CI GLOBAL ASSET MANAGEMENT

2022 Market Commentaries

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2022 MARKET OUTLOOK

CI GLOBAL ASSET MANAGEMENT

After nearly eight years abroad as Head of Portfolio Construction at the Abu Dhabi Investment Authority, I am excited to be back in Canada working with the nation's leading independent asset management firm at an important point in its history.

CI Global Asset Management's transition from a multi-boutique model to an integrated platform will enable greater scale and a deeper focus on each component of our investment process. Our clients will benefit from a diverse set of strategies that fully leverage our class-leading research capabilities, fundamental analysis, portfolio construction and risk management.

Looking ahead to 2022, we see uncertainty on two fronts: emerging COVID-19 mutations and higher inflation. While both developments could pose significant challenges, it is conceivable that new pandemic pressures will cool growth and dampen inflation enough to delay dramatic policy tightening, but not too much to disrupt economies and markets. This Goldilocks scenario, however, will be challenged by the many imbalances that have built up over the past few years - from fiscal posture and wealth inequality to geographical dispersion and asset valuations.

Fixed income markets will continue to be challenging, as the combination of low government bond yields, tight credit spreads and high inflation creates substantial headwinds, limiting potential returns. Being agile and targeted in that space will be crucial. Active management looks like a much better avenue than blindly following indices which probably carry more risk than some investors assume.

Equity markets remain more attractive than fixed income, but valuations are higher and some of the pandemic policy tailwinds are phasing out. Investors should expect more volatility and avoid basing future return expectations on recent history.

At this stage of the cycle, we believe investors should ensure that they understand the liquidity of their investments and the rigidities that exist within their portfolios. Liquidity shocks are more likely to arise during periods of heightened uncertainty, which can create interesting entry points - but only for those with the agility to act.

Given the challenges currently facing economies and markets, I believe that CIGAM's active management, strengthened by our integrated platform, can add significant value. We will continue to devote our energy and resources to helping clients navigate uncertain times and reach better financial outcomes.

Best wishes for 2022,

Marc-André Lewis
Executive Vice-President, Head of Investment Management
CI Global Asset Management

Peter Hofstra,
Senior Vice-President & Senior Portfolio Manager

Many of the dynamics that dominated market movements, late in 2021, are likely to continue to have a significant impact as we enter 2022. A new COVID-19 strain, tagged as Omicron, rattled markets with renewed threats of economic lockdowns and left us wondering if we will we ever get back to "normal", or at least something resembling the old "normal".

The pandemic has certainly magnified the point we are a global community despite the fact we act regionally. When it comes to elements such as infectious diseases and the climate, we are all in this together. Regions with low vaccination rates facilitate the evolution of the virus and increase the risk that harmful variants will continue to emerge. Regional policy responses also have a significant influence. In much of the western world, we have monitored hospitalization rates and health care capacity as the critical barometer to trigger social and economic lockdowns.

China, and select other regions, have a much stricter COVID-19 policy which requires regional lockdowns and quarantine requirements at the first signs of infection. This low tolerance policy can reduce infection levels, but has the potential to slow economic growth as well as create recurring supply chain disruptions. The flipside is the vaccination rate continues to climb and vaccines seem to be extremely effective at preventing severe disease from all known variants.

Antiviral drugs are also becoming available, providing an additional treatment response that should help, ultimately, relegate COVID-19 to an endemic, similar to the flu. Our base case continues to be we are through the worst of the social and economic impact and a gradual reopening will continue, albeit with continued bumps along the road.

When we reference the economic impact of COVID-19, it's important to acknowledge that thanks to the response of governments and central banks, the virus did not eliminate economic growth. Instead, it shifted spending to goods from services, as we all spent dramatically more time in our homes. Spending on goods, in combination with supply chain disruptions, naturally induced a spike in inflation.

The goal of central banks is full employment and price stability with short term interest rates being the primary tool to influence spending and inflation. The set rate influences the pricing of essentially all assets, including equities. A critical question for markets in 2022 is: Are short term rates going higher, and if so, by how much? This in turn is linked to whether high inflation persists, threatening price stability. Our view, similar to COVID-19, is we are through the worst of the disruptions and have seen peak inflation. Supply chains will continue to mend taking out the scarcity pricing that drove the exceptional level of inflation experienced at the end of 2021.

