FROM THE DESK OF

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NEW REALITIES, GLOBAL CHALLENGES AND GROWING OPPORTUNITIES

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Transition was clearly a dominant theme over the past year. Transitioning from the unprecedented COVID-19 lockdowns of 2020 and early 2021, global economies began to ease restrictions as vaccines were rolled out in the spring, driving greater economic activity across many sectors. And we saw many other important transitions occur as well

A year in review

Cryptocurrencies, headlined by Bitcoin, reached record highs in 2021, as institutional investors adopted digital currencies on a broader scale. GameStop and AMC's wildly rising stock prices early in the year, bolstered by discussion groups on online forums like Reddit, proved to be new, significant sources of volatility for the financial markets.

While the year began with a new and popular U.S. administration, U.S. President Joe Biden's approval rating sank steadily through the year, despite the administration enacting a stimulus plan and bipartisan infrastructure bill. The decline makes next year's mid-term elections and the general U.S. political outlook all the more interesting.

Early in the year, U.S. Secretary of the Treasury Janet Yellen and many global central banks, viewed inflation as a transitory phenomenon. As we progressed through the year, inflation proved more persistent. Late in the year, Canada's inflation rate reached 4.7%, the highest it's been since 2003. The U.S. inflation rate hit 6.8% in November, the highest increase since 1982. U.S. Federal Reserve Board (Fed) Chair Jerome Powell testified that it was time to retire the term "transitory." As with other countries, inflation was fueled by several growing issues; particularly, supply challenges.

Global supply chains experienced some tightness early in the year. However, by mid-year, the global economy was struck by shortages across a host of raw materials. As a result, manufacturing struggled to keep up with escalating demand as consumers came out of COVID-19 lockdowns sought more products than services.

Additionally, renewed COVID-19 lockdowns and plant closures in emerging markets put substantial pressure on semiconductor manufacturing. Customers, ranging from automakers to electronics manufacturers, felt the pain from these shortages. Logistical challenges in shipping and port operations compounded these problems.

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Persistent inflation fueled by global shortages, surging oil prices

While the price of oil suffered from a supply glut and lower demand in 2020, U.S. West Texas Intermediate crude futures staged a strong recovery, climbing to US$84.65 per barrel in the fourth quarter of 2021. This was its highest level since October 2014. Coming out of COVID-19 lockdowns, increased consumption drove up oil usage, leading the Organization of the Petroleum Exporting Countries and Russia to increase production by 400,000 barrels per day in August, and in each month after that until they decided otherwise.

As you might expect, global central banks responded to rising inflation and the outlooks for their respective economies. After announcing it would hold its key interest rate near zero for the next couple of years in the second quarter, the Fed changed its tone and may well accelerate the pace of its tapering and potentially increase interest rates. Likewise, the Bank of Canada (BoC) in October said it would raise its key interest rate sooner than expected, potentially in the second or third quarters of 2022.

A strong year for equities and value investing

Global equity markets moved higher in 2021, despite concerns over inflation and indications of softening economic growth in the latter part of the year. In Canada, the S&P/TSX Composite Index advanced to a new record high in November. The S&P 500 Index reached a record closing price in December, while the Dow Jones Industrial Average and NASDAQ Composite Index reached record highs in November. Economic growth in the U.S. and China slowed in the third quarter, hindered by global supply issues and the COVID-19 Delta variant. Yields pushed higher, partially in response to the improving economy, along with climbing inflation and expectations for interest rate increases by central banks.

The Canadian dollar experienced strong rallies after the BoC announced it would reduce its asset purchases in April. The BoC was the first major central bank to begin tapering its asset purchases after a surge in the price of oil in October. The Canadian dollar appreciated versus the euro and yen, but performed modestly versus the U.S. dollar.

Amid the global economic recovery, particularly in the early part of the year, value-oriented stocks rebounded and outperformed growth; however, growth recovered sharply in the second half of the year. As disciplined investors that seek high-quality companies priced below what we believe to be their intrinsic values, we sought to capitalize on this market environment.

Maintaining a watchful eye on key trends, and expecting the unexpected

As the rapidly evolving market challenges and trends of 2021 have shown us, we should indeed be expecting the unexpected in 2022 … and beyond. We aim to stay ahead of developing challenges and remain keenly focused on various themes in 2022; namely, positioning and policy decisions by central banks; the growing severity and root causes of inflation; geopolitical risks and their effects on market stability; and developments surrounding COVID-19, such as the Omicron variant.

Over the past 24 months, the global economy has essentially transitioned from a significant recession to one struggling to keep up with consumer demand in the face of extraordinary supply chain constraints. The financial industry has never undergone such a dramatic turn of events and it is somewhat difficult to anticipate the market challenges that await us in the near term. That is why we believe, now more than ever, that our focus on fundamentals is critical. Our selective, long-term strategy is purpose-built for capitalizing on strong and attractively valued businesses which will serve our investors well as we navigate the road ahead.

As always, I thank you for your continued support and I wish you a safe and happy new year.

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