PRIVATE WEALTH MANAGEMENT

Chart Guide

2022 Market Outlook

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Strangely enough, this is the past that somebody in the future is longing to go back to.

– Ashleigh Brilliant

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Three Tenets to the 2022 Outlook

01

From the economic perspective there is a transition from rapid reopen to normalization

Economic growth is likely to moderate in 2022. But we shouldn't confuse slower growth for low growth. Expectations are for 2022 to still be a strong year, just slower from the very high growth rates of 2021.

02

After a strong 2021, equity market returns will be much closer to average.

2022 is likely to be another positive year for equity investors. Moderating economic growth will lead to moderating earnings growth. Along with a continued valuation compression, these factors are likely to keep equity returns more modest over the next 12 months. Coming from the 20% plus gains enjoyed in 2021, investors shouldn't be surprised if returns are much more in the mid-to-single digit range.

03

The bond markets in 2022 will be about the transitory inflation story that wasn't – and what Central banks are going to do about it.

Inflation will prove much more persistent, putting the term "transitory" to rest and setting the table for a higher rate environment. In fact, inflation is likely to stay higher than what we've seen in the prior decade. This is demand driven inflation. I believe Central bankers will have to catch up and as a result we could see another challenging year for bond investors.

Recession Risks

RISK	PRESENT CONDITION	OUTLOOK
Inverted Yield Curve	No	The current economic conditions of positive growth and higher inflation are likely to result in the U.S. treasury curve steepening. There is a very low probability of inversion over the next 12 months.
Declining Manufacturing Output	No	Supply-chain disruptions may soften manufacturing activity over the near term. However, risk of a decline in manufacturing output is low given cycle-low inventory levels that are more likely to lead to an inventory re-stocking. Further, the current backlog of new orders coupled with strong consumer demand are likely to maintain manufacturing strength through at least the first half of 2022.
Inflationary Shock	Yes	Inflation is proving more persistent than transitory. The inflation is more a combination of the excessive monetary expansion by central banks, and stronger consumer demand. Given the health of the consumer it is unlikely to translate into economic weakness.
Tight Financial Conditions	No	The U.S. Federal Reserve alongside other global central banks amplified the liquidity and eased financial conditions. Credit conditions are expected to remain favourable in so far as the Fed maintains its accommodative posture.
Declining Housing Starts	No	Favourable demographics and favourable credit conditions are likely to maintain a strong housing market.
Increasing Unemployment	No	While the U.S. economy has recovered 17 million of the 22 million lost jobs during the COVID lockdown, there remains 10 million unfilled jobs. Job gains are likely to remain strong through 2022 with the unemployment rate falling over the course of the year.
Negative Leading Economic Indicators	No	The Conference Board US Leading Index typically turn negative in advance of a recession. The LEI Index has eased from its peak yet remains solidly in positive territory.

Market Risks

RISK	PRESENT CONDITION	OUTLOOK
Economy	Moderating with risk to the upside	As the global economy shifts from the rapid reopen to normalization, growth is likely to moderate to a more stable level. Economic growth may face headwinds of supply chain disruptions. I would describe this as temporary and may give way to a reacceleration of economic growth in an inventory restocking period. Excess savings and pent-up demand spilling over from 2021 is likely to keep growth at strong levels globally.
Valuation	Risk to the downside	Earnings recoveries as we have seen in 2021 tend to result in P/E multiple contractions. We expect a continued multiple contraction in 2022. The U.S. equity market may be more vulnerable to a greater valuation contraction as on a relative basis it is much more expensive than its international peers, including Canada.
Earnings	Risk to the upside	Earnings are expected to remain strong in 2022. While we have likely seen a peak in growth rates, robust demand is likely to compensate for higher input costs resulting in attractive yoy earnings growth.
Sovereign Yields	Higher Yields/steeper curve (downside risk to returns)	Central banks around the world shift broadly to a tightening policy. The U.S. Federal Reserve and Bank of Canada continue removing “emergency stimulus” measures, raising rates 2-3 times. Yields across the curve shift higher on policy rates and higher sustained inflation. The U.S. 10-year Treasury yield ranges between 2.5%-2.8% through 2022.
Credit	Neutral risk to spread (downside risk to returns)	Credit spreads remain range bound. Yields shift higher commensurate to the treasury curve. High yield is favoured over investment grade as high yield is positively correlated with a rising rate environment.
Oil	Risk to the upside	Oil prices continue to trend with an upward bias as inventories fall, production remains low, demand improves, and the US dollar weakens. West Texas Intermediate trends between US$70–110/bbl over the next 12 months.
Currency (CAD/USD)	Risk to the upside	The Canadian dollar trends higher alongside interest rates and oil prices. The U.S. dollar weakens on monetary inflation. CADUSD trends higher with a target range of US$0.83–0.85 over the next 12 months with risk to the upside.

The global economy

Manufacturing tells us a lot about the global economy

Global manufacturing purchasing managers indices have recovered strongly off the lockdown lows of 2020. In fact, manufacturing activity is well above where we were in 2019 during the trade wars. This would suggest the global economy has past the recovery phase and transitioned into expansion. Low inventories, strong demand and supply-chain catch-up are likely to keep manufacturing expanding at an attractive pace through most of 2022.

2-year Heatmap of Global Manufacturing activity
Manufacturing Purchasing Managers Indices – October 2019 through October 2021

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21
Global	49.8	50.3	50.1	50.3	47.1	47.3	39.6	42.4	48.0	50.6	51.8	52.4	53.1	53.8	53.8	53.6	54.0	55.0	55.9	56.1	55.5	55.4	54.1	54.1	54.3
USA	51.3	52.6	52.4	51.9	50.7	48.5	36.1	39.8	49.8	50.9	53.1	53.2	53.4	56.7	57.1	59.2	58.6	59.1	60.5	62.1	62.1	63.4	61.1	60.7	58.4
Canada	51.2	51.4	50.4	50.6	51.8	46.1	33.0	40.6	47.8	52.9	55.1	56.0	55.5	55.8	57.9	54.4	54.8	58.5	57.2	57.0	56.5	56.2	57.2	57.0	57.7
Mexico	50.4	48.0	47.1	49.0	50.0	47.9	35.0	38.3	38.6	40.4	41.3	42.1	43.6	43.7	42.4	43.0	44.2	45.6	48.4	47.6	48.8	49.6	47.1	48.6	49.3
UK	49.6	48.9	47.5	50.0	51.7	47.8	32.6	40.7	50.1	53.3	55.2	54.1	53.7	55.6	57.5	54.1	55.1	58.9	60.9	65.6	63.9	60.4	60.3	57.1	57.8
Eurozone	45.9	46.9	46.3	47.9	49.2	44.5	33.4	39.4	47.4	51.8	51.7	53.7	54.8	53.8	55.2	54.8	57.9	62.5	62.9	63.1	63.4	62.8	61.4	58.6	58.3
Germany	42.1	44.1	43.7	45.3	48.0	45.4	34.5	36.6	45.2	51.0	52.2	56.4	58.2	57.8	58.3	57.1	60.7	66.6	66.2	64.4	65.1	65.9	62.6	58.4	57.8
France	50.7	51.7	50.4	51.1	49.8	43.2	31.5	40.6	52.3	52.4	49.8	51.2	51.3	49.6	51.1	51.6	56.1	59.3	58.9	59.4	59.0	58.0	57.5	55.0	53.6
Italy	47.7	47.6	46.2	48.9	48.7	40.3	31.1	45.4	47.5	51.9	53.1	53.2	53.8	51.5	52.8	55.1	56.9	59.8	60.7	62.3	62.2	60.3	60.9	59.7	61.1
Spain	46.8	47.5	47.4	48.5	50.4	45.7	30.8	38.3	49.0	53.5	49.9	50.8	52.5	49.8	51.0	49.3	52.9	56.9	57.7	59.4	60.4	59.0	59.5	58.1	57.4
Holland	50.3	49.6	48.3	49.9	52.9	50.5	41.3	40.5	45.2	47.9	52.3	52.5	50.4	54.4	58.2	58.8	59.6	64.7	67.2	69.4	68.8	67.4	65.8	62.0	62.5
Austria	45.5	46.0	46.0	49.2	50.2	45.8	31.6	40.4	46.5	52.8	51.0	51.7	54.0	51.7	53.5	54.2	58.3	63.4	64.7	66.4	67.0	63.9	61.8	62.8	60.6
Greece	53.5	54.1	53.9	54.4	56.2	42.5	29.5	41.1	49.4	48.6	49.4	50.0	48.7	42.3	46.9	50.0	49.4	51.8	54.4	58.0	58.6	57.4	59.3	58.4	58.9
Ireland	50.7	49.7	49.5	51.4	51.2	45.1	36.0	39.2	51.0	57.3	52.3	50.0	50.3	52.2	57.2	51.8	52.0	57.1	60.8	64.1	64.0	63.3	62.8	60.3	62.1
Poland	45.6	46.7	48	47.4	48.2	42.4	31.9	40.6	47.2	52.8	50.6	50.8	50.8	50.8	51.7	51.9	53.4	54.3	53.7	57.2	59.4	57.6	56.0	53.4	53.8
Czech Republic	45.0	43.5	43.6	45.2	46.5	41.3	35.1	39.6	44.9	47.0	49.1	50.7	51.9	53.9	57.0	57.0	56.5	58.0	58.9	61.8	62.7	62.0	61.0	58.0	55.1
China (Caixin)	51.7	51.8	51.5	51.1	40.3	50.1	49.4	50.7	51.2	52.8	53.1	53.0	53.6	54.9	53.0	51.5	50.9	50.6	51.9	52.0	51.3	50.3	49.2	50.0	50.6
China	49.3	50.2	50.2	50.0	35.7	52.0	50.8	50.6	50.9	51.1	51.0	51.5	51.4	52.1	51.9	51.3	50.6	51.9	51.1	51.0	50.9	50.4	50.1	49.6	49.2
South Korea	48.4	49.4	50.1	49.8	48.7	44.2	41.6	41.3	43.4	46.9	48.5	49.8	51.2	52.9	52.9	53.2	55.3	55.3	54.6	53.7	53.9	53.0	51.2	52.4	50.2
Taiwan	51.1	54.9	56.2	51.3	52.7	53.1	47.6	44.8	47.2	54.1	56.0	57.7	59.3	61.2	61.3	65.1	63.2	62.7	68.7	66.0	64.0	65.2	62.1	57.8	58.3
Vietnam	50.0	51.0	50.8	50.6	49.0	41.9	32.7	42.7	51.1	47.6	45.7	52.2	51.8	49.9	51.7	51.3	51.6	53.6	54.7	53.1	44.1	45.1	40.2	40.2	52.1
Indonesia	47.7	48.2	49.5	49.3	51.9	45.3	27.5	28.6	39.1	46.9	50.8	47.2	47.8	50.6	51.3	52.2	50.9	53.2	54.6	55.3	53.5	40.1	43.7	52.2	57.2
Malaysia	49.3	49.5	50.0	48.8	48.5	48.4	31.3	45.6	51.0	50.0	49.3	49.0	48.5	48.4	49.1	48.9	47.7	49.9	53.9	51.3	39.9	40.1	43.4	48.1	52.2
Singapore	49.6	49.8	50.1	50.3	48.7	45.4	44.7	46.8	48.0	50.2	50.1	50.3	50.5	50.4	50.5	50.7	50.5	50.8	50.9	50.7	50.8	51.0	50.9	50.8	50.8
Japan	48.4	48.9	48.4	48.8	47.8	44.8	41.9	38.4	40.1	45.2	47.2	47.7	48.7	49.0	50.0	49.8	51.4	52.7	53.6	53.0	52.4	53.0	52.7	51.5	53.2
Australia	50.0	49.9	49.2	49.6	50.2	49.7	44.1	44.0	51.2	54.0	53.6	55.4	54.2	55.8	55.7	57.2	56.9	56.8	59.7	60.4	58.6	56.9	52.0	56.8	58.2
Brazil	52.2	52.9	50.2	51.0	52.3	48.4	36.0	38.3	51.6	58.2	64.7	64.9	66.7	64.0	61.5	56.5	58.4	52.8	52.3	53.7	56.4	56.7	53.6	54.4	51.7
Russia	47.2	45.6	47.5	47.9	48.2	47.5	31.3	36.2	49.4	48.4	51.1	48.9	46.9	46.3	49.7	5s0.9	51.5	51.1	50.4	51.9	49.2	47.5	46.5	49.8	51.6
India	50.6	51.2	52.7	55.3	54.5	51.8	27.4	30.8	47.2	46.0	52.0	56.8	58.9	56.3	56.4	57.7	57.5	55.4	55.5	50.8	48.1	55.3	52.3	53.7	55.9
Turkey	49.0	49.5	49.5	51.3	52.4	48.1	33.4	40.9	53.9	56.9	54.3	52.8	53.9	51.4	50.8	54.4	51.7	52.6	50.4	49.3	51.3	54.0	54.1	52.5	51.2
Saudi Arabia	57.8	58.3	56.9	54.9	52.5	42.4	44.4	48.1	47.7	50.0	48.8	50.7	51.0	54.7	57.0	57.1	53.9	53.3	55.2	56.4	56.4	55.8	54.1	58.6	57.7
UAE	51.1	50.3	50.2	49.3	49.1	45.2	44.1	46.7	50.4	50.8	49.4	51.0	49.5	49.5	51.2	51.2	50.6	52.6	52.7	52.3	52.2	54.0	53.8	53.3	55.7

