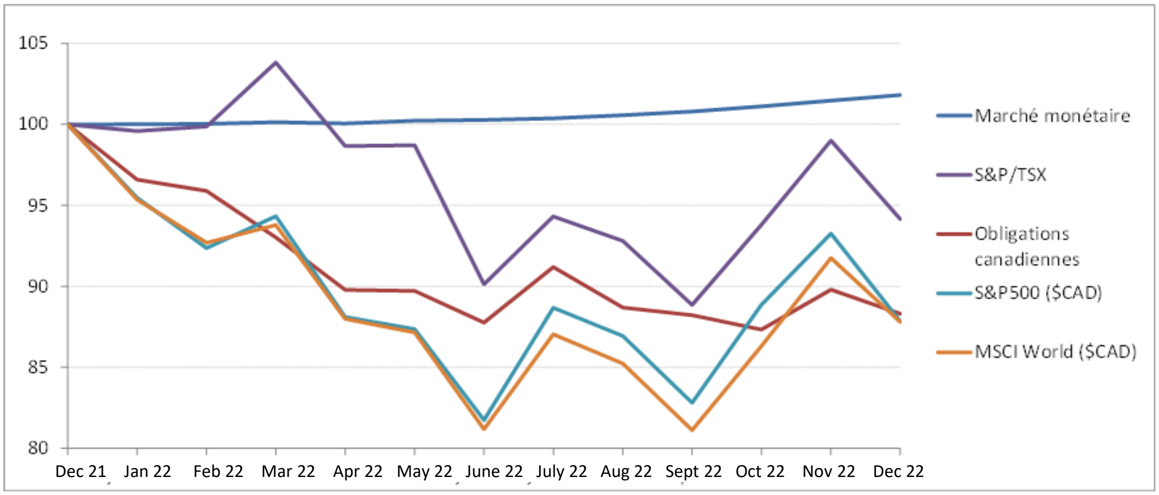
For investors with a typical portfolio allocation of 60% stocks and 40% bonds, the return for 2022 was -8.18%. For clients invested in Optimum Asset Management's balanced strategy, the return was also negative, at -7.54%, but it outperformed the typical 60-40 portfolio.

It should be noted that the bear market disproportionately affected many trendy stocks, such as Tesla in the United States and Shopify in Canada. Because these securities do not meet our quality requirements, our client portfolios have never held them. Our investment processes guide us toward more stable stocks offering moderate, consistent, long-term growth. Our investment teams take a conservative approach that allows us to minimize the risk of losses when market conditions are challenging, as in 2022.

For 2023, our investment teams are actively managing the portfolios, notably to take advantage of bond yields, which have become more attractive, as well as other opportunities that the market offers us.

Don't hesitate to contact your advisor if you have any questions about the markets or your portfolio. Personalized service and a client-proximity approach are key components of Optimum Asset Management's Elite Experience service.

Financial Markets' Performance



Source: Bloomberg

Economy

By Martin Delage, Canadian Chief Investment Officer

After enduring a period marked by resurgent inflation, a major war, the largest monetary tightening in 40 years, slowing growth, significant volatility caused by postpandemic distortions and a deep, broad decline in asset values, the financial markets finally took a breather in the fourth quarter of 2022. The upward march of interest rates decelerated, credit spreads improved, stock prices rebounded, volatility diminished and the U.S. dollar pressure dropped.

South of the border, the bad news is that, despite strong year-end momentum, it's becoming clear from the leading indicators and the inverted yield curve that a recession is inevitable. The economic cycle can be oversimplified with the acronym HOPE (housing, orders, profits and employment). In the current context, we see that the housing market is deteriorating fast, having fallen 18% since its peak, and manufacturing orders have stalled. Consumers have been hit by a loss of purchasing power, higher interest rates and wealth destruction, so it's only a matter of time before they cut back on spending. A decrease in profits and a rise in unemployment, which are notorious lagging indicators, will then follow. The good news is that there are no large imbalances, as in 2000 and 2008. Furthermore, recessions caused by monetary tightening have historically been milder. A milder recession should be manageable, given the Federal Reserve's renewed easing potential.

The state of the Canadian economy continues to be worrisome, with housing, manufacturing and employment all weakening. Furthermore, the third-quarter GDP data show that domestic demand (-0.6%) was already lacklustre despite a strong inventory rebuild that will not repeat itself.

As for the international front, China, the world's largest economy when measured by purchasing power parity, will have to be monitored closely. Amid social tensions and a willingness to replace sluggish exports by domestic consumption, Beijing ended its zero-Covid policy. The reopening of its economy is expected to be bumpy as the country moves toward herd immunity, possibly with partial lockdowns. That being said, accumulated savings and pent-up demand should generate substantial growth in a few months. Moreover, the government's latest move to stabilize the real estate market by encouraging prolonged funding terms for builders and buyers alike should also support growth.

With the yen grossly undervalued, the Bank of Japan (BOJ) modified its yield-curve control, raising the interest rate threshold for the 10-year bond by 0.25% to 0.50%. Even though the move was expected, the timing was surprising because the Bank's governor, Haruhiko Kuroda, a renowned dove and the architect of the measure, will step down in April.

