ALLARD ALLARD & ASSOCIÉS
TO THE POINT
Portfolio managers
October 2021

Market Review – Third Quarter 2021

Global stocks gained 2.3% last quarter and have now risen by close to 65% since the pandemic lows of March 2020. Positive returns were widespread, with the S&P 500 up 2.9% (in CAD) and the S&P/TSX slightly up as well (0.2%). Yields increased, credit spreads tightened, while the Canadian dollar weakened versus the greenback (-2.3%).

In Q3, we saw a shift in the narrative as investors' expectations, driven by strong economic data and corporate profitability, were counter-balanced by high inflation resulting from supply chain disruptions, peak commodity prices and increased COVID case count.

RETURNS OF MAJOR ASSET CLASSES IN CAD

Asset class (as at September 30th 2021)	3rd quarter	Year to date
Canadian Equity	0.2%	17.5%
US Equity	2.9%	15.4%
Global Equity	2.3%	12.4%
Canadian Fixed Income	-0.5%	-3.9%

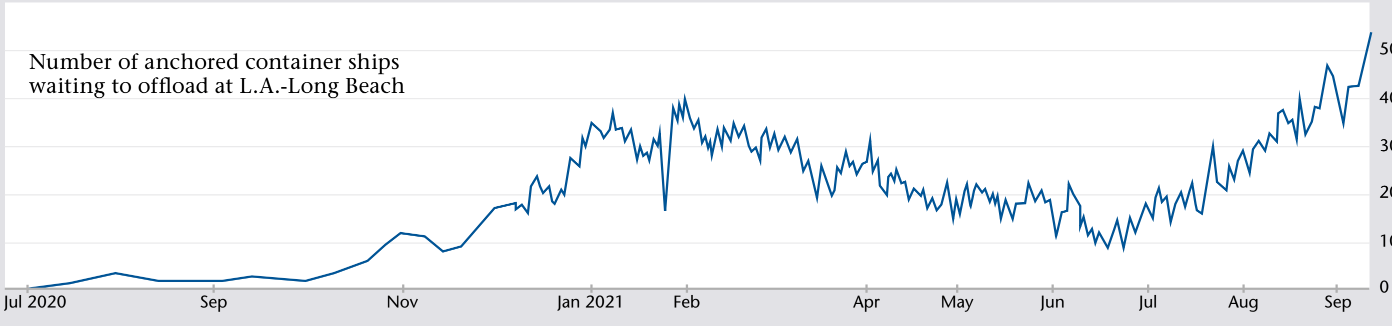
Despite the pandemic remaining in the forefront of investors' minds, markets took comfort in the fact that hospitalizations have not risen as fast as the case count. On the investment front, investors continue to embrace risk and push markets higher. During the quarter bond yields rose and consequently bond values declined slightly. Bond investors exhibited some nervousness and towards the end of the quarter, after the September Federal Reserve meeting, they started to integrate the Fed's tapering into their outlook, pushing yields up 0.20% to 1.65% for the 10 year bond, a level last seen only before the pandemic.

The pandemic has exposed the fragility of global supply chains across multiple continents. The quick rebound in the economies, coupled with strong demand, caught a lot of manufacturers off-guard, right when they had cut production due to the pandemic. This was first felt by a shortage in semi-conductors and was also felt in construction, as evidenced by sky-rocketing lumber prices.

The largest disruption has been within the logistics sector, involved in moving goods all along the supply chain. From ports to rail yards, global supply lines struggle amid the virus outbreak, forcing factory shutdowns, in the developing world. Container shipping rates from China to the United States have scaled to fresh highs above $20,000 per 40-foot box, up over 500% from a year prior, and, as the graph below shows, delays at the Port of Los Angeles have reached over 8.5 days, with over 55 ships idled offshore.

SHIPPING DELAYS

Bottlenecks at key US West Coast ports have lingered for almost a year



Source: Marine Exchange of Southern California & Vessel Traffic Service L.A./Long Beach

Once on land, containers idle in temporary storage while awaiting on outbound truck or train. In Chicago, the freight railroads are trying to catch up as containers arrive faster than they can be switched for onward transport, leading to ever-higher stacks of boxes at the region's yards. The strains are being exacerbated by labor and equipment shortages across the shipping, trucking and rail industries.

Beyond the supply chain woes, China's tougher policy on banking leverage and housing caught up with them, as the largest real estate developer, Evergrande, faced liquidity problems. We also saw markets getting nervous as the focus in Washington turned towards the US debt ceiling. Shut down was avoided by pushing out the deadline by a month to Dec. 3, however according to Janet Yellen, US secretary of the Treasure, the government will run out of money well before then unless an agreement is reached.

DID YOU KNOW THAT?

Our funds have been performing particularly well since their launch just over two years ago. While it often falls under the radar, our fixed income fund has had strong return, rising over 4.7% per annum, outpacing its benchmark by more than 3%. The fund is composed mainly of corporate bonds and holds a small percentage of preferred shares. We keep the fund's duration or sensitivity to interest rate movements quite low as we believe that, while rates may bounce around these levels for some time, the overall trend will be rising over the long term as central banks start their normalization process.

FUND RETURNS AT SEPTEMBER 30, 2021

Fund	Year to date (%)	Since inception (%) (annualized)	Inception date (DD/MM/YY)
AA&A Canadian Equity Value Fund	**23.2**	**16.9**	**8/10/19**
• Canadian Equity benchmark	17.5	14.5	
AA&A Global Equity Value Fund	**17.4**	**17.1**	**15/10/19**
• Global Equity benchmark (CAD)	12.4	17.6	
AA&A Fixed Income Fund	**3.2**	**4.7**	**2/10/19**
• Fixed Income benchmark	-3.9	1.7	

We recently conducted a client survey, and we are proud of the overall satisfaction level received and elevated response rate at over 50%, well above the typical range of 10 to 20%. We thank our clients for taking the time and as agreed, we were able to make a meaningful donation to the Canadian Cancer Society on their behalf.

We would also like to highlight that Allard, Allard & Associés was one of three experts in financial services field chosen to participate in the Strategies PME conference that is held on November 17-18 at the Palais des Congrès. Please drop by our booth 822 to say hi if you attend the event.

Portfolio managers

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