SOURCE: IG WEALTH MANAGEMENT, BLOOMBERG AS OF OCTOBER 2021

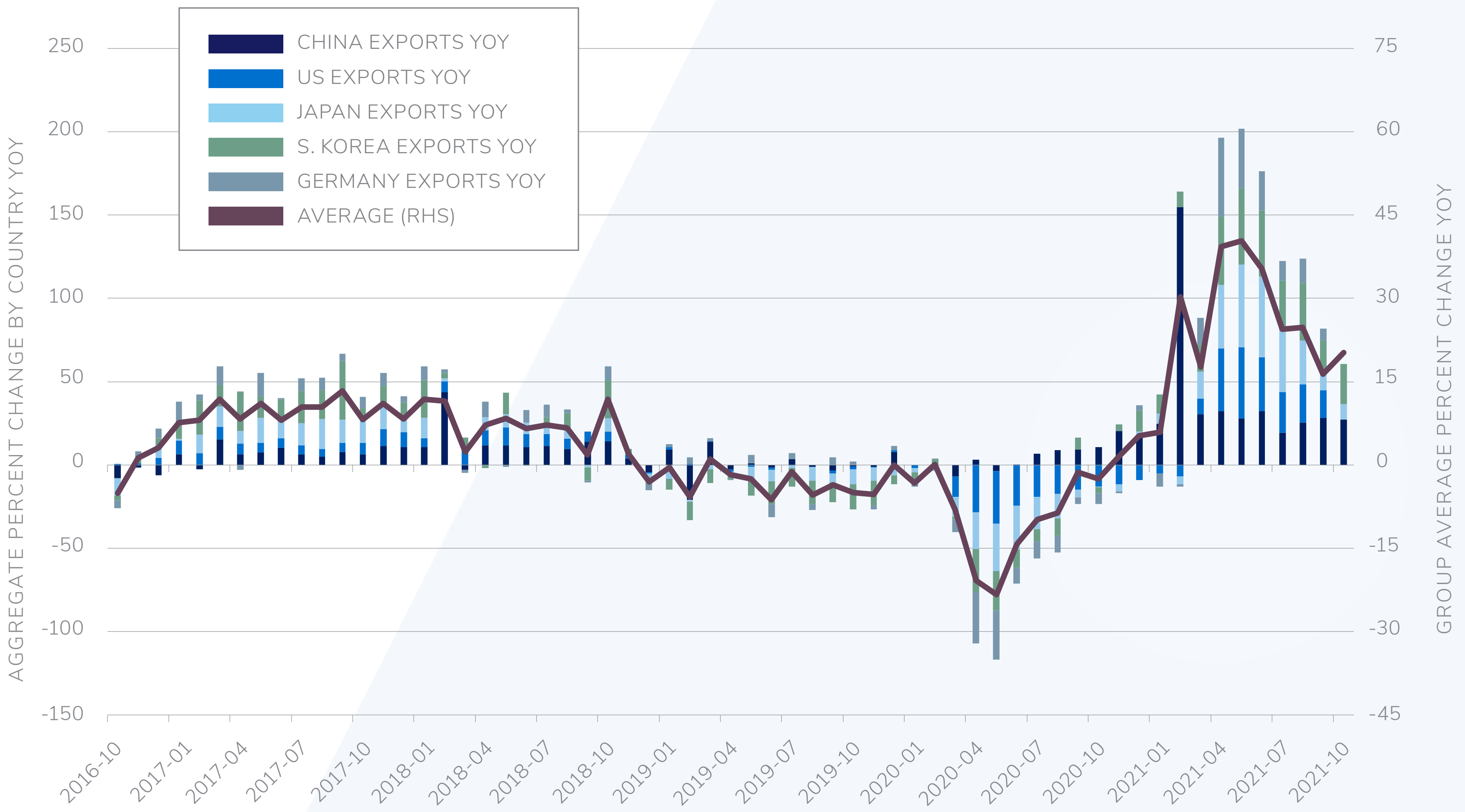
Global export growth has recovered on demand strength

Looking at the five largest exporters globally (China, United States, Germany, Japan and South Korea) shows a strong recovery in trade. The average growth in exports year-over-year exceeded 15% as of October.

Many forget that pre-pandemic export growth faced headwinds from protectionist policies of tariffs. COVID lockdowns exacerbated the trade weakness. Following the lockdowns, as economies reopened and demand surged on fiscal and monetary stimulus, trade growth recovered.

Low inventories combined with strong demand should keep export growth strong through 2022.

