IN FOCUS

IAIC QUARTERLY COMMENTARY

January 2022

Independent Accountants' Investment Counsel Inc.™

WHAT'S AHEAD IN 2022?

Inflation, the expectation of higher interest rates and of course the ongoing Covid-19 saga were all top-of-mind in 2021, and yet impressive corporate profits propelled worldwide markets to positive returns for the year. Can this bull market be sustained much longer? In this article we consider what lies ahead for the markets in 2022 and how we structure our clients' investments accordingly.

INFLATION IN 2022

Inflation began to show up as a concern early on in 2021. By the second quarter, inflation had risen well beyond the target ranges of central banks, but some analysts were suggesting this was temporary and transitory, brought on in part by the persistence of government stimulus and supply chain issues throughout 2020. Starting in the latter half of 2021, markets began to speculate that inflation was more permanently entrenched, and that wage inflation would follow. Central banks began reducing bond purchases and to consider interest rate hikes sooner than the market was anticipating. Market volatility settled somewhat following the Federal Reserve's meeting in September, when U.S. Federal Reserve Board Chair Jeremy Powell provided reassurance that monetary policy will remain accommodative until the Central Banks's goals on employment and inflation have been reached. Rounding out the final quarter of 2021, high inflation numbers persisted, climbing over 6% in the U.S. and up to almost 5% in Canada -- both well ahead of policy target levels.

Why has inflation persisted? Rising fuel (mainly gasoline), food, and manufactured goods costs are the main causes, impacted by strong market demand for products amidst constrained supply chains. Wages are trailing, but the shortage of workers, particularly in the service sector, is expected to push labour costs higher in the coming months. The Covid-19 Omicron variant, which is spreading rapidly in developed economies, could have further detrimental impact on the supply side due to job absenteeism and government-imposed shutdowns. Although labour market participation in the U.S., for example, picked up in the 4th quarter, there were still over 10 million job openings and about 4 million less Americans working than before the pandemic.

Mike Williams, CFA, MBA

Advising Representative

While we anticipate that inflation tempers somewhat in 2022, economists still feel that the conditions driving inflation will continue on into the new year.

Interest Rates in 2022

Following the release of minutes from the December U.S. Federal Reserve Board meeting, markets appeared to become worried that the Fed will be less accommodative than previously assumed, including an accelerated tapering of bond purchases and increasing its overnight lending rate sooner than expected. As a result, investors should anticipate an increase in interest rates starting in 2022 (previously thought to be 2023 at the very earliest) as inflation becomes more entrenched.

Corporate Profits in 2022

Corporate profits grew in 2021, in part driving the continued momentum for investors to purchase equities. Higher earnings than 2020 were anticipated; however, actual earnings in 2021 exceeded analysts' expectations. The percentage of earnings estimates 'beats' climbed higher throughout 2021, providing continued optimism and a bullish economic outlook.

While corporate profit expectations in 2022 are generally expected to exceed 2021 earnings, we will be watching carefully for any trend in "earnings misses." Covid-19 impacts, persistent inflation and rising interest rates certainly create a risky earnings environment as we head into the new year.

Our Investment Strategy

We believe it is important, particularly in a strong bull market, to understand some of the cognitive biases we all possess that can lead to mistakes. To quote the investment legend Benjamin Graham:

'In the short run, the market is a voting machine but in the long run, it is a weighing machine.'

In other words, in the short term, the markets can be erratic and irrational, often swayed by recency bias (follow the "winners" and the hype), but in the long term the markets will converge on a company's fundamental value. In the long run, fundamentals matter.

In 2022 we will continue to focus on fundamentals and the impact of external factors such as inflation, interest rates, Covid-19 and technology advancements on our investment decisions. We will continue our focus on companies with global reach that we believe can adapt to an inflationary environment, will grow in a robust economy despite the likelihood of rising interest rates and, in many cases, can maintain or increase dividend payment levels. We will also invest, depending on our client's risk tolerance, in technology and other stocks that will benefit from emerging social, demographic and economic trends.

The low interest-rate environment will continue to be a challenge for wealth managers who have normally relied on a blend of fixed-income assets with equities (stocks) to mitigate market volatility while working towards their clients' objectives. With interest rates at record lows and investment-grade bonds and relatively risk-free assets failing to even keep pace with modest inflation, as well as a widening gap in the spread between traditional fixed-income assets and riskier assets, the traditional asset mix for each level of risk may no longer provide the returns our clients seek. The asset mix to earn an overall rate of return of 5% looks quite different today than it did ten years ago. This is particularly concerning given a historically wide gap between fixed-income yields and corporate earnings. Locking into long-dated fixed income yields in a rising-rate environment introduces additional risks.

In this environment, we have begun to shift some weighting away from bonds to higher yielding asset classes including preferred shares, stocks, and alternative assets. Of course, this is always subject to consideration of each client's tolerance and capacity for risk and relative need for income, growth and capital preservation.

We cannot predict what will happen in 2022, but should adverse conditions prevail, volatile markets can create ideal buying opportunities at cheaper entry points. We think the best way to allocate our clients' capital is to maintain a cool head through uncertain times by investing in a diversified mix of high-quality securities for the long-term while staying focused on the fundamentals of each asset.

THE OTHER SIDE OF RETIREMENT

Over the past few newsletters, we have focused on preparing you for retirement from a financial standpoint. Hopefully, you have either completed, or are in the process of going through, the necessary planning steps to give you "retirement confidence." While the financial part is critical to your retirement success, there is still another critical piece to retiring successfully – the psychology of retiring.

