THE COERENTE VIEW

1ST QUARTER 2022

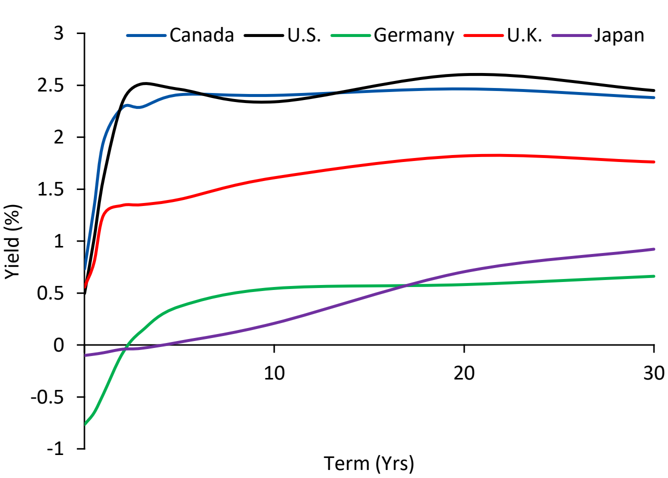
Market Statistics

	Mar/22	Dec/21	Sep/21	Mar/21
Yields (%)				
90 Day T-Bill	0.58	0.16	0.12	0.09
10 Yr. Canada Bond	2.49	1.52	1.56	1.61
30 Yr. Canada Bond	2.45	1.70	2.00	1.96
Rates				
C.P.I. (annual %)	5.69	4.80	4.38	2.20
US$/C$	0.80	0.79	0.79	0.79
Euro/C$	0.72	0.69	0.68	0.68
Prices (US$)				
Crude Oil (bbl.)	100	75	75	59
Natural Gas (mm)	5.64	3.73	5.87	2.61
Gold (oz.)	1,949	1,828	1,755	1,727

Market Returns

	Periods Ending Mar. 31/22			
			Annualized	
	3 Mo.	1 Yr.	5 Yrs.	10 Yrs.
S&P/TSX	3.8	20.2	10.3	9.1
S&P 500 (C$)	-6.0	14.9	14.5	17.2
S&P 500 (US$)	-4.6	15.6	16.0	14.6
MSCI EAFE Net (C$)	-7.3	0.5	5.4	8.7
MSCI EAFE Net (US$)	-5.9	1.2	6.7	6.3
MSCI World Net (C$)	-6.5	9.4	11.0	13.4
MSCI World Net (US$)	-5.2	10.1	12.4	10.9
Bond Universe	-7.0	-4.5	1.6	2.6
91 Day T-Bills	0.1	0.3	0.9	0.8

Yield Curves



The Economy

The post-pandemic global economic recovery continues to progress. The U.S. is leading the way with results indicating rising wages, the addition of 431,000 jobs in the month of March and an unemployment rate that has fallen to the 3.6% level. Canada has also posted impressive job gains with the unemployment rate falling to 5.5%, better than pre-Covid levels. Elsewhere in the world, regional obstacles have dampened the recovery. Europe has been more severely affected by the war in Ukraine as the upward spike in energy prices has also been accompanied by local supply issues. In China, another wave of the Covid virus has virtually shut down a number of cities including Shanghai. The war and virus are obstacles for North American growth but not currently to any significant extent.

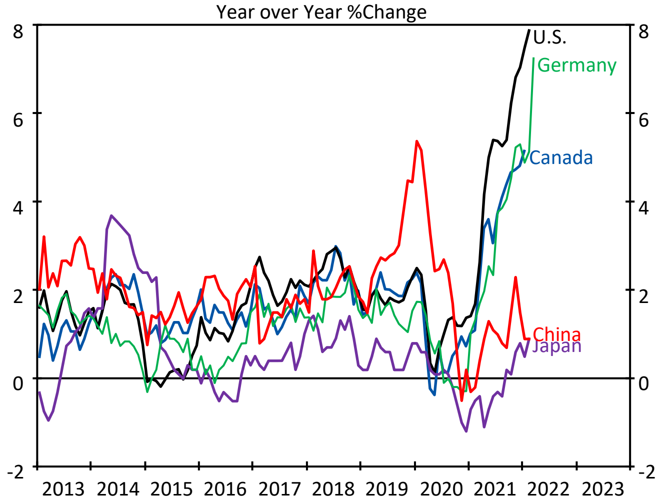
Supply chain issues and labour shortages are the major holdbacks for global growth. They have combined to provide the greatest threat in the form of rising rates of inflation. As the chart on the top of page two indicates, the rate of inflation is now exceeding the 7% level in most of the major democratic economies. While some of the inflation pressure is transitory and will ease as supply chain issues are resolved, the extent of the longer-term problem of labour shortages and the increased wages required to attract and retain workers is more uncertain. As we have previously written, Covid has disrupted the labour force with people now rethinking their work-life balance. There is an increased preference for work at home, a movement away from industries most affected by the virus like hospitality and travel, and a lack of immigration. Costs will also increase as countries look to strategically source products domestically and become less dependent on politically risky low-cost labour markets like China or less expensive energy sources such as Russia.