Year-over-Year Export Growth by Country 2016 – 2021

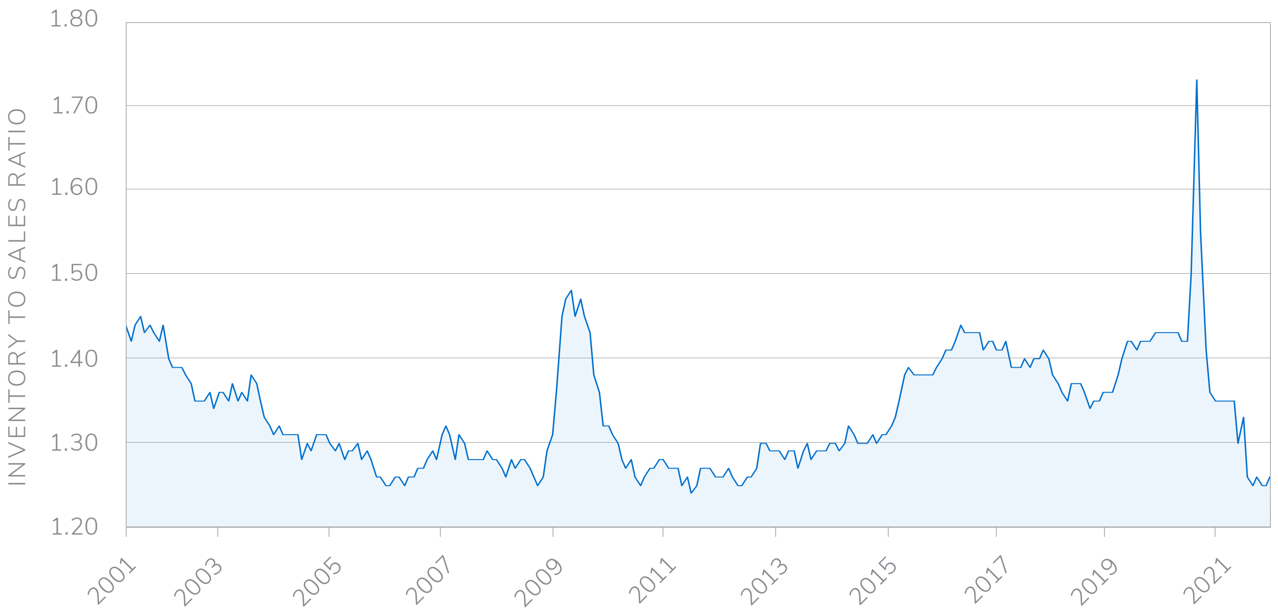


SOURCE: IG WEALTH MANAGEMENT, BLOOMBERG AS OF OCTOBER 2021

You can't have a tight supply-chain without strong demand!

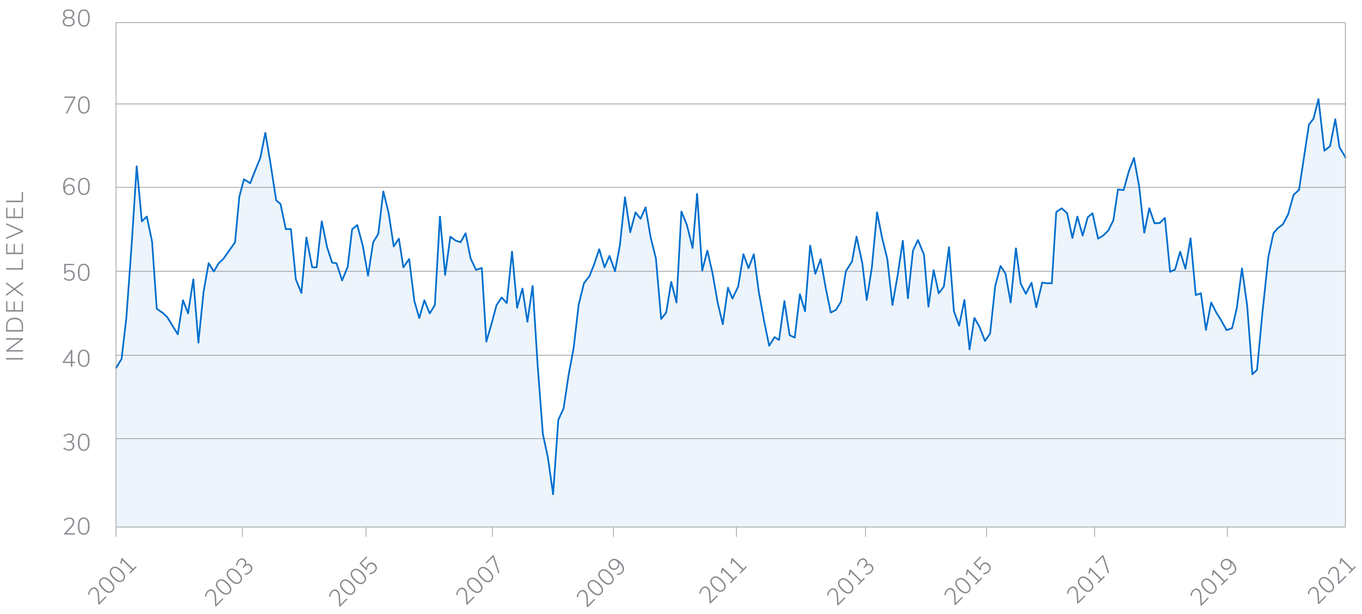
According to the October ISM survey, "Business Survey Committee panelists reported that their companies and suppliers continue to deal with an unprecedented number of hurdles to meet ***increasing demand***." Business inventories as a percentage of sales are near a multi-decade low while the backlog of orders sits near a multi-decade high. The combination of low inventories with high backlog of orders is likely to keep manufacturing activity at a high level through 2022.

Total Business: Inventories to Sales Ratio
2001 – 2021



SOURCE: IG WEALTH MANAGEMENT, BLOOMBERG AS OF OCTOBER 2021

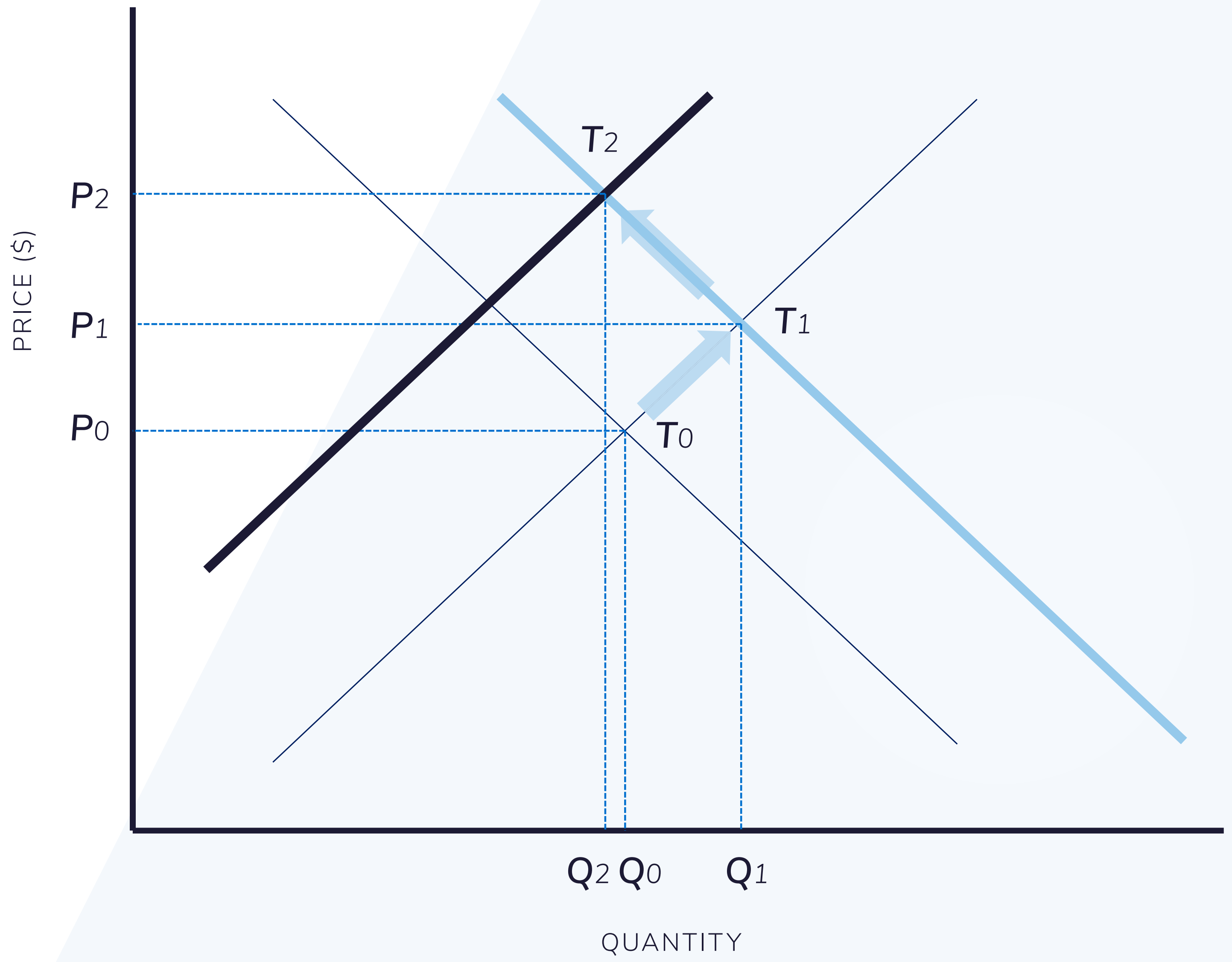
ISM Manufacturing Report on Business Backlog of Orders
2001 – 2021



SOURCE: IG WEALTH MANAGEMENT, BLOOMBERG AS OF OCTOBER 2021

Supply & demand fundamentals tell us a lot about the direction of the economy and inflation

T_0	Pre-COVID balance between supply and demand (Q_0, P_0)
T_1	Post-COVID, fiscal and monetary support increases the money supply (globally) and shifts the demand curve to the right. This results in higher output demand (economic growth), and higher prices (inflation).
T_2	Residual impact from lockdowns results in supply chain disruptions shifting the supply curve to the left, reducing output and contributing further to higher inflation.
T_{future}	As supply chains normalize, shifting the supply curve back right, output (growth) is likely to reaccelerate towards Q1 while price (inflation) moderates towards P1 – remaining higher than pre-COVID levels.



Markets have a distinct response per stage of the economy

The Growth/inflation momentum matrix examines multiple growth metrics against the inflationary backdrop to determine individual asset class performance (on an average four-quarter basis). Through macro-research, we can determine the prevailing growth/inflation environment. We can then identify the asset classes that are likely to perform well in such an environment using the matrix.