Assuming we can continue reopening, particularly as we move into the warmer months, spending may shift from goods back to services. Services generally run at a higher inflation level than goods, so as inflation retreats from recent peaks, there is likely to be a prolonged period of inflation higher than we experienced pre-pandemic. Central banks are motivated to move short term rates off the zero-bound to create future flexibility. However, our view is expanded debt levels will cap short term rates fairly low, likely 1%-ish, before significant economic impact is experienced.

POSITIONING AND OPPORTUNITIES

For North American equities, ongoing COVID-19 uncertainty in combination with the potential for higher rates is likely to bring continued market volatility. Travel and entertainment stocks are the most impacted as pandemic headlines ebb and flow. This does create opportunities, but we will be careful with our exposure to the segment and be sure to only invest in companies that can survive a prolonged period of reduced activity. Regarding inflation, equities generally perform well in such an environment. Good companies have pricing power so can pass on costs and continue to grow. For example, it is unlikely Microsoft would be stripped from corporate IT environments because it increases prices 5%.

The core of our portfolios will continue to be in corporations that have robust business models and can navigate an inflationary environment. If at some point we believe additional inflation protection is needed, we have identified "hard-asset" type investments in materials and energy we could quickly move into.

RISKS

Looking back, to help us look ahead, we know another COVID-19 induced lockdown does not need to threaten economic growth as long as governments are willing to fund consumer spending. The greatest concern for future growth seems to be an overshoot in interest rates by central banks which would curb consumer spending, potentially threaten real estate pricing, and elevate risk on the rating of some government bonds. Central bankers seem well attuned to this concern and have stated they would let inflation run "hot" before moving on rates. While there is much to monitor, solid growth with continued market volatility is our expectation and a strong bias for companies with pricing power and robust balance sheets will be the plan.

We wish you good health, wealth, and happiness in 2022.

Aubrey Hearn,
Vice-President & Senior Portfolio Manager

We are exiting a year characterized by widespread vaccinations, new variants, supply chain challenges, and the return of inflation. While initially thought to be transitory, we believe elevated inflation will persist in 2022 and the ability of businesses to navigate this risk will be an important forward indicator of their performance. To combat rising prices on goods ranging from groceries to gasoline, we are prepared for the U.S. Federal Reserve to shift away from many of their supportive policies implemented at the onset of the pandemic to encourage lending and investment. We expect this to include interest rate hikes and a tapering of quantitative easing. We anticipate the end of these supportive measures will pressure equities, especially businesses with lofty valuations based on high future growth, or those reliant on debt as the primary component of their capital structure.

Despite the potential for tightening monetary policies, we remain optimistic on the economic outlook entering 2022. We expect bolstered consumer savings during the pandemic will drive strong spending and the steady easing of supply chain constraints will allow businesses to meet this demand. We are also encouraged by the declining unemployment rate, robust business investment, and President Biden's recently passed US$1 trillion infrastructure bill. While we believe the emergence of new variants may delay a complete return to normalcy, we expect a continued recovery in travel, offices, and spending related to in-person activities.

POSITIONING AND OPPORTUNITIES

As fundamental bottom-up investors, we make investment decisions based on company-specific analysis. We favour businesses with secular tailwinds that can succeed across varying economic environments as well as businesses with short-term headwinds trading at prices well-below their intrinsic value. We prefer businesses with consistent track records of cash generation and ample opportunities for capital allocation at attractive returns. To position our funds to outperform in 2022, we have placed a focus on businesses with flexible supply chains and pricing power to avoid pressure from cost inflation. We reduced exposure to businesses with faster growth profiles but elevated valuations and longer timelines until profitability, which typically underperform under higher interest rates. To benefit from the return to in-person activities, we have maintained our allocations to businesses in the travel, hospitality, and entertainment sectors.

We have a very positive outlook for small cap names in 2022, which experienced sharper declines during the pandemic because they were less diversified than their large cap peers. As economic activity continues to recover towards pre-pandemic levels, we expect these businesses will also experience a sharper rebound. We intend to continue placing a focus on small cap names over the long term because they are generally able to grow faster than their large peers and are often overlooked, creating opportunities for us to invest at a discount to intrinsic value. Finally, we would also note that private buyers are currently flush with cash and we expect them to be aggressive on consolidation activity as we are early in an economic cycle. We believe these buyers will bid competitively for undervalued and high-quality businesses, which should provide a floor for public market valuations.

