VÊRED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

2022 Q3 VWMC Portfolio Performance Report

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PART I: Market Overview

- Q3 started out strong with the hope that inflation had peaked, and FED might loosen up on monetary tightening. Market staged a powerful rally from mid-June to mid-August. S&P500 went up almost 18% from bottom to top during that period. However, FED Chairman Powell's hawkish speech at Jackson Hole and subsequent higher than expected July CPI dashed market's hope of a FED pivot. Market turned south quickly from mid-August (S&P500 down 17% from mid-August to end of September) to fall below June bear market low.
- FED decided a 75bps rate hike at its September meeting. What is more concerning for the market is the higher-than-expected interest rate path for 2022 and 2023, lower economic projections and Powell's continued hawkish stance. Those, along with the escalation of Russia-Ukraine war, the collapse of British pound with its tax cutting plan, and surging US dollar, pressured the market to the downside.
- Overall, despite the rally in July and early August, Q3 saw SP500 down 5.3%, Dow Jones down 6.7%, and NASDAQ flat. Only Consumer Discretionary and Energy sectors managed small positive returns, while the other nine sectors all had negative return with Communication Services and Real Estates leading the decline.
- On the Canadian side, TSX fared better, dropping 2.2% despite falling commodity prices. For markets outside North America, EAFE (developed countries ex. US) was down 10.6% (concerns on geopolitical risks, British currency/bond crisis, potential recessions). However, part of the underperformance against US market was from US dollar appreciation. In local currency terms, EAFE actually outperformed the US market slightly. Emerging Market was down 12% (weak Chinese market as well as rapid US dollar appreciation).
- On the commodities side, gold was down 7.8% in Q3 driven by rising bond yield and strong US dollar. Oil dropped substantially (-25%) due to concerns on demand destruction amid economic slowdowns. Oil was well below pre-Russia/Ukraine war levels by the end of September.
- 10-year US treasury yield dropped initially during the quarter (from 3.5% in mid-June to 2.6% in early August) as market anticipated a FED pivot. However, Powell's Jackson Hole speech and hot CPI data reversed the trend, and 10-year yield went up quickly to close the quarter at 3.8% (highest level since financial crisis in 2008; and the increase was the most in a quarter since 1990's). As a result, bonds had another down quarter (-5.3%; -15% YTD). This is the first time in decades that investors are losing money in bonds for such a long period of time (27 months and counting).
- US dollar continued its significant ascension in Q3 (+7.1%) and YTD (+17.5%). Euro dropped another 6% to below parity with the US dollar (first time in 20 years). British pound declined 8% (aggressive tax cutting proposal under the new Prime Minister), Japanese Yen down 6% (after a 20% decline in Q2), and the Canadian dollar down 5.8%. With FED leading the pack on monetary tightening and geopolitical risks elsewhere, US dollar remains a safe-haven for investors for now. Appreciating US dollar is helpful to US inflation but puts pressure on exports and corporate earnings (for those companies with meaningful overseas revenue).
- Overall, Q3 was another challenging quarter. Gleam of hope fizzled away quickly to renewed concerns on inflation, monetary tightening, and geopolitical risks. Heightened volatility and fragile investor sentiment continued to prevail. Every asset class (even commodities) had negative return in Q3.

	Return							
	2021	H1 2022	July	Aug	Sept.	Q3, 2022	First 9 mos.	YTD (Oct. 21, '22)
S&P 500	26.9%	-20.58%	9.11%	-4.24%	-9.34%	-5.28%	-24.77%	-20.1%
Dow Jones	18.7%	-15.31%	6.73%	-4.06%	-8.84%	-6.66%	-20.95%	-13.1%
NASDAQ	21.4%	-29.51%	17.62%	-5.29%	-10.17%	0.06%	-29.46%	-29.9%
Russel 2000	13.7%	-23.93%	10.38%	-2.18%	-9.73%	-2.53%	-25.86%	-22.4%
TSX	21.7%	-11.13%	4.41%	-1.84%	-4.59%	-2.21%	-13.09%	-10.8%
FTSE Developed Market Index (ex. US)	11.7%	-18.90%	5.29%	-5.81%	-9.87%	-10.62%	-27.51%	-24.9%
MSCI Emerging Market Index	-3.6%	-17.22%	-0.35%	-1.33%	-11.54%	-13.02%	-27.99%	-30.0%
Gold	-3.5%	-1.28%	-2.28%	-2.84%	-2.94%	-7.85%	-9.03%	-9.7%
Oil	55.0%	40.62%	-6.75%	-9.20%	-11.23%	-24.84%	5.69%	13.1%
US Dollar Index	6.8%	9.08%	1.17%	2.64%	3.15%	7.11%	16.83%	16.7%
Aggregate Bond Index	-1.2%	-10.16%	1.91%	-3.04%	-4.15%	-5.28%	-14.91%	-17.1%
Change in US 10-year Treasury Yield (bps)	60	146	(33)	49	67	83	229	270

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	32.1%	4.4%
Utilities	-2.8%	3.1%
Consumer Staples	-10.5%	6.9%
Health Care	-12.1%	14.9%
Industrials	-19.2%	7.8%
Financials	-20.6%	10.9%
S&P 500	***-22.0%***	-
Materials	-23.5%	2.5%
Consumer Discretionary	-26.5%	11.9%
Information Technology	-28.6%	26.7%
Real Estate	-29.1%	2.8%
Communication Svcs.	-36.9%	8.1%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