2022 will be characterized by **Normalization**, not Stagflation.

While growth is likely to slow from its rapid reopen pace of 2021, inflation is likely to stay at higher levels through the first half of 2022. As a result the economy is temporarily transitioning from a period of Accelerating Growth to Decelerating Growth.

The path to normalization will include a brief pause in economic momentum but one that is driven by supply-chain disruptions rather than demand destruction. A healthy labour market, inventory rebuild, and excess savings will keep the economy well in "Expansion" territory.

The latter half of 2022 may see a reacceleration of growth with a moderation of inflation – a favourable outlook for multiple asset classes heading into 2023.

In this environment, despite moderating returns, equities remain favourable over fixed income as yields tend to rise with inflation.

ACCELERATING GROWTH / DECELERATING INFLATION	
US Stocks	15.6%
US Small Cap Stocks	19.7%
Canadian Stocks	11.4%
Emerging Market Stocks	17.3%
Commodities	1.4%
Gold	5.7%
DXY	0.5%
US 10-Year Yield	(0.39)
High Yield	13.2%

ACCELERATING GROWTH / ACCELERATING INFLATION	
US Large Cap Stocks	13.3%
US Small Cap Stocks	17.5%
Canadian Stocks	13.1%
Emerging Market Stocks	21.9%
Commodities	9.0%
Gold	11.4%
DXY	-2.7%
US 10-Year Yield	0.50
High Yield	11.5%

DECELERATING GROWTH / DECELERATING INFLATION	
US Stocks	5.2%
US Small Cap Stocks	4.6%
Canadian Stocks	-0.6%
Emerging Market Stocks	-2.5%
Commodities	-4.5%
Gold	0.2%
DXY	3.7%
US 10-Year Yield	(0.68)
High Yield	6.1%

DECELERATING GROWTH / ACCELERATING INFLATION	
US Large Cap Stocks	1.5%
US Small Cap Stocks	4.5%
Canadian Stocks	5.6%
Emerging Market Stocks	6.5%
Commodities	6.5%
Gold	23.5%
DXY	-2.4%
US 10-Year Yield	0.40
High Yield	4.1%

SOURCE: IG WEALTH MANAGEMENT, BLOOMBERG AS OF OCTOBER 2021

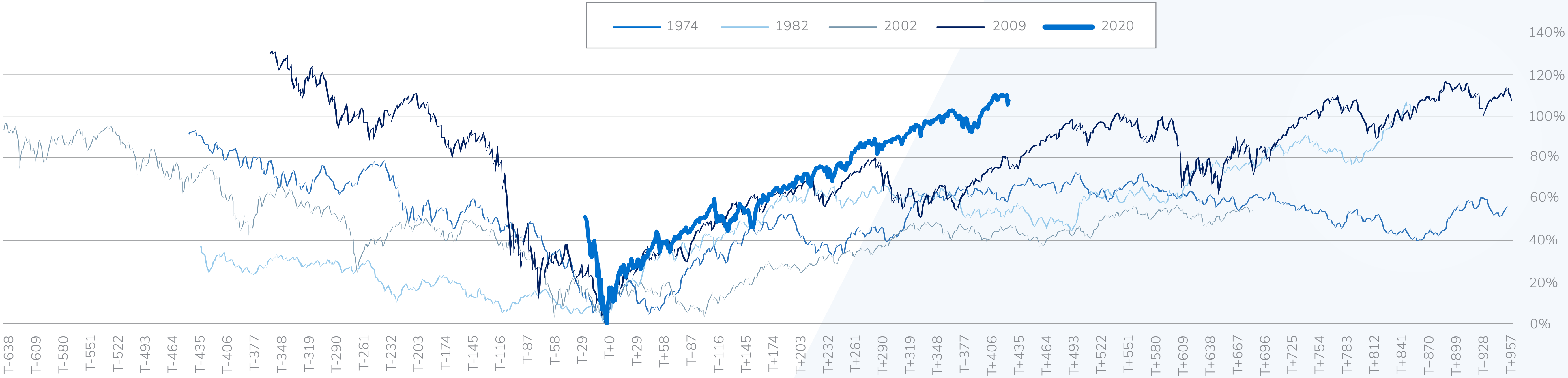
Equity outlook

PRIVATE WEALTH MANAGEMENT

This has been a bear market and recovery unlike any other

The 2020 bear market was unlike any other in that it wasn't triggered by a financial crisis nor economic crisis. The COVID pandemic caused the fastest bear market in history (23 days for a loss of -34%), followed by one of the fastest recoveries in history (103 days). The market recovery was driven in part by the economic reopening but also by the excess liquidity via the US$16 trillion in global fiscal and monetary stimulus. This has resulted in an inflation of asset prices to the benefit of equity investors.

S&P 500 Index Bear Markets and Recoveries
Indexed to Market Trough at T+0
1974, 1982, 2002, 2009, 2020

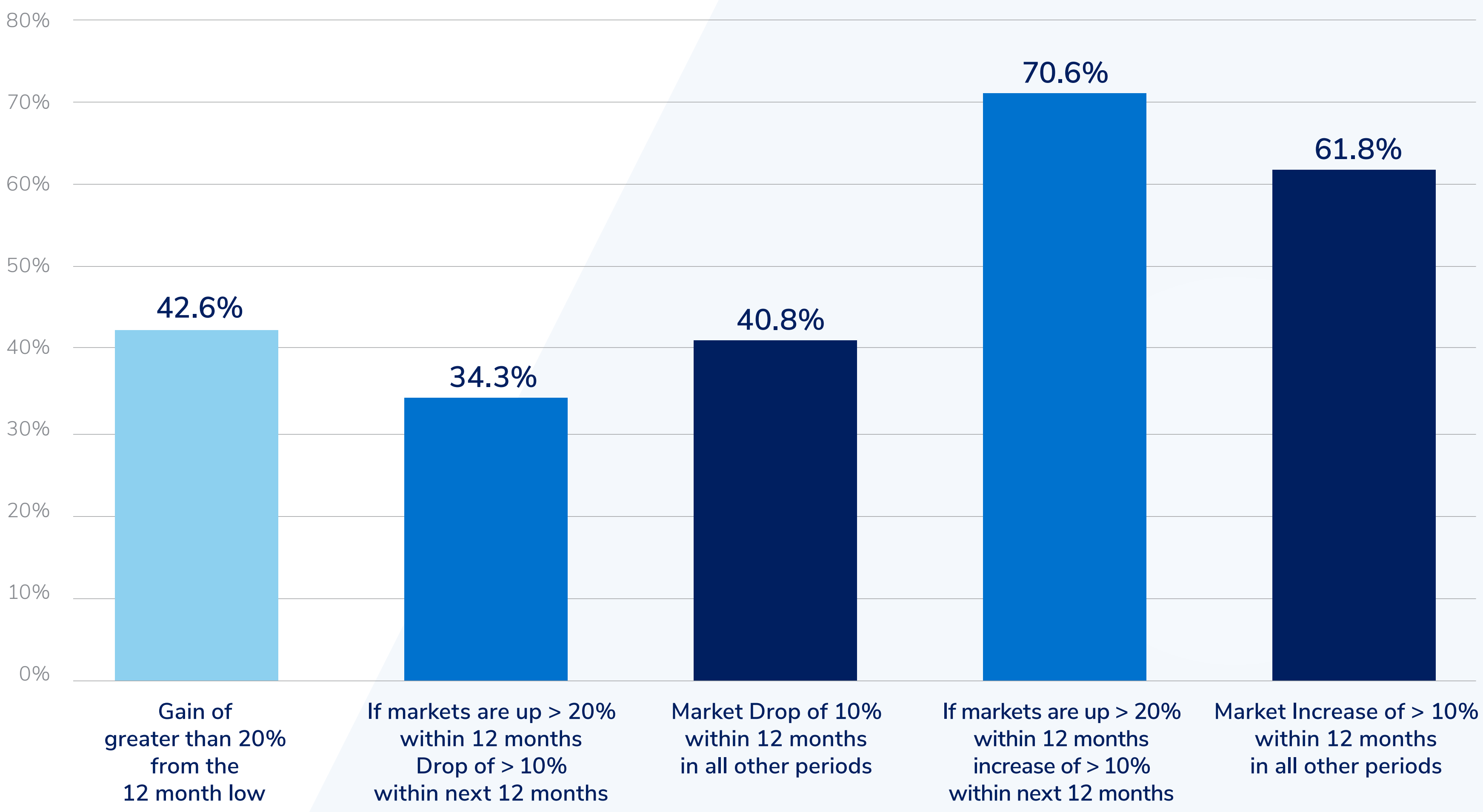


SOURCE: IG WEALTH MANAGEMENT, BLOOMBERG AS OF NOVEMBER 2021

Strong markets tend to lead to continued strong markets

Many investors believe that exceptionally strong equity returns lead to weaker equity returns. Market returns aren't binary however. In reality, strong returns tend to lead to continued strong market returns. Since 1927 the S&P 500 Index has produced a gain greater than 20% over a 12-month period 42.6% of the time. These markets experienced a correction within the following 12 months (a drop of greater than -10%) 34.3% of the time vs 40.8% all other periods. Furthermore, strong markets have enjoyed additional gains of greater than 10% within the following 12 months 70.6% of the time vs 61.8% for all other periods.