THE FOLLOWING COMPANIES ARE ATTRACTIVE WITHIN OUR INVESTMENT FRAMEWORK:

Berry Global Group is a leading manufacturer of plastic packaging products for the consumer and industrial end markets. We believe the business is well-positioned to consolidate the fragmented speciality plastics industry because of its substantial scale and exposure to numerous markets. Berry Global has proven its ability to pass-through prices to customers, which insulates profitability from volatility in the cost of raw materials. We also believe the company trades at an unmerited discount to other public plastic producers and this discrepancy may attract a multitude of buyers willing to take the business private.

Live Nation Entertainment distributes tickets for live events, such as concerts and sports, and provides services including promoting shows, acting as managers for artists, operating venues, and facilitating sponsorships. While the business experienced a very steep decline during the pandemic due to lockdown restrictions, we anticipate a strong recovery driven by pent-up demand to attend live events and bolstered levels of consumer savings. We also view Live Nation as an attractive business because of its leading market share and unparalleled breadth of services across the live event value chain.

RISKS

We actively monitor risks and have positioned our funds to outperform under a number of market conditions. While we have witnessed a partial return to normalcy this year, the emergence of new variants remains a key risk in 2022. It is uncertain whether current vaccines will provide sufficient protection against new variants and whether restrictions on travel or in-person activities may return to some extent. The possibility of elevated inflation and supply chain disruptions persisting for longer, pose another significant risk and will be most damaging to businesses lacking pricing power. It is probable inflation will cause monetary tightening, which may pressure equity valuations. We are also monitoring U.S.-China trade tensions, volatility in energy and commodity prices, and record high federal debt levels, which increase the risk of higher taxation.

Despite these risks, we remain fully invested and are optimistic on the outlook for the U.S. economy and equity markets in 2022.

Bob Swanson,
Senior Vice-President & Head of Global Equity Strategies

Global equity markets will enter 2022 trying to determine the strength and persistence of economic activity in the face of rising inflation, central bank policy decisions, and the impact of multiple COVID-19 variants.

We have a cautiously optimistic economic and capital market outlook for the upcoming year. Our base case assumption is economic activity will slow from its recent pace, and remain above trend. Inflationary pressures will continue to persist but moderate throughout the year. Central banks around the globe will wrestle with addressing stronger growth, inflation and the risks to economic activity from the ongoing impact of COVID-19.

The Federal Reserve (the Fed) has already communicated its intent to begin tapering and suggested rate hikes might be forthcoming early in 2022. The Bank of England recently raised rates and it is expected other central banks will also raise rates as economic activity continues to rebound. China is in a slightly different phase as its economy continues to moderate from historically elevated levels. Investors will closely monitor progress in China and the ongoing U.S. - China policy battles.

While most investors are expecting higher interest rates globally, equity markets will be concerned with the magnitude and pace of rate hikes. Stronger economic activity and mildly expanding inflation are typically beneficial to equity markets. More dramatic increases in inflation or rate expectations, however, will challenge assumptions about appropriate equity multiples which have benefitted from the steady decline in interest rates. How much will rates rise? Will higher rates stall the economic expansion? What is the appropriate multiple for equities? These will be key questions throughout the year.

Of course, the pace of expansion will vary from region to region and industry to industry. In a bit of a departure from recent history, growth in the U.S. looks to lag other regions. In the chart below, provided by Goldman Sachs, GDP growth in the U.S. will be outpaced by Europe, the U.K., and China.

Yet, despite somewhat slower economic growth, earnings in the U.S. are likely to grow more than in those countries. While earnings might be stronger in the U.S., valuations are also much higher than other countries. The relative price to earnings ratio for the U.S. is among the highest in the world. Much of this can be attributed to the composition of U.S. benchmarks being heavily skewed toward technology and growth stocks which have been prime beneficiaries of lower interest rates and unsteady economic development.

Real GDP Growth

Percent change yoy	2020	2021	2022		2023	
		GS[1]	GS[1]	Cons[2]	GS[1]	Cons[2]
USA	-3.4	5.6	3.8	3.9	2.2	2.5
Japan	-4.5	1.7	2.5	2.8	1.6	1.4
Euro Area	-6.5	5.1	4.3	4.2	2.5	2.3
Germany	-4.9	2.8	4.0	4.3	2.6	2.2
France	-8.0	6.8	4.4	4.0	2.4	2.2
Italy	-9.0	6.3	4.4	4.5	2.2	2.0
Spain	-10.8	4.5	6.4	5.9	4.0	3.3
UK	-9.7	6.9	4.8	4.9	2.4	2.1
China	2.3	7.8	4.8	5.3	4.6	5.3
Developing Markets	-4.9	5.0	3.9	3.9	2.3	2.4
Emerging Markets	-1.9	6.8	4.9	5.0	4.3	4.8
World	-3.2	6.0	4.5	4.4	3.5	3.5

[1]Goldman Sachs estimate
[2]Bloomberg consensus

From a portfolio positioning perspective, we have been diversifying by increasing our allocations to regions and sectors that have greater economic sensitivity and balancing our growth and value exposures to a more neutral position. If we are correct in our assumption that global economies continue to open and expand, economically sensitive sectors should outperform more defensive sectors.