Bond Market

By Hugues Sauvé, FVP, Fixed Income and
Executive Assistant to the Canadian Investment Officer

**FTSE Russell Index Returns/
Fourth Quarter of 2022 (%)**

	Federal	Provincial	Municipal	Corporate	Total
Short	0.40	0.58	0.51	1.10	0.67
Medium	-0.10	0.35	0.25	1.39	0.34
Long	-2.73	-1.09	-0.76	0.51	-1.01
Universe	-0.12	-0.31	-0.12	1.00	0.10

Source: FTSE Russell

STRATEGY

For our Canadian strategy, we took advantage of the latest year-end and Bank of Japan noise to increase our long-duration bias. We think economic weakness and lower inflation will ensure that talk of a pivot gets traction. Moreover, they will provide protection against our credit exposure. Generally speaking, longer-term interest rates coincidentally peak (-1.3 M) along with overnight rates; this fact, compounded by the massive front-end inversion, has prompted us to save some dry powder for this exposure. On the curve, we are avoiding the expensive mid-term segment while minimizing a potential 10-to-30-year curve steepening by focusing on the 20-year area.

With regard to credit, the recent U.S. spread tightening makes Canadian spreads look cheap. That being said, considering the potential spread widening in a recession scenario, we are maintaining our defensive posture and looking for appealing micro ideas, such as bank bail-in versus BBB. Finally, we took some profits and closed our real return bond (RRB) positions. Even though we are still finding some attractive inflation optionality embedded in the instrument, our tactical investment theses (VS US break even, VS Bank of Canada target, higher monthly CPI carry) have all run their course.

Equities

By Nicolas Poirier, Director, Equities

The fourth quarter of 2022 was positive for the Canadian stock market; the S&P/TSX Index advanced 5.97%, but it was not enough to offset the declines of previous quarters. As a result, the S&P TSX returned -5.75% on the year. The same was true of the MSCI World Index, which returned 7.86% in Canadian dollars in the fourth quarter but -11.98% on the year. As for S&P 500 Index in the United States, the return was also positive in the fourth quarter, at 5.56%, but negative for 2022 as a whole, at -12.42%.

All sectors of the Canadian market had a positive return in the fourth quarter, except for health care (-10.90%) and utilities (-7.42%).

Canadian Stock Market

Sector Returns

	4th Quarter	Year 2022
Health Care	-10.90%	-61.59%
Utilities	-7.42%	-10.56%
Financials	3.37%	-9.38%
Communication Services	6.11%	-2.59%
Industrials	7.35%	1.45%
Materials	8.22%	1.84%
Consumer Staples	8.48%	10.08%
Consumer Discretionary	8.82%	-6.03%
Energy	8.98%	30.86%
Real Estate	9.71%	-21.52%
Information Technology	12.60%	-52.02%
Index	**5.97%**	**-5.75%**

Source: Bloomberg

STRATEGY

The Optimum Canadian Equity Fund and the Optimum Global Equity Fund focus on high-quality companies with excellent earnings, low leverage and significant cash flow. In 2022, these high-quality securities were hit by the sharp rise in interest rates around the world. The high valuation of these stocks, given their excellent fundamentals, means they have negative sensitivity to interest rates, or a long "duration," because most of their earnings will be obtained in the future. When inflation slows and interest rates stop rising, this management approach should stand out and generate attractive returns.

The Optimum Low Volatility Canadian Equity Fund stood out during this negative year with value added of 2.05% relative to its benchmark index, as investors took refuge in the most defensive stocks in the Canadian index. If the economic environment continues to deteriorate in the coming months, this strategy should continue to outperform its benchmark. Moreover, the strategy continued its historical outperformance, with annualized value added of 2.13% over the past 10 years.

Finally, our Multifactor strategy also performed well in 2022, with 2.30% of value added relative to its benchmark. It will be recalled that this purely quantitative strategy aims to exploit inefficiencies in the Canadian stock market by combining three quantitative strategies:

1) The low volatility strategy, which is based on the assumption that a security's beta does not reflect the level of risk taken in relation to the expected return and can generate a risk-return profile superior to that of the index;

2) The equal weight strategy, which uses three outperformance factors, namely value, size and rebalancing, to reduce concentration risks; and

3) The momentum strategy, which aims to capitalize on the continuance of a market trend and investor reaction time.

In the current economic environment, we favour defensive securities in our equity portfolios and the low-volatility strategy, which should be more resilient during an economic downturn or a recession.

OPTIMUM®
Asset Management

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WHO ARE WE?

Optimum Asset Management is an asset management subsidiary held by the Optimum Financial Group, a private Canadian group with international operations.

With a wide range of traditional, alternative and innovative solutions, Optimum Asset Management manages assets for institutional and private wealth management clients. We redefine investment strategies by combining the high technicality of our experts with our business intelligence technology, while incorporating responsible investment principles into our portfolio management.

Each strategy's performance derives from a composition of mandates which regroup the returns of several client portfolios with similar mandates and investment strategies. The performance is shown in Canadian dollars, before management fees and is annualized for all periods over one year. The information contained in the present document is provided for information purposes only and should not be construed as investment advice pertaining to your financial situation nor as specific advice relating to finance, legal, accounting, tax or investments. We assume no responsibility for any losses incurred due to the use of this data. It should not be considered as a solicitation to buy nor an offer to sell a security. It does not take into account an investor's specific investment objectives, tax situation nor investment horizon. There is no representation, warranty nor liability regarding the accuracy of decisions based on this data. All performance-based data factor in the reinvestment of all distributions or dividends and do not take into account management fees and other fees payable by investors which result in reduced returns. The indexes used in the present document are indexes which are widely recognized benchmarks used to measure investment performance for their respective asset classes and were chosen based on their degree of comparability and similarity with the investment strategies presented. Optimum Asset Management Inc. cannot guarantee future performance of strategies. Values fluctuate frequently and past performance is not indicative of future performance.

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