Historical probability of returns for the S&P 500 Index 1927 – 2020

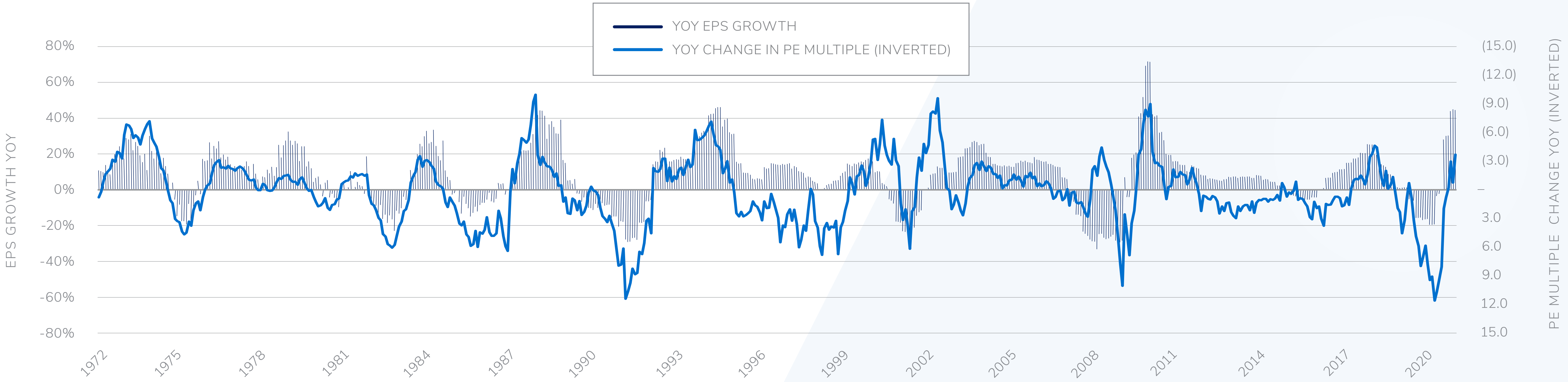


SOURCE: IG WEALTH MANAGEMENT, BLOOMBERG AS OF OCTOBER 2021

2022 should see a further multiple compression offset by earnings growth

Equity returns tend to be a combination of earnings growth and change in valuation. Typically, strong earnings growth coincides with reduced valuation and vice versa. Coming out of recessions, markets tend to be driven by strong PE expansion (blue line below) in absence of earnings growth. Valuation tends to give way to an earnings recovery as the driver of performance. Over the last 50 years when earnings growth has ranged between 10-25% yoy the S&P 500 Index has seen an average PE contraction of 1.2 points and return of 7.9% on a 12 month basis.

Year-over-Year Change in S&P 500 Index Earnings per Share vs Change in Trailing PE Multiple
Last 50 years

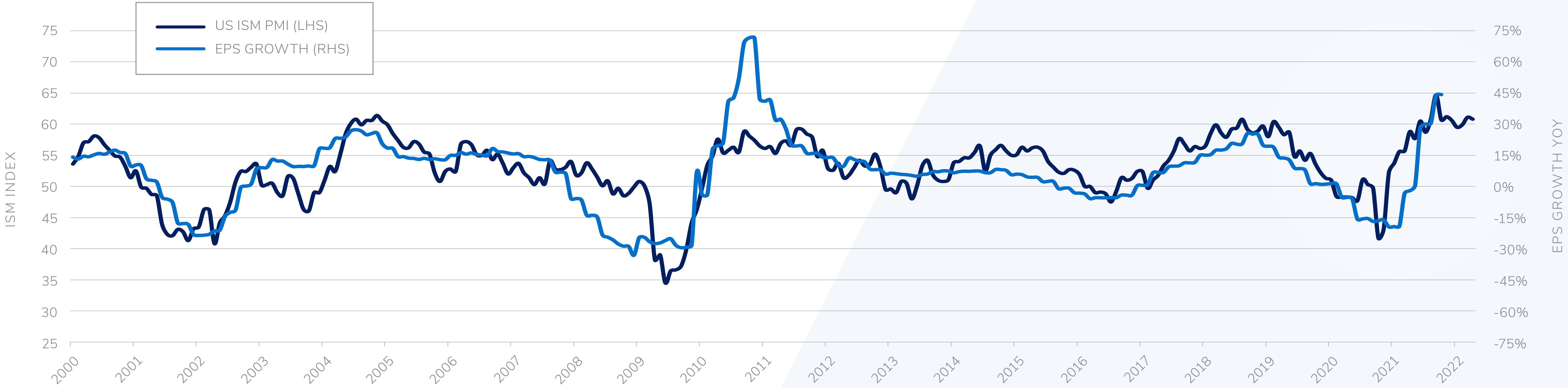


SOURCE: IG WEALTH MANAGEMENT, BLOOMBERG AS OF OCTOBER 2021

Strong manufacturing activity will keep earnings growth afloat

The ISM Manufacturing Purchasing Managers Index (PMI) has been an effective leading indicator to forward earnings growth for the S&P 500 Index. As the S&P 500 Index is more correlated to manufacturing than services a strong PMI has historically led to strong earnings growth in the forward six months. The current level of the PMI suggests that earnings growth may remain in the 15-25% range on a year-over-year basis through the first half of 2022. The current low level of business inventories and high backlog of orders should keep the PMI at strong levels through 2022.

ISM Manufacturing PMI vs. S&P 500 Index Earnings Growth YoY (advanced 6 months) 2000 – 2021

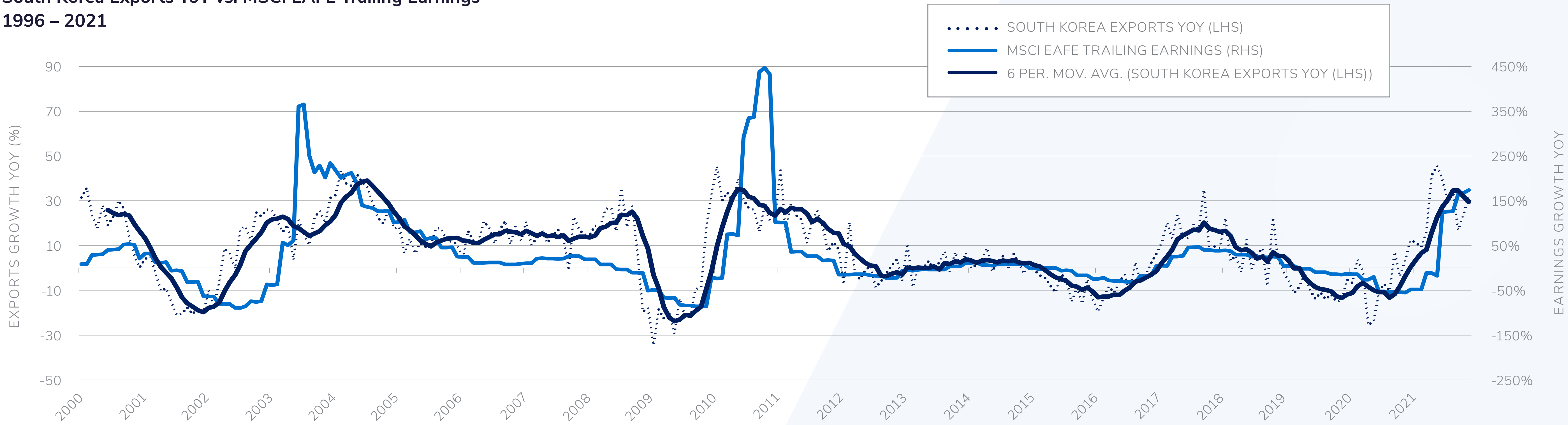


SOURCE: IG WEALTH MANAGEMENT, BLOOMBERG AS OF OCTOBER 2021

Earnings growth looks strong for international equities as well

Similar to manufacturing indices, MSCI EAFE earnings growth yoy have shown a strong correlation to South Korean exports growth. As South Korea is the fifth largest exporter in the world, and exports a wide array of products (consumer electronics, automobiles, refined petroleum, appliances, etc) the country is a good bell-weather for the health of the global economy as well as a good indicator for earnings growth. Current export growth at 32% yoy bodes well for international equity earnings growth. While the trade growth rate is likely to moderate over 2022, it should remain at attractive levels.