Looking at correlations of various investment styles to rising interest rates and/or inflation suggests value strategies would outperform growth in a higher inflationary environment.

Relative to other countries, U.S. equities are more heavily weighted toward growth stocks. Canada, Europe and emerging markets tend to have greater exposure to value. If inflation turns out to be more persistent rather than transient, greater geographical diversification may be warranted.

A key consideration for 2022 is balance. A better balance between countries, sectors and styles should provide a smoother path toward investment returns in what could be a volatile year. We enter 2022 with a preference for cyclical sectors such as industrials and materials and remain overweight in North America and Europe versus Asia-Pacific.

In summary, we are positioned for continued economic and earnings growth with a preference for companies with more reasonable valuations. We have struck a balanced approach across regions, sectors and investment styles given the likelihood of continued inflationary pressures and the prospect for higher interest rates.

CI GLOBAL ASSET MANAGEMENT

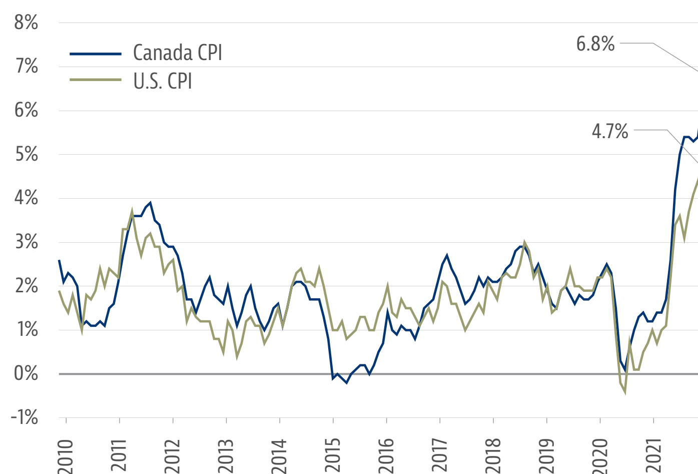
James Dutkiewicz,
Senior Vice-President & Head of Fixed Income

OUTLOOK

As the investing world enters 2022 one of the most visible debates centres on a topic many market participants have given up for dead - inflation. A whole generation of professional investors have come and gone since the risk of higher inflation from ever looser monetary policy came to fruition. Those on the side of temporary inflation do not dismiss its existence but favour supply chain disruptions and other transient factors as the drivers of the current flare-up. The other, more concerned group point to a surge in the money supply in circulation (a shocking 23% above trend) that has facilitated retail sales growth 10% above trend. As with most economic puzzles the best answers lie between the two extremes.

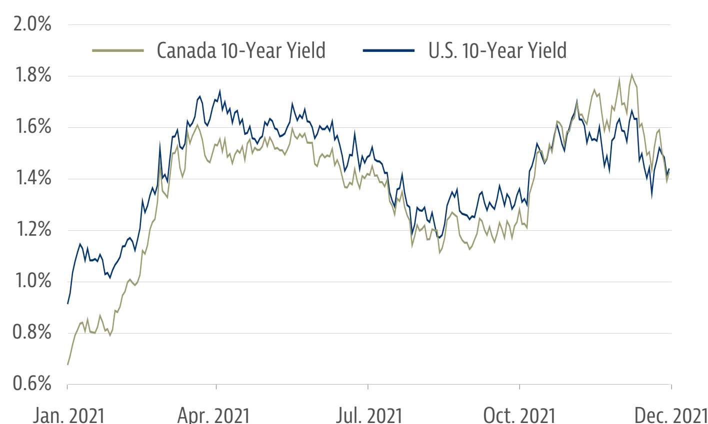
We expect inflation data to remain stubbornly elevated throughout the first half of 2022 before the worst of the supply chain constraints are alleviated. The trend in the second half of 2022 is likely to lower inflation prints, though we suspect the equilibrium level will be well above what we were used to pre-pandemic at 2%. This will present a set of opportunities as the level of interest rates and the shape of the yield curve will exhibit continued volatility. The recent bullish curve flattening seems premature to us as it equates to a terminal overnight rate of approximately 1.50% to 1.75%. This suggests the bond market believes the Federal Reserve is making a policy error in hiking rates in 2022 and 2023 and a recession would soon follow. That is not our forecast. We would be looking for a corrective bear steepening of the yield curve near term. However, investors must stay alert because a yield curve flattening strategy is likely a winning one later in the year. Active management is necessary to navigate these gyrations.

