SV Wealth - Newsletter

Sabu Varghese, MBA, CIM
Portfolio Manager

Ramzy Saad, CFA, MBA
Associate Portfolio Manager

SV Wealth
Raymond James Ltd.

www.SVwealth.ca

416-499-1555

8500 Leslie St, Suite #450
Markham , ON

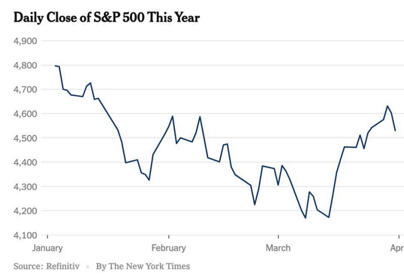
What a Difference Three Months Makes

What a difference we've undergone over the last three months. The year started with Covid lockdowns and fears about the contagious Omicron variant. Inflation was also a concern, but market consensus had it peaking in the early part of the year. The Olympics in China was the biggest geopolitical concern we had.

Three months later, inflation is running at the highest levels since the late 1970s, war has returned to Europe- courtesy of Russia's attack on Ukraine, and the Federal Reserve has finally started raising interest rates. It was a rough start to the year, with the S&P closing at a record on January 3rd but entering correction territory two months later by declining more than 10% from the recent high.

The Good: March Appears to be a Bottom… for Now

While January and February were terrible for US markets, the second half of March offered a reprieve where markets clawed back a good portion of their losses. The Canadian TSX, because of its heavier exposure to energy and mining, was actually positive for the entire quarter. Looking ahead, the economic picture in the US and Canada continue to look fairly strong, with unemployment falling to low levels and GDP continuing to grow.



The Bad: Roughest Start in a While

January and February were especially rough for technology stocks that rely on cheap financing to grow their businesses. With inflation showing no sign of slowing, the central bank said it expects to raise rates seven times in the coming year, a much more aggressive posture than the four rate hikes that we expected in January. Perhaps the worst part is that inflation does not appear to have peaked yet, especially as we wait to see how prices in the services sector behave now that the economy has moved on from Corona restrictions in earnest.

The Ugly: Inflation is not Deflating

The events in Ukraine, aside from being a terrible human tragedy, will also serve to boost inflation further, and make it harder to get rid of. The reliance on Russian energy is well known but Russia is also a large exporter of grains, mining ore, and fertilizer. Ukraine is also a large producer of grains, sunflower oil and car parts. With Russia sanctioned and Ukraine destroyed, the shortages are causing higher prices in commodities, which worsens inflation for everyone. With events in their sixth week, the fight against inflation will depend on how the conflict ends, and how much of Ukraine's productive capacity remains after the war.

Portfolio Changes – Repositioning for the New Reality

As active portfolio managers, here are some of the changes we made to the SV Wealth Dividend Growth and SV Wealth Balanced Growth portfolios over the last quarter to reduce risk and enhance returns:

- We started raising cash at the beginning of the year when the market looked unstable. The volatility in February and March gave us a chance to re-invest all our cash in the market, and we are now fully invested.
- We increased our portfolio weight in energy and financials. We also increased the dividend yield in our portfolio to almost 3%.
- Once the tech-heavy Nasdaq fell into bear market territory (down 20% from its recent high), we increased our exposure to the Nasdaq and started building positions in the names of select industry leaders.

Portfolio Performance – The Importance of Discipline and Staying Invested

Despite the volatility we've seen so far this year, the importance of staying invested cannot be overstated. Through disciplined risk management and active sector positioning, we strive to have consistent and steady returns in our Dividend Growth and Balanced Growth portfolios.

Dividend Growth Portfolio

3 Month	1 Year	3 Year	5 Year
-2.5%	10.8%	13.7%	10.8%

Balanced Growth Portfolio

3 Month	1 Year	3 Year	5 Year
-2.5%	9.0%	11.9%	9.3%

Looking to the Year Ahead

After two years of strong markets, we expect the volatility to continue in the coming months. While we might see a retest of the bottom, we're confident that the economy remains quite strong in North America, and as a result, our portfolios remain fully invested.

We think inflation will continue to be problematic, especially as the war in Ukraine drags on and European countries start looking more seriously at sanctioning Russian oil and gas. It will be some years yet before big economies like Germany and Italy wean themselves off Russian energy by building liquid natural gas terminals and perhaps, delaying the planned decommissioning of remaining nuclear power plants.

The biggest risk is stagflation: as the central banks starts aggressively moving to tamp down inflation, it's possible they tighten conditions too fast and the economy falls into a recession. Should such a situation transpire, we'll be ready to act accordingly.