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TO THE POINT

Portfolio managers

April 2022

Difficult start to the year on the markets

War, inflation, and lingering impact of the pandemic made the first quarter a historically difficult one for both the stock and the bond markets. Yet, stocks and bonds appear to be conveying drastically different assessment of growth outlook.

By the end of 2021, interest rate expectations were on the rise due to rampant inflationary pressures fuelled by the global economy's bounce back from restrictions and supply chain issues. This served to further strengthen our sense that the value rally was accelerating. With discount rates heading higher, long-duration assets, notably growth stocks, looked likely to suffer. Since then, a new variable came in to play as geopolitical turmoil injected a huge amount of uncertainty.

INCREASED VOLATILITY

This uncertainty led to an increased volatility in the markets. During the first quarter of 2022 equity indices entered and then rebounded from correction territory. The NASDAQ officially fell to "bear market" levels, only to come roaring back, defying worries over tighter monetary policies and the geopolitical uncertainty.

The bond market also experienced the volatility and had its worst start of the year ever as worries that the Federal Reserve (FED) will push the US economy into recession took hold. During the quarter, the 10yr Treasury rate rose by 81 bps to its highest level since May 2019.

Inflation is expected to have the largest impact on markets in 2022. Long-term rates are currently too low for a persistently high inflationary environment. And this was the picture before Russia invaded Ukraine. This war has the potential to be highly inflationary, with dramatic increases in energy and grain prices, muting consumer spending and disrupting supply chains.

> *High inflation has also forced central banks to adopt a hawkish monetary policy stance.*

This is being reflected in the yield curve with short term rates now higher than long-term ones. This inversion of the yield curve has typically announced a recession within an average of sixteen months. However, as corporate profits remain strong and consumer demand is expected to remain vigorous due to pent up demand and a high level of savings, a recession is less likely.

(continued)

HIGHER NATURAL RESOURCES PRICES

The markets are also coming to terms with the high energy prices. In the past, increases of this magnitude have pushed the economies into recession. It is also our belief that prices will remain elevated for a prolonged period as the capacity that has been taken out by the war, will not easily be replaced. It will take several years to offset this drop in production. Even if the war is settled quickly, Western firms will not return to Russia in the near future, and Russia itself does not have the expertise to maintain production at the pre-war levels.

Added to the above challenges, we expect food prices to be impacted as the supply of different grains and fertilizers is reduced due to the war. The consumer will feel these increases in its weekly grocery basket. Already, over 35 countries have imposed export restrictions. An extreme example of this issue is in Sri Lanka, where there has been street protest for the last month against shortages of fuel, power, food and medicine. The country has just defaulted on its debt to focus on essential imports and "not to worry about servicing external debt." There is talk of Europe bracing itself for a flood of refugees coming from these countries.

In this environment, we continue to focus excellent firms with strong balance sheets, proven business models and the ability to pass through inflation, selling at attractive prices. Should the uncertainty continue to weigh on markets, our approach has proven to provide solid downside protection, allowing you to sleep at night.

IN CONCLUSION

Ultimately, we believe that capitalism will continue to be the favored economic and political system globally and that trade and industry will remain controlled by private owners for profit, rather than by the state. Hence, despite these periods of adversity, companies that can fulfill needs by providing goods and services profitably will continue to attract investors' capital and generate returns for shareholders.

FUND RETURNS AT MARCH 31, 2022

Fonds	This year (%)	Since inception (%) (annualized)	Inception date (DD/MM/YY)
AA&A Canadian Equity Value Fund	**5.7**	**18.2**	**8/10/19**
• Canadian Equity benchmark	3.8	16.1	
AA&A Global Equity Value Fund	**-4.3**	**11.5**	**15/10/19**
• Global Equity benchmark (CAD)	-6.2	13.2	
AA&A Fixed Income Fund	**-3.7**	**2.2**	**2/10/19**
• Fixed Income benchmark	-7.0	-0.4	

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9001 de l'Acadie Boulevard, Suite 401
Montreal (Quebec) H4N 3H5

T 514 385-9001 | F 514 385-9002

www.allard-allard.ca

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