2010-2021 INFLATION



Source: Bloomberg Finance L.P., as of December 14, 2021. Canada CPI as of October 31, 2021; U.S. CPI as of November 30, 2021.

2021 10-YEAR YIELD MOVEMENT



Source: Bloomberg Finance L.P., as of December 14, 2021

The Bank of Canada has been at the vanguard of central banks in withdrawing emergency levels of stimulus by an early tapering of quantitative easing (QE). However, we disagree with the peak pricing of nearly 175bps of hikes in 2022 that the market has traded to numerous times recently. Our funds will continue to add 2-Year Government of Canada bonds on these opportunities as the expectation is for about half of that amount of tightening in 2022. We continue to expect above trend economic growth, elevated inflation for longer and modestly higher overall rates.

POSITIONING AND OPPORTUNITIES

Our fixed income funds generally enter 2022 short of benchmark duration and with a bias to higher long-term rates. We are comfortable with a moderate overweight in corporate bonds and would look to add to this position on any meaningful spread widening. The backdrop for businesses is still quite attractive for credit investors. Increasing revenues, stable margins and low interest expenses are a good recipe for cash flow generation. Spreads reflect this positive set-up, but we believe the previously mentioned volatility will provide some buying opportunities, so we look to be tactical in trading our investment grade credit book.

In our more aggressive credit funds, we favour the high yield sector. The financial characteristics cited above, combined with our view of a much healthier universe of high yield issuers, leads us to this investment preference. The lower rated segment of the market has experienced a positive quality drift (a higher ratio of BB to CCC issuers and secured versus unsecured debt) that supports current valuations. Our view of the USD/CAD exchange rate is it is range bound heading into 2022 and until the 1.20 to 1.30 range breaks, we will adjust our hedges accordingly.

RISKS

Risks abound in most market forecasts for 2022. The environment calls for investors to be nimble and humble. This means tactical trading around strategic positioning. It is possible for inflation to deviate from our predicted path in 2022. It also possible neither the Bank of Canada nor the Federal Reserve calibrate their response to inflation in real time in the most optimum fashion. To be fair, they are out of practice in this regard. The risk of further fiscal stimulus stoking a healthy economic fire exists. As does the extended valuations in equities, which while defendable with low inflation and QE, may suffer a re-rating if rates become more positively correlated to inflation data.

CI GLOBAL ASSET MANAGEMENT

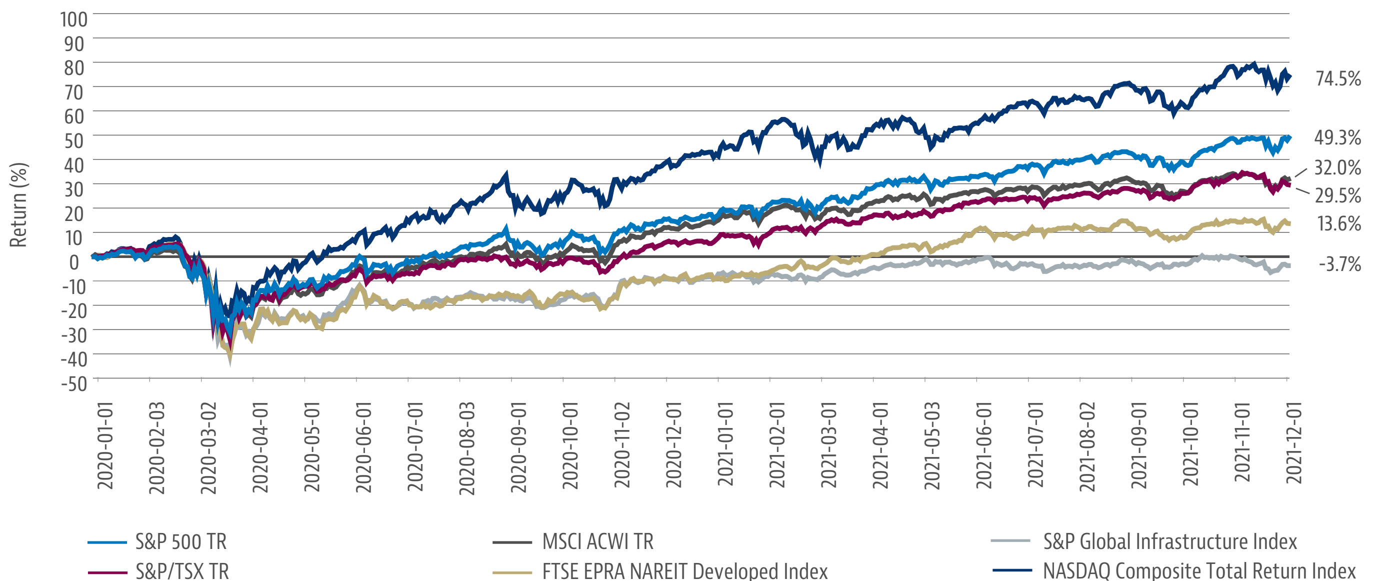
Kevin McSweeney,
Senior Vice-President & Portfolio Manager