South Korea Exports YoY vs. MSCI EAFE Trailing Earnings
1996 – 2021

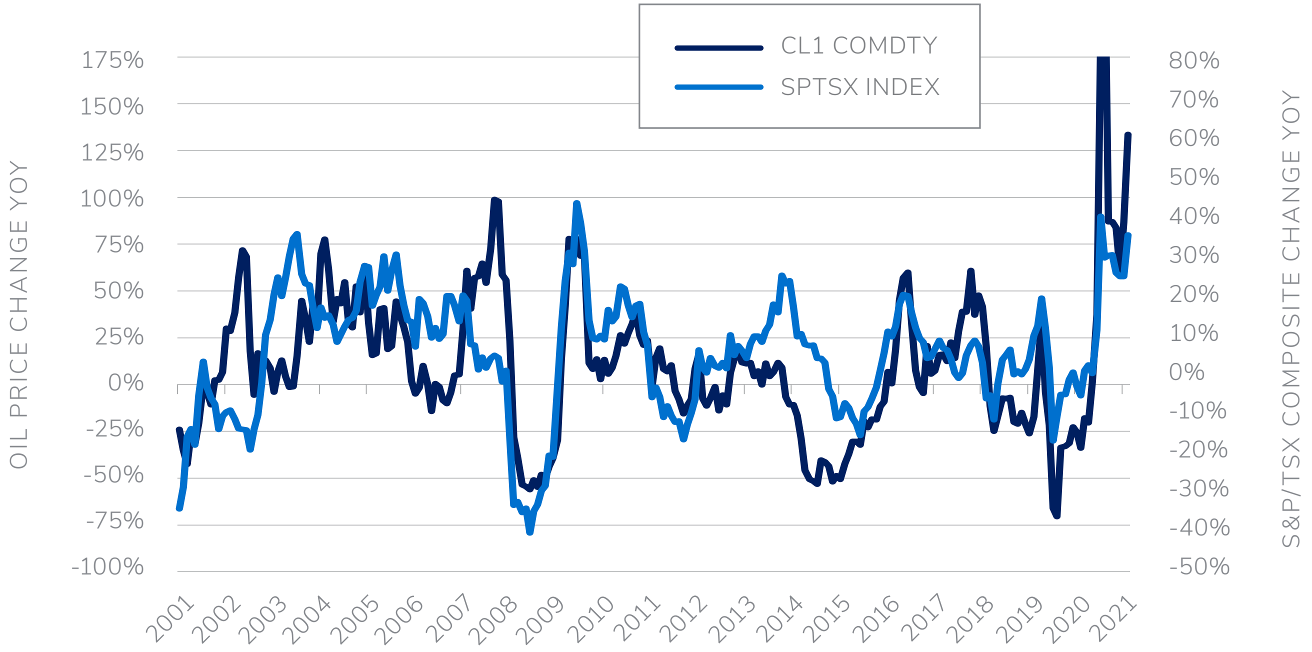


SOURCE: IG WEALTH MANAGEMENT, BLOOMBERG AS OF NOVEMBER 2021

The TSX continues to be highly sensitive to the change in oil

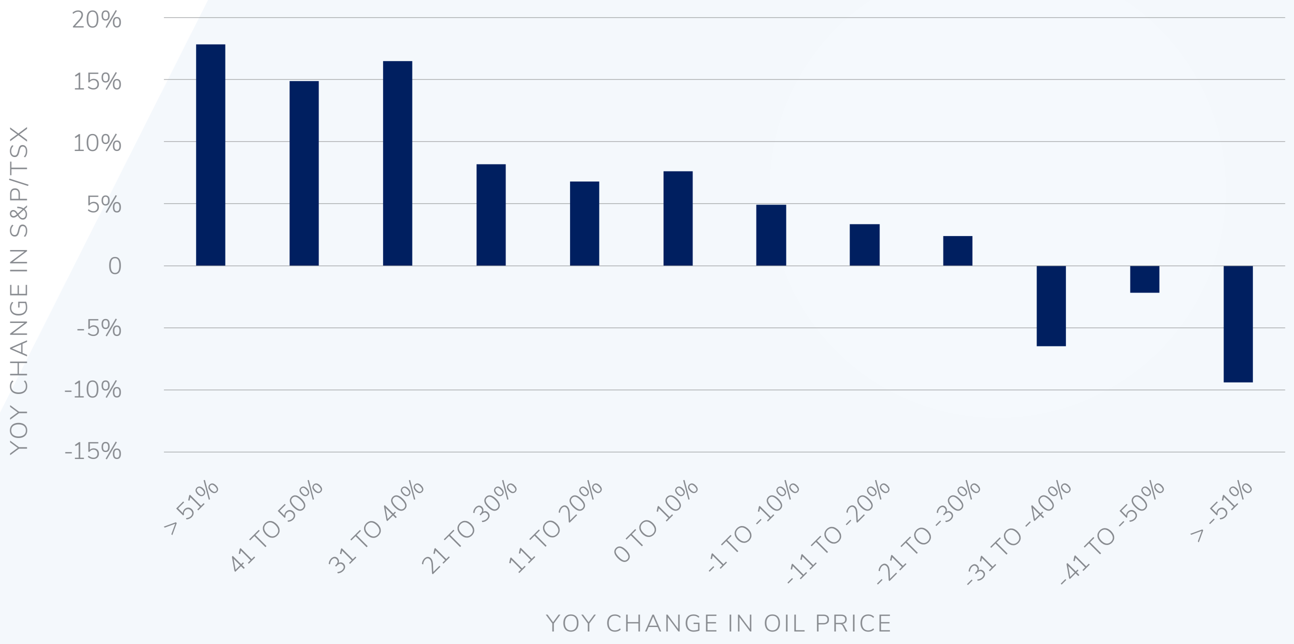
The S&P/TSX Composite Index remains highly correlated to oil prices. As the energy sector represents approximately 12% of the benchmark, changes in the price of oil influence the index's return. Strong gains in the price of oil have led to strong returns for the TSX historically. Tight supply and a healthy global economy may continue to drive oil prices higher into 2022 to the benefit of Canadian investors.

S&P/TSX Composite Index vs Oil Prices (WTI USD)
Year-over-Year Change
1997 – 2021



SOURCE: IG WEALTH MANAGEMENT, BLOOMBERG AS OF OCTOBER 2021

Change in oil vs change in S&P/TSX Index
1984 – 2021

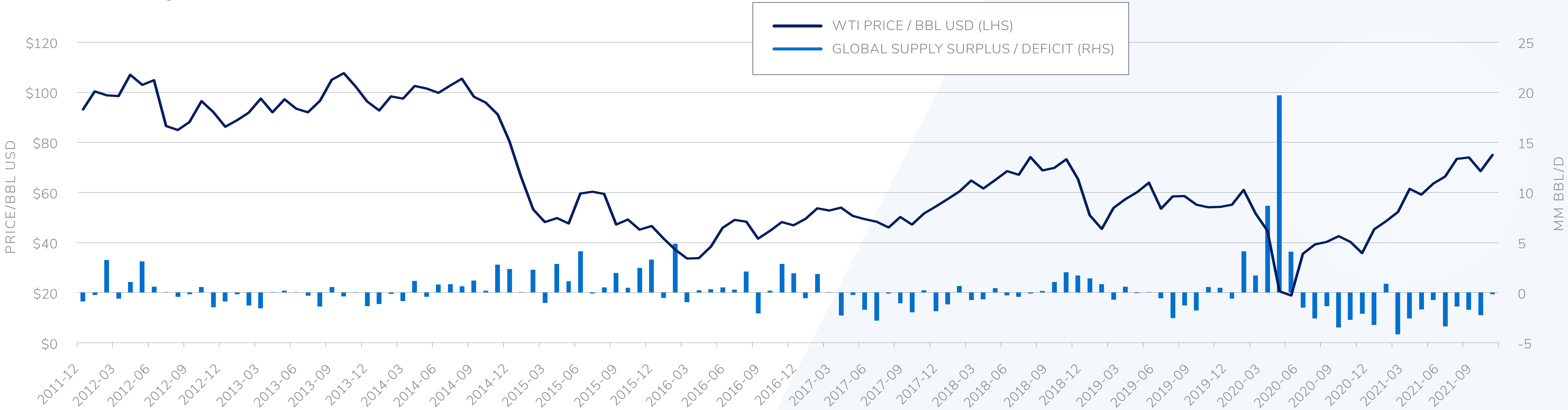


SOURCE: IG WEALTH MANAGEMENT, BLOOMBERG AS OF OCTOBER 2021

Oil prices may trend higher on supply deficit

Historically, the larger price swings on the price of oil have been driven by the supply/demand imbalances. According to the US Energy Information Administration, global oil supply is in a deficit position, contributing to the higher price per barrel of crude. OPEC+ appears reluctant to raise production. Despite the release of 50 million barrels from the Special Petroleum Reserves by President Biden, global supply is likely to remain tight heading into 2022. Oil's price momentum may not be relieved by new supply until the back half of 2022. West Texas Intermediate may range between US$70-$110/bbl next year.