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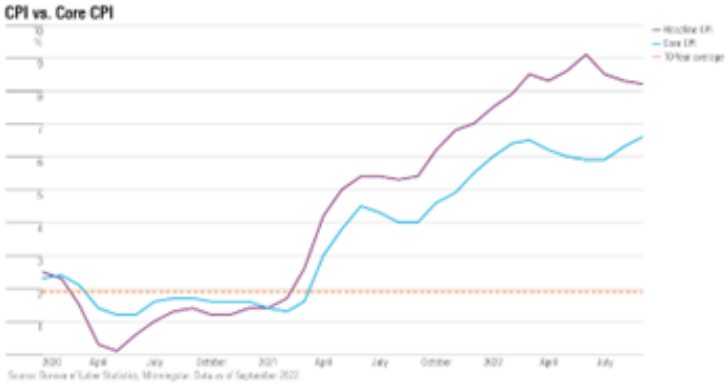
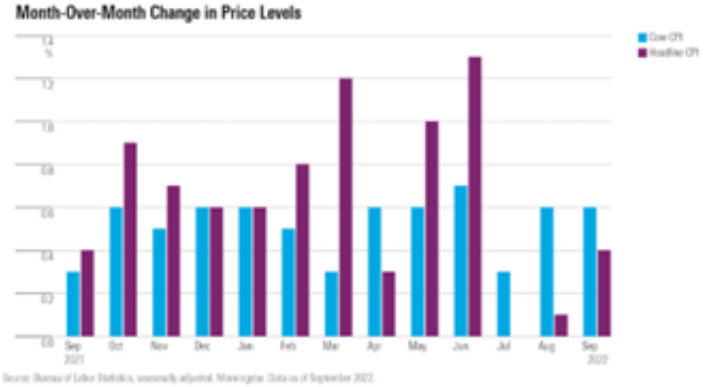
PART II: Market Outlook

Key things to watch out for in Q4 are: 1) Inflation; 2) economic growth; 3) FED policies (two more meetings in November and December); 4) corporate earnings (Q3) and outlook; 5) US dollar; and 6) various geopolitical issues (Russia/Ukraine war; US Mid-term Election; Party Congress in China; etc.)

1) Inflation:

- Inflation remains the key issue, as it is the focus by the FED and drives monetary policies, which will impact the economy, corporate earnings and ultimately the market.
- Headline CPI has shown some moderation since its peak in June driven by lower commodity prices. Core CPI however, after some moderation from March to June, picked up again in the last 2 months (6.6% increase in September is the highest since 1982).
- Inflation can be broken down into several main categories (please refer to the bottom left table on the next page). Food and Energy tend to be more volatile and therefore are excluded from the so-called Core Inflation. Core CPI tends to be stickier (i.e., slower to change, whether up or down). Policy makers follow core CPI more closely as it indicates longer term trend.
- Core CPI accounts for 78% of headline CPI. Food, Energy, Cars (new and used), and Shelter (rent and rent equivalent) account for 64%of headline CPI.
- We will look at some of the main categories of CPI to gauge inflation trend:
    - Energy: oil price spiked after Russia/Ukraine war. WTI price peaked around $120 in early June and then declined steadily driven by concerns on demand (economic slowdown) and the release of strategic reserve by the US. It troughed around $80 in late September and then rebounded with OPEC announcing production cut (2 million barrel per day (bpd) or 2% of global demand) and escalating Russia/Ukraine conflicts. WTI currently sits at $86. With winter heating season coming and lower levels of strategic reserves in the US, energy price could remain at high level in coming months. Energy prices have been a contributor to improving inflation in the last few months but may become a risk to inflation again in the near term.
    - Food: food price increased 11.2% (YoY) in September (slight decline from 11.4% in August, but still among the highest levels in 20 years). Anecdotally, however, we've noticed some moderation in price increases. This is an inherently volatile category and therefore hard to predict. Supply chain disruptions and weather can have meaningful impact.
    - Cars (new and used): prices of cars have spiked since the pandemic lock-down due to supply chain issues and chip shortage, which however, have been improving in recent months. New car price inflation has peaked (YoY price change peaked in April and moderated in recent months). Prices of used car had similar trend. We expect this to continue.
    - Shelter: shelter includes rent (7.3% of headline CPI) and owners' equivalent rent of residence (23.7%). This is the biggest component in CPI (31% of headline CPI and 40% of Core CPI). Shelter cost increased by 6.6% YoY in September, highest level in 20 years. Some, however, argue that this is a lagging indicator (it is based on survey of renters or homeowners). Data from some real-time sources (e.g., Zillow.com) have shown rent increases have peaked already in March/April. Housing prices also see declines in recent months (though offset by higher mortgage rates). Overall, we think real Shelter cost could moderate.
    - Other services: those are mostly driven by wage costs. September non-farm payroll report shows US job market remains tight (though new job openings have declined). With slowing economy, job market may gradually transition to more balanced condition, which could alleviate some wage pressure.





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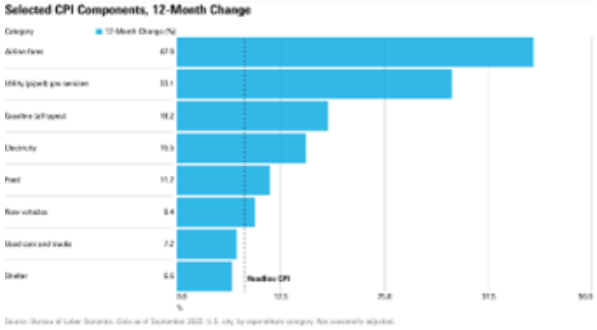