Lee Goldman,
Senior Vice-President & Portfolio Manager

The need for yield and total return is increasing in today's low interest rate environment. Sophisticated investors see real assets as a source of steadily growing, reliable, inflation-protected income that doesn't sacrifice long-term total return. The CI Global Real Asset Private Pool provides exposure to real estate and infrastructure assets that form increasing weights in institutional portfolios.

With many markets exhibiting all-time highs, we would highlight that despite the necessity of these asset classes in the global economy, recent returns have been muted. Since the beginning of 2020, while broader stock indices are up from approximately 30% (S&P TSX Composite Index) to 70% (Nasdaq Composite Index), real estate (FTSE EPRA NAREIT Developed Index) is up only 13.6%, and infrastructure (S&P Global Infrastructure Index), restrained by the transportation sub-sector is down almost 4%. For an investor with an appropriate long-term horizon, this short-term dislocation offers an attractive entry point.

CUMULATIVE RETURN (%) FROM JAN. 1, 2020 - DEC. 10, 2021



Source: Bloomberg Finance L.P. As of December 10, 2021, using daily returns in local currency.

REAL ESTATE

As was the case in 2021, strong earnings should be a catalyst for real estate in 2022. The ongoing economic recovery will be supportive of all real estate sub-sectors, from apartments, to industrial, retail, and even the harder hit office sector. From the beginning of 2022, companies in these sub-sectors will produce stronger comparables relative to 2021, leading to impressive earnings and cash flow growth. Combined with payout ratios that are at the low end of historical levels, this should lead to dividend increases across the real estate market and be supportive for stock prices.

Given recent data, investors are rightly concerned about inflation as we head into 2022. Real estate can actually be a beneficiary in an inflationary environment. Costs are rising for everything from land, to labour, and building materials, making new construction more expensive. This limits supply and makes existing buildings extra valuable as replacement costs rise. Also, several real estate sub-sectors have leases with annual rental escalations tied to the inflation rate, or have short duration leases, such as hotels and apartments, that can quickly adjust rents in an inflationary environment.

Another reason to expect a good year for real estate in 2022 is simply the amount of capital looking to acquire real estate assets. Compelling yields, predictability of cash flows, and solid growth prospects are driving increasing allocations from pension funds, institutional investors and private equity. 2021 was a very active year in terms of acquisitions across many sub-sectors of the real estate market and that trend should continue in 2022, being very supportive for valuations.

As we enter 2022, the global economy faces some unique challenges, from current high levels of COVID-19 infections in many parts of the world, to inflation at recent highs, and a likely interest rate tightening cycle from central banks. Despite these obstacles, real estate is well positioned to continue to perform, with solid property fundamentals, a strong growth outlook and robust investor demand.

INFRASTRUCTURE

After overcoming twin headwinds of ongoing lockdowns and rising interest rates in 2021, infrastructure is positioned for a strong 2022 as long-term fundamental drivers of value reassert themselves.

For income oriented investors, we note that despite a number of infrastructure sub-sectors (airports, toll roads, energy) having reduced dividends in 2021, dividends are projected to resume growing in 2022 (with 13%[1] growth projected), well-funded by cash flows. With government bonds yielding less than 1%[2], and inflation at recent highs, fixed income investors switching to infrastructure's higher yields and inflation-protected revenues should support returns. This should also spur private investor acquisitions of public assets, similar to real estate.