We spend a lot of time worrying about whether we will be ok financially in retirement, and able to meet our income goals, minimize tax wherever possible, plan for uncertainties later in life, and hopefully have money left over to provide inheritances and bequests at the end of the road.

What often gets overlooked is that depending on when you retire and how long you live, you could end up being retired for as long as you worked, or longer. While this may sound like a glorious 'problem' to have, many professionals and business owners struggle with the transition, due to the loss of perceived importance or value, a lack of structure in your day, or just general boredom. It is important to ensure you spend some time planning what retirement will 'look like' to you, as it effectively will become your new career after you finish working.

Let's face it, you've worked hard and sacrificed a lot on the personal front in order to be successful. In the initial weeks and months of retirement, it may seem wonderful to have the freedom from schedules, stress and responsibility. As time goes by however, at some point the act of 'walking away' from work may impact you emotionally to some extent, and it's important to be prepared to deal with this.

Here are a few tips to consider to help manage the mental and emotional adjustments needed to fully enjoy your retirement years:

- Build some structure into your day in retirement, as you did when you were working
- Set goals for yourself – the sense of accomplishment from achievement hasn't gone just because work has
- Work on improving existing friendships and developing new ones
- Investigate a 'bridge' job before you transition fully to retirement – focus on something you enjoy and can get fulfilment or learning from
- Look for volunteer opportunities that leverage your interests, skills and experience

At the end of the day, retirement is all new, so don't be too hard on yourself. Be patient and remain flexible and realize that it will take time to adjust to your new reality. The important thing to remember is that if you have planned effectively to take the financial worry out of your life, it will be easier to focus on how to enjoy a fulfilling retirement.

Gord Hardie, CFP, CIM, FCSI

Vice President, Financial Planning

How The Markets Performed

Grayson Waechter, CFA
Advising Representative

After a relatively flat third quarter in 2021, the equity markets rallied in Q4 with the US markets leading the charge, followed by Canada and then the Internationals.

While we did see some market pullback in November, a strong December left most of the major indices reaching all-time highs again.

The preferred share index was flat over the final quarter of 2021, and the Bank of Canada chose to close out 2021 leaving its target rate unchanged.

The Canadian Dollar appreciated by about 1% over the US dollar in 2021.

Key Indicators		Dec-21
90 Day Tbill		0.17 %
CPI (Y/Y) (Aug)		4.7%
$U/$C		$0.79
Major Market Returns	**3 Month Total Return**	**12 Month Total Return**
S&P/TSX Composite	6.5%	25.1%
S&P/TSX Preferred Share	1.6%	19.3%
S&P 500 Composite (C$)	10.7%	27.6%
MSCI EAFE (C$)	2.4%	10.8%
IAIC Equity Sector Benchmarks		
Consumer	4.2%	13.8%
Financial	8.4%	31.6%
Utilities	4.0%	13.4%
Industrial	1.6%	16.7%
Resource	7.1%	23.6%

Source: National Bank Financial

Reminder – NBIN Paper Statement Fee

In the June IAIC Quarterly Statement we notified you that National Bank Independent Network (NBIN) will be introducing a fee for issuing paper account statements. This new fee will impact clients that have NBIN as the custodian of their IAIC account, and currently receive paper statements from NBIN.
NBIN initially announced that the new quarterly fee would be applied starting December 31, 2021, but recently postponed the change and therefore the new fee will now begin on March 31, 2022.
As a reminder the fee will be $6.00 per calendar quarter, per NBIN quarterly statement sent to you. So, if you receive two paper quarterly statements, you will be charged $12.00 by NBIN on a quarterly basis starting March 31, 2022.

To avoid this fee, you will need to register to access your NBIN statements online. To setup online access, please go to the NBIN client site (https://myportfolioplus.ca/login). Once you have accessed your accounts online, you will need to change your portfolio statement delivery option to "Online" from "By Mail". For Corporate or joint accounts, or for support in registering, please contact NBIN MyPortfolio+ technical support desk at 1-855-844-0172.

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Conflicts of Interest - What You Need To Know

In October 2019, the Canadian Securities Administrators passed comprehensive regulatory reform, referred to as the Client Focused Reforms (CFRs). Part of the CFRs relate to how Portfolio Managers, such as IAIC, assess, manage, and monitor any existing, potential, or reasonably foreseeable conflict of interest, and how we ensure any potential conflict of interest is always addressed and managed in our client's best interest.

At IAIC, we pride ourselves in always acting in our client's best interest. We address and manage conflicts of interest in many ways – by managing conflicts through internal controls, avoiding conflicts wherever possible, and by ensuring transparency with our clients through continuous disclosure of any existing or potential conflicts of interest.

We have posted to our website a complete list of existing or potential conflicts of interest that may exist between our firm and you, our client. This can be found by visiting www.iaic.ca/COI. The listing explains how each of these conflicts is addressed and managed in your best interest. In addition to posting it on our website, we also distributed the list to you along with your June 30, 2021 IAIC Quarterly Statement.

As always, please contact us by phone at 519-291-2817 (toll free 877-291-3040) or send an email to compliance@iaic.ca with any questions you may have.

Keeping Our Record of Your Personal Information Up To Date

We are required to keep your personal information up to date. It is our practice that if we have not had a meaningful conversation with you in the past year about your personal circumstances, we will reach out to you directly in order to update our records and determine if any investment strategy changes are needed. We may reach out to you by phone, letter or electronically. In these times of identity theft, if you are uncertain at all about the legitimacy of our request for information, please contact us to verify that the request is indeed legitimate and originating from IAIC.

If you experience any type of changes in your life, please inform us directly, either by phone:1-877-291- 3040 or by email: ClientServices@iaic.ca.

We look forward to hearing from you!

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IAIC Disclosures

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