Oil Price vs Global Supply (Surplus/Deficit)
Last 10 Years Through October 2021

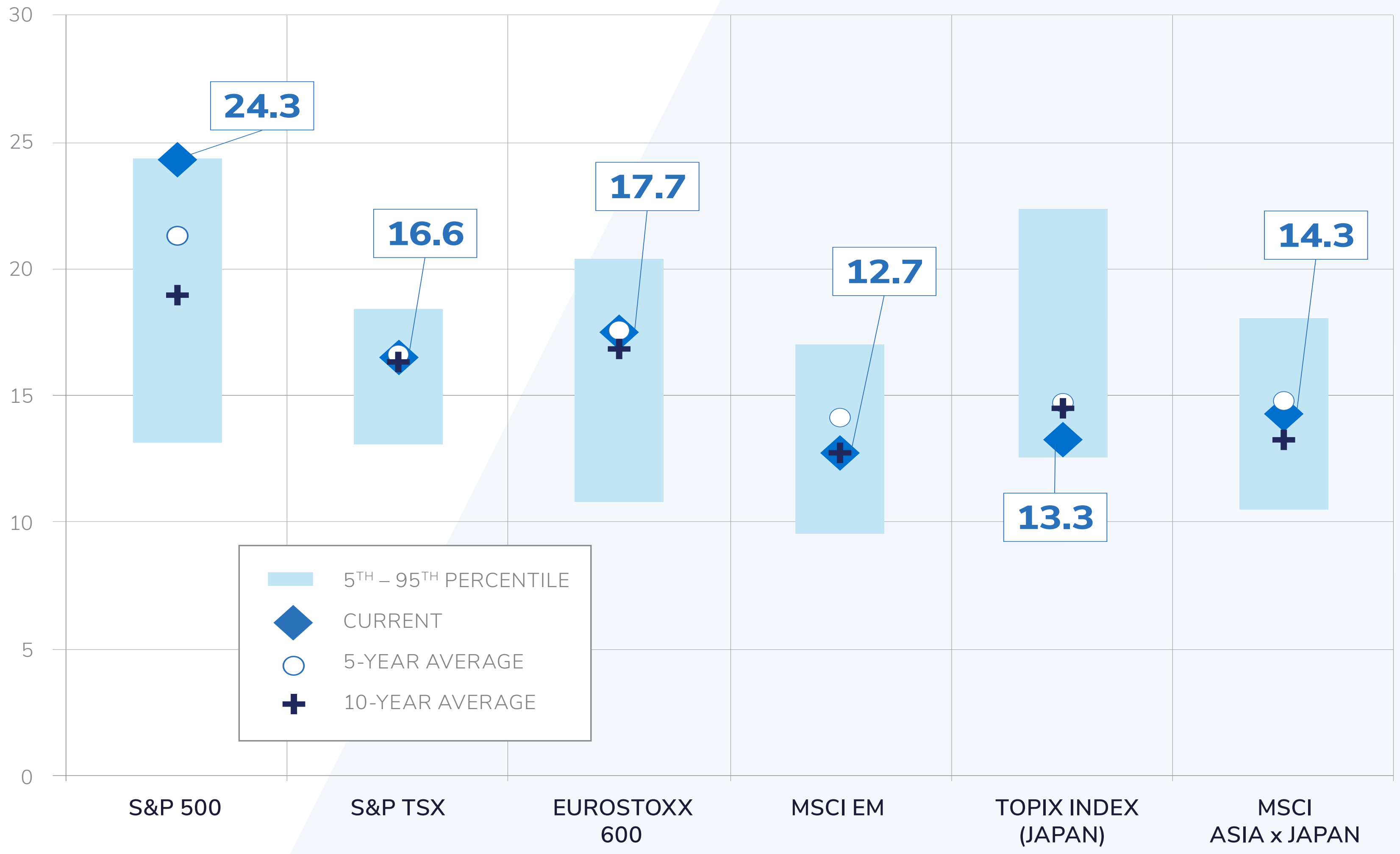


SOURCE: IG WEALTH MANAGEMENT, BLOOMBERG AS OF OCTOBER 2021

Valuation is attractive across most markets

When adjusted for positive earnings (to remove the skew of negative corporate profits) global equity markets are showing attractive valuation. The S&P 500 Index is the outlier with valuation in the top 5th percentile over the last 20 years. While valuation is a poor indicator of short term returns, the range of values across markets supports geographic diversification, to take advantage of better value opportunities outside of the S&P 500 Index. In particular, the emerging markets which faced headwinds of a strengthening US dollar and other geo-political factors in 2021 offers attractive valuation with a wide gap to the US.

Trailing PE Ratio (monthly and adjusted for positive earnings)
20 Year Range through October 2021



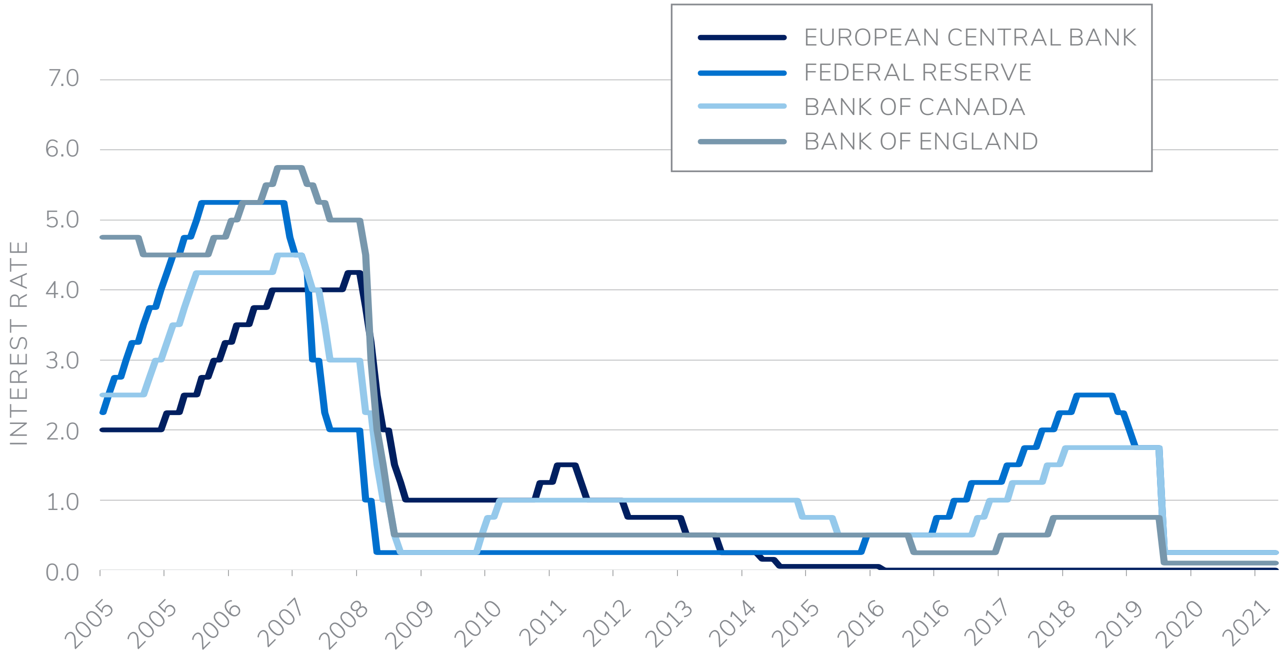
SOURCE: IG WEALTH MANAGEMENT, BLOOMBERG AS OF OCTOBER 2021

Fixed income outlook

Central Bankers were determined to prove money can solve problems

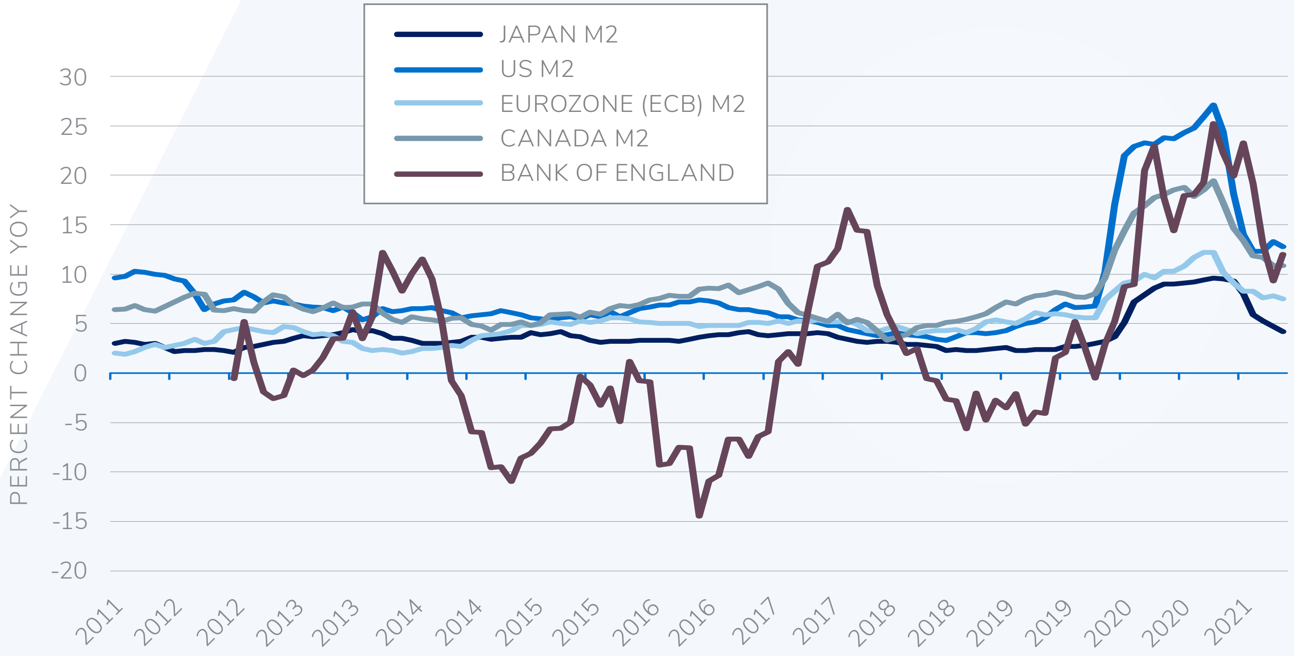
In an effort to support economies, central bankers were very quick to provide monetary support, reducing interest rates and injecting liquidity through bond purchases. In the United States, the money supply (as measured by M2) hit a peak growth rate of 27% on a year-over-year basis in February 2021. The combination of low interest rates and bond purchases along with fiscal stimulus totalled approximately US$16 trillion globally, an equivalent to 16% of global GDP. The secondary impact of all the stimulus has been higher inflation.