For value investors, midstream energy/pipelines represents one of the few industries trading below historic valuations. Although energy transition (a key exposure for the fund) continues, pipelines and related companies are efficiently transporting energy sources globally while spinning off healthy cash flows for many years.

For growth investors, green energy and data infrastructure offer long-term opportunity, and transportation offers growth through a post-pandemic rebound. Utilities embracing green energy will increase investments, cash flows, and dividends as governments encourage decarbonization. Data centres and cell towers processing ever-growing data consumption will also see strong increases in cash flows. While airports and toll roads were hit hard by pandemic restrictions, many highways have seen traffic return to pre-pandemic levels and we believe the recovery in air travel is a question of "if," rather than "when."

Given attractive valuations, growing interest for income and stability from private and public investors as well as solutions for a variety of investment factors in an inflationary environment, we feel exceptionally confident in the outlook for real assets.

[1]Source: Bloomberg Finance L.P. as of December 10, 2021.
[2]Source: Bloomberg Finance L.P. Yield is the yield to maturity for JPM Global Government Bond Index as of December 10, 2021.

Alfred Lam,
Senior Vice-President & Chief Investment Officer

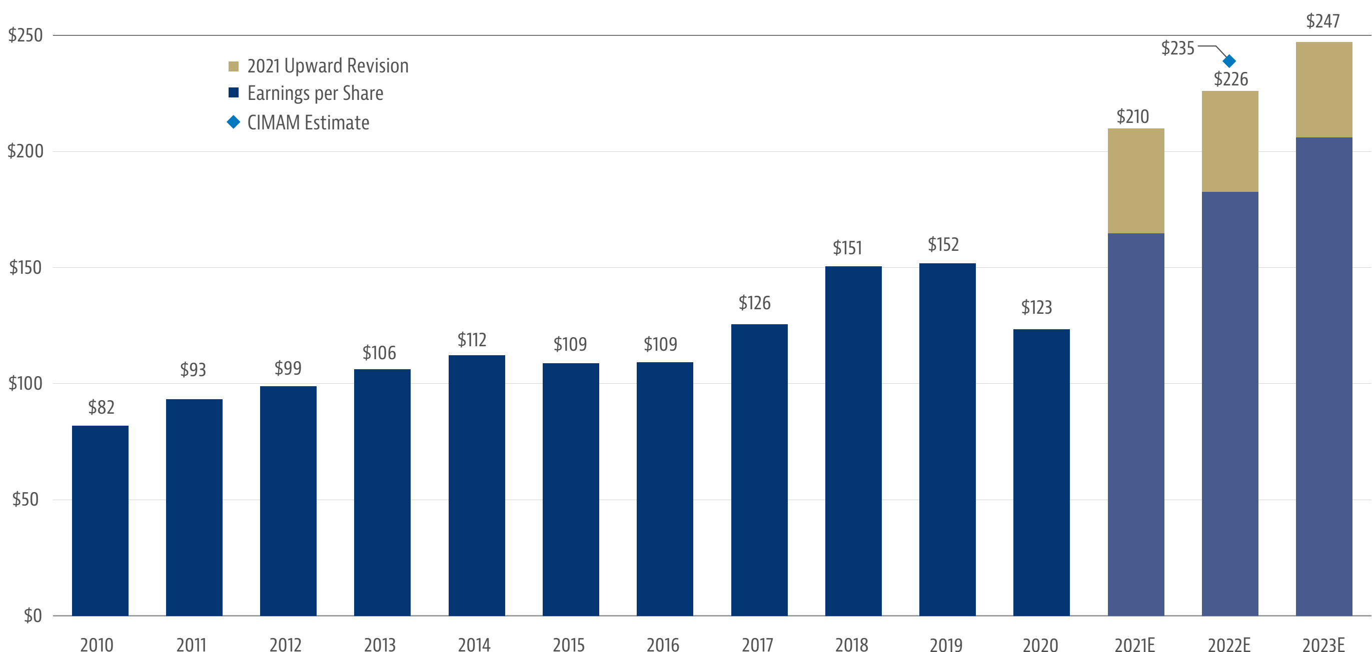
As we enter 2022, we will once again follow the custom of sharing our market outlook for the coming year. Our expectations for 2021, strong equity performance and challenges for fixed income, came to fruition. We believe the first and second halves of 2022 will be quite different in terms of volatility, opportunities and sector leadership. So, without further ado, let's look at what's ahead.