If not controlled, inflation can dramatically and quickly reduce standards of living as more money is needed to purchase the same amount of goods and services. For this reason, monetary authorities will act with reasonable speed to increase interest rates in order to slow demand and prop up currencies. There is concern, however, that if they overreact and raise interest rates too high and too fast it will cause a recession.

In North America we are still in the early days of interest rate increases by the central banks. So far, in Canada and the U.S. the initial hikes have flattened the yield curves such that government yields are in the 2.5% range for all maturities between 2-30 years. In Europe and Japan, yields have now moved back into mostly positive territory after being negative for a number of years. In all cases, longer-term interest rates are well below inflation rates which suggests there remains a belief that any inflation beyond the 3% level is likely transitory. On the other hand, recent evidence also suggests that negative real yields can exist for an extended period of time. (See the second chart on page two.)

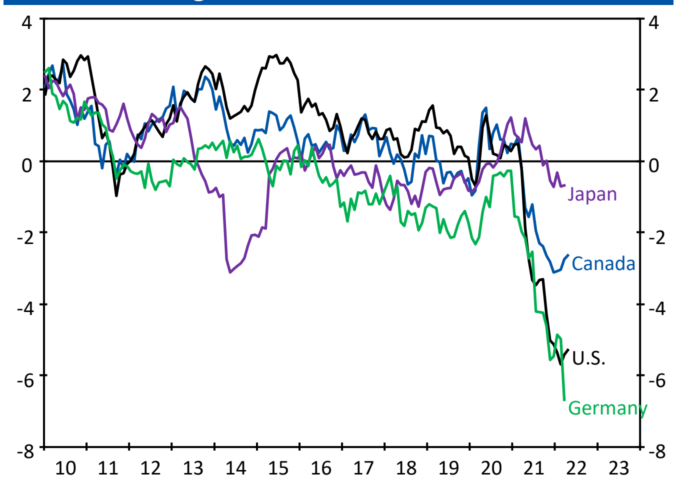
Inflation

Year over Year %Change



MAR 2022

Real Long-Term Government Bond Yields

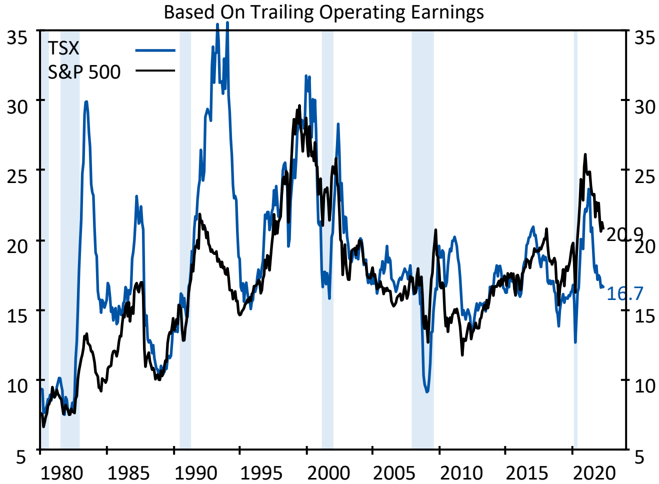


Based on trailing 12 month CPI inflation

APR 2022

P/E Multiples

Based On Trailing Operating Earnings



APR 2022

The Markets

The Ukrainian war and rising interest rates resulted in losses being experienced in most of the major equity and bond markets last quarter. The only exception was the Canadian S&P/TSX which posted a positive 3.8% return in the first quarter due to its heavy exposure to energy and other commodities. The World Index declined 6.5% in Canadian dollar terms. With the rise in the price of oil, the Canadian dollar appreciated a modest 1.4% for the quarter. The gain was surprisingly small given the strength in commodity prices. It is perhaps reflective of our outsized fiscal deficits and/or the belief that much of the commodity price gain is specifically due to the war-induced upward spike in energy and grain prices which will eventually reverse themselves. Bonds were the most significant losers as the Bond Universe index declined 7% and even the Short-Term index fell 3%.

Predicting the pace of the economic recovery over the next year or two will be difficult and there is some risk of a global recession but it currently appears unlikely given the strength in North America. Despite some near-term hurdles, we remain focused on our longer-term expectations for recovery from the effects of the pandemic. Short-term timing of the equity markets is risky. Instead, proper positioning can avoid significant losses. The major difference from a year ago is the higher rate of inflation that is emerging and the unknown level of non-transitory inflation. This only reinforces our preference for equities. Most yields in the fixed income market today are not providing positive real yields (i.e. a yield in excess of inflation). Even if inflation rates settle to the 3% range, above our recent historical experience, they are barely positive. The only way to protect purchasing power is through ownership of businesses that can pass along cost increases. The chart on the left indicates that valuations (in the form of Price/Earnings multiples) have declined reflecting more modest growth expectations and rising interest rates. Dividend yields in the equity market remain competitive with bond yields and are increasing in those industries that are continuing to recover and are more consistent in their growth profiles. These dividend growers are found mostly in the consumer, pharmaceutical, financial and technology related service sectors. Utility type businesses, while relatively steady, tend to be prone to price regulation and thereby less able to readily pass along price increases.

As a result of the flat yield curve in the marketplace today, there is no incentive for purchasing bonds with maturities beyond the 2-3 year range. Short-term bonds and cash provide for preservation of capital in case the economy stumbles badly or central banks prove too aggressive on interest rate increases.