

A Differentiated Approach to Challenging Markets

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Funds managed:

IA Clarington Global Risk-Managed Income Portfolio
IA Wealth Managed Portfolios
IA Clarington Inhance SRI Portfolios
IA Clarington Monthly Income Balanced Fund & GIF
IA Clarington Balanced Portfolio GIF
IA Clarington Moderate Portfolio GIF
IA Clarington Growth Portfolio GIF
IA Wealth Enhanced Bond Pool

How do investor expectations influence the direction of markets?

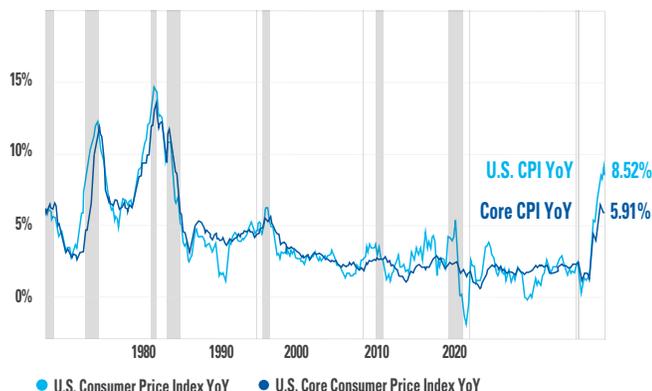
- Financial markets tend to be forward looking and anticipatory. As a result, today's price for a stock, bond or other financial instrument will reflect what market participants expect about the future.
- As news rolls out, the market's reaction does not occur in isolation; rather, it is relative to expectations, which are baked into current prices.
 - o For example, the July inflation figure in the U.S. came in at 8.5% – well above the Federal Reserve's target of 2%. Looked at in isolation, this is bad news for the economy and should be bad news for the stock market. But the NASDAQ rallied almost 3% on the news because in the lead up to the announcement, the market was anticipating an even worse outcome – 8.7% – making 8.5% quite positive on a relative basis.
- To understand market dynamics and the psychology behind them, it is critical to understand the market's consensus expectations. Having a clear understanding of the consensus is also key to successful active management, because adding value as an active

manager means forming a view that is different from the consensus, or more specifically seeing and acting on opportunities and risks that the broader market is unaware of.

Do you believe inflation has peaked?

- There are two ways of looking at inflation that we need to be mindful of:
 - o Total inflation – price inflation that includes food and energy
 - o Core inflation – price inflation that excludes food and energy
- Our view is that total inflation has peaked, a result in part of the drop in energy prices and slower economic growth (which further reduces the demand for energy). By contrast, we think core inflation has not yet peaked and will likely stay elevated for some time. This is because a large contributor to rising core inflation is rising prices for services, which is driven by low unemployment, a tight labour market and strong wage growth.

U.S. Inflation Rates (1970 – 2022)



Source: Compound Advisors and YCharts, as at August 14, 2022. YoY = year over year, CPI = Consumer Price Index.

Do you think fixed-income yields have peaked?

- Our view is that short-term yields have not peaked because the overall level of inflation is still too high in most of the developed world. Central banks have been very vocal about their intention to continue raising interest rates until they see a meaningful, sustained and broad-based decline in price pressures. We take them at their word, and we think the market is doing the same. Market expectations for the policy rate in the U.S. and Canada are between 3% and 4%, which implies central banks are going to keep raising rates at least until the end of 2022.
- The picture is a bit more complicated for maturities of 10 years and longer. If rate hikes cause a recession, we expect investors to turn towards long-term bonds as a safe haven asset class, and if that happens, yields on those bonds will stay muted.

U.S. Treasury 2-Year Yield



Source: Board of Governors of the Federal Reserve System, as at August 22, 2022.

Have you made any tactical adjustments to the iA Wealth Managed Portfolios?

- Our tactical views have been very sensitive to incoming economic data. At the start of the year we were underweight both equities and bonds while favouring cash, as inflation spiked to levels not seen since the 1980s. More recently, we have moved our fixed-income allocation to neutral in part because the bond market has started reacting to recession fears (driven by the first few central bank rate hikes). We currently have a modest underweight to equities.
- We're going to continue paying close attention to central bank policy, the economic data and the overall health of the macroeconomy to guide our decision-making for the rest of Q3 and into Q4.

		Current Positioning					12-Month View				
		--	-	N	+	++	--	-	N	+	++
Money Market											
Bonds	Duration										
Equities											
	Canadian Equities										
	Foreign Equities										
	U.S. Equities										
	International Equities										
	Emerging Markets										
Styles											
	Value										
	Growth										
Gold											
Foreign Currencies											
	CAD vs. USD										
	CAD vs. Euro										

Source: iA Investment Management, as at July 31, 2022. Market views from very negative (-) to very positive (++). N = Neutral view.

What are some key takeaways from the first half of 2022?

- The first half of this year seemed unprecedented for many investors, and in some ways, it was, since we have not seen inflation like this in 40 years. But what we experienced in the first part of 2022 reminds us of some key facts about financial markets in general:
 - o Markets go through different regimes, and any one regime can last a long time. Over the last 40 years, stocks and bonds have been inversely correlated, with bonds acting as a reliable hedge against equity market weakness. But the fact that this regime lasted for so long does not mean it is permanent, so as we analyze markets and prepare for the different economic environments that may come, we have to stay open to alternative possibilities. In doing so, the judicious, thoughtful and careful use of data and sophisticated tools and analytics can be a real gamechanger.

- o An active manager who spends the time to analyze and learn from multiple regimes is likely to be better prepared for and less surprised by events than a manager who takes the easy route.
- o At iAIM, rigour and discipline are in our DNA. Our north star is our “human + machine” approach, which has the goal of bringing together the best of

expert judgement and technology-driven analytics to position the iA Wealth Managed Portfolios appropriately, regardless of what the economic environment may bring.

Visit iaclarington.com to learn more about Tej Rai and the funds he manages for iA Clarington.

For definitions of technical terms, visit iaclarington.com/glossary or speak with your financial advisor.

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