MARKET OUTLOOK

First half of 2022

With elevated household savings and slower projected COVID-19 cases, we anticipate economic growth will remain robust through the first half of the year. This means companies will hire and wages will increase, leading to greater consumer confidence and corporate earnings. After two consecutive years of money supply boosts and near-zero interest rates globally, earnings have recovered swiftly from 2020 and even surpassed 2019. We anticipate the largest 500 companies in the U.S., as tracked by the S&P 500 Index, to have average earnings per share of $235 in 2022.

S&P 500 ACTUAL AND EXPECTED EPS - CALENDAR YEAR



Source: Bloomberg Finance L.P. as of December 8, 2021

Within equity, cyclical sectors are likely to outperform. The bad news is inflation—currently running at over 6% in U.S. and almost 5% in Canada. This means investors will only be better off if their savings grow above those rates. We expect central banks to remove stimulus, but only very gradually, and real interest rates to be negative for some time.

Second half of 2022

It's widely expected that by the end of 2022, interest rates will be at least 50 basis points (bps) higher. It's important to note the burden of interest rate increases will be greater than normal as debts owed by governments, corporations and households are significantly higher. Hikes of 50 bps annually can probably be tolerated, until they rise to over 2% at which point, they could trigger a slowdown or recession. We anticipate this hike cycle to be faster but shallower than the last one when Canada peaked at 1.75% and the U.S. at 2.50-2.75%. With terminal interest rates at about 2%, long-dated bond yields should be capped at the same level. However, as interest rates rise, the markets may price for more, creating volatility and opportunities.

Inflation should remain high, albeit declining in the second half of the year. The 2% low inflation era is over thanks to structural shifts such as increasing labour costs globally and rising commodity prices as manufacturers comply with local and international environmental standards. 3% inflation is probably the new normal for the next decade, even as the supply chain disruptions ease.

In short, central bank messaging and actions will affect investors' sentiments, resulting in higher volatility.

POSITIONING

In light of these developments, we are positioning our portfolios to overweight equity and underweight bonds. We are still in the early stages of this growth cycle as savings accumulated during the pandemic have not yet been fully spent and investors are eager to defend their purchasing power.

Equity remains the only preferred asset class, as even high-yield bonds are barely outpacing inflation. With 3% inflation and 2% bond yields, investing in bonds only makes sense when earning capital gains in addition to income. Investors may get overambitious from time to time and drive yields above normal, but we will be patient until then before adding bonds to our portfolios.

We are living in a world of rapid changes and the impacts will be felt across markets. To taper volatility, we're favouring sectors that are less sensitive to economies, such as technology and health care. We also have foreign currencies at our disposal, such as the U.S. dollar and Japanese yen, which can help offset equity risk.

RISKS

There are risks we are watching closely. Central banks may turn hawkish sooner than expected, geopolitical tensions could worsen and COVID-19 cases may rise due to new variants, forcing governments to implement new lockdowns. We will maintain our equity overweight as long as these issues are at bay.

The bottom line is we anticipate some volatility due to growing concerns of a slowdown or recession. The downside is still low given central banks may not go very far during this hike cycle and generally strong economic fundamentals.

GLOSSARY

Real interest rates – interest rates after accounting for inflation

Terminal interest rates – neutral interest rate consistent with full employment and capacity utilization, and stable prices

Duration – A measure of the sensitivity of the price of a fixed income investment to a change in interest rates. Duration is expressed as number of years. The price of a bond with a longer duration would be expected to rise (fall) more than the price of a bond with lower duration when interest rates fall (rise).

Interest Rate Risk – Refers to the chance that investments in bonds will suffer, as the result of unexpected interest rate changes.

Leverage – An investment strategy of using borrowed money – specifically, the use of various financial instruments or borrowed capital – to increase the potential return of an investment.

Liquidity – The degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price. Cash is considered to be the most liquid asset, while things like fine art or rare books would be relatively illiquid.

Volatility – Measures how much the price of a security, derivative or index fluctuates. The most commonly used measure of volatility when it comes to investment funds is standard deviation.

Yield Curve - A line that plots the interest rates of bonds having equal credit quality but differing maturity dates. A normal or steep yield curve indicates that long-term interest rates are higher than short-term interest rates. A flat yield curve indicates that short-term rates are in line with long-term rates, whereas an inverted yield curve indicates that short-term rates are higher than long-term rates.

To learn more about our portfolio managers and investment philosophy, please visit ci.com.

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