Global Central Bank Rates
2005 – Current



SOURCE: IG WEALTH MANAGEMENT, BLOOMBERG AS OF OCTOBER 2021

Year-over-Year Percent Change in Money Supply
2010 to Current

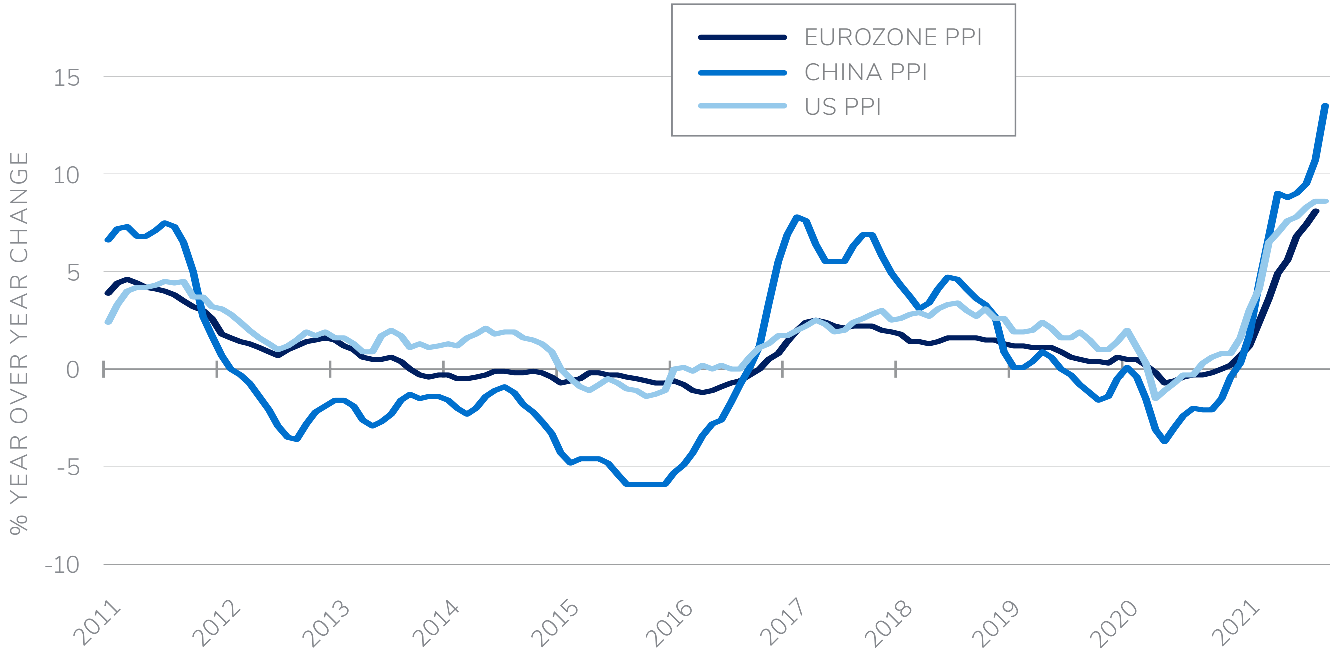


SOURCE: IG WEALTH MANAGEMENT, BLOOMBERG AS OF OCTOBER 2021

Inflation is a consequence of the monetary and fiscal stimulus

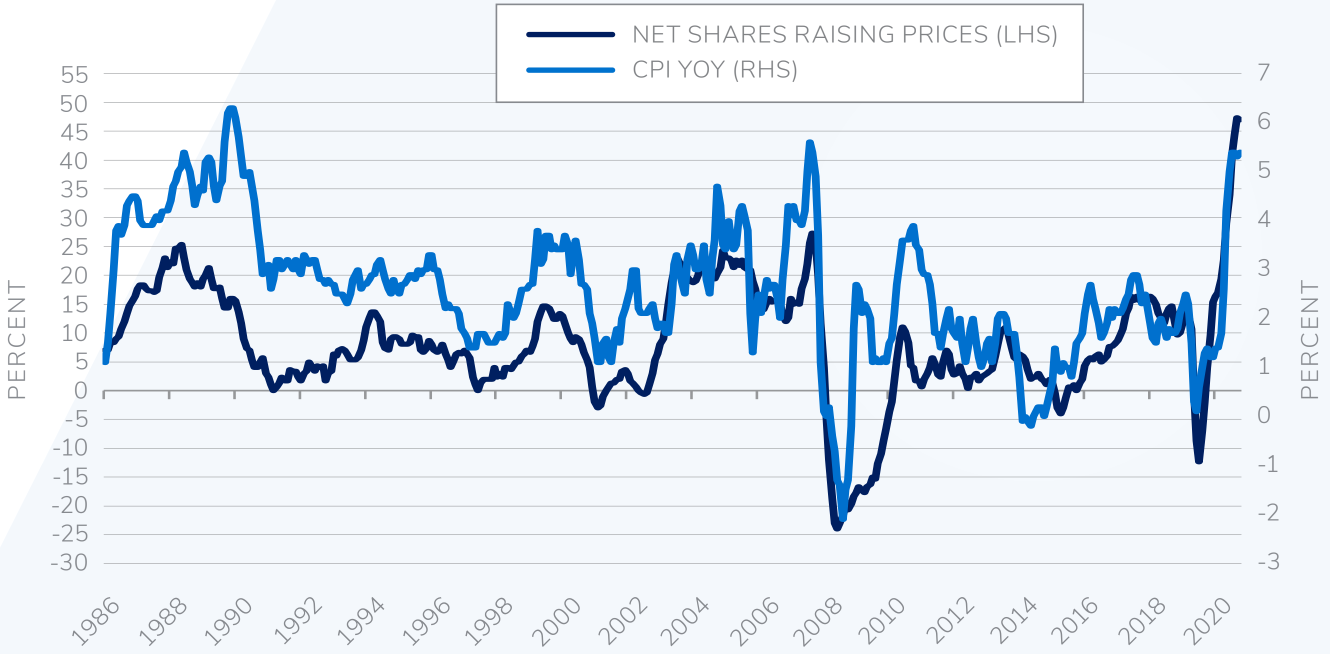
The economist Milton Friedman, argued that excessive expansion of the money supply is inherently inflationary. It would appear that the consequence to all the monetary and fiscal stimulus, which was necessary during the worst of the COVID lockdowns, is higher inflation. Producer price indices across China, the United States and Europe are at their highest levels in over a decade. Additionally, the NFIB Small Business Index shows that the intent to raise prices among small business in the United States is at the highest in over 30 years. Higher inflation is likely to remain persistent.

Global Producer Price Indices [US, China, Europe]
2011 – Current



SOURCE: IG WEALTH MANAGEMENT, BLOOMBERG AS OF OCTOBER 2021

NFIB Small Businesses Planning to Raise Prices vs. CPI YoY
Last 35 Years to Current

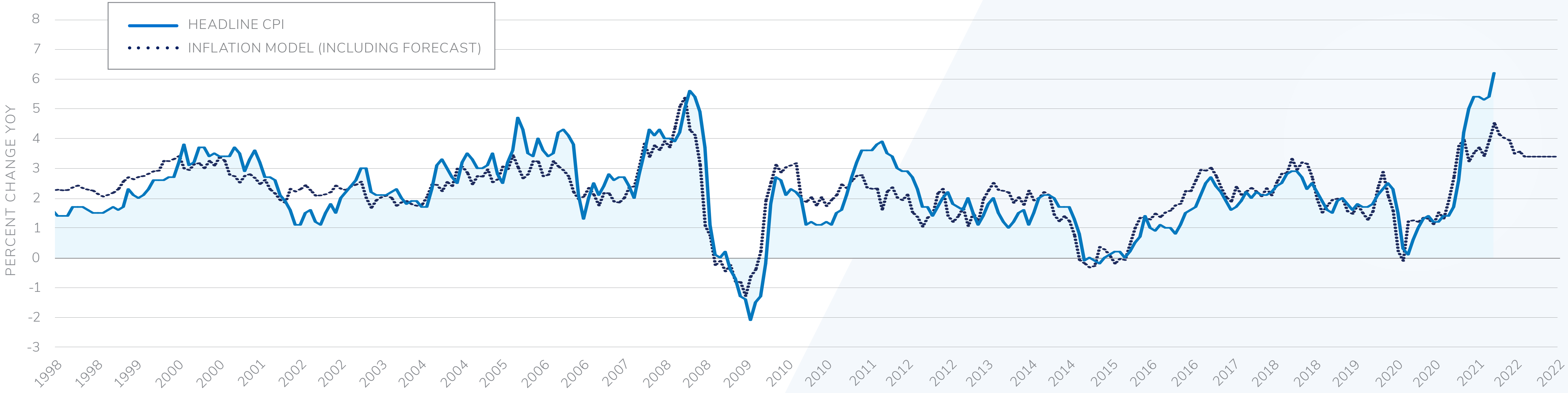


SOURCE: IG WEALTH MANAGEMENT, BLOOMBERG AS OF OCTOBER 2021

The trick is to try and put the inflation genie back in the bottle

Our inflation model that takes into account wages, rents, energy and the impact of the US dollar suggests that inflation (as measured by the US Consumer Price Index) will remain above 3.5% year-over-year through the first half of 2022. In comparison, CPI averaged 1.7% year-over-year between 2010 and 2020. Sources of inflation are spreading from commodities to wages while the transitory camp continues to be proven wrong. 2022 will be notable for how central bankers address higher inflation. Expectations are for a faster bond purchase taper out of the Federal Reserve along with accelerated rate increases by both the BoC and Fed.

CPI YOY vs Model
1998 – April 2022 (with forecast)



SOURCE: IG WEALTH MANAGEMENT, BLOOMBERG AS OF OCTOBER 2021

2022 may see higher interest rates and a steeper yield curve

While central banks will likely have to play catch-up on rates to keep inflation in check, market driven rates are also likely to price in inflation to a greater extent than 2021. This could result in a steeper yield curve (higher longer-term interest rates than shorter-term interest rates). In the last three cycles, the U.S. treasury curve (the difference between the 10-year yield and the 2-year yield) peaked above 250 basis points. Should the Fed raise rates six times through 2023 (twice in 2022 and 4 times in 2023) it is reasonable to suggest that the US 10-year yield could exceed 2.5% over the next year.

US Treasury 10-2 Spread
1980 – Current

SOURCE: IG WEALTH MANAGEMENT, BLOOMBERG AS OF NOVEMBER 2021

The 6 key observations as we head into 2022

01 The greater risk may be to an overheating economy

02 The equity bull market is expected to charge on

03 The easy money has been made in equities

04 Inflation is proving much more persistent than transitory

05 Central banks may have to pivot to faster rates increases

06 Bonds are likely to have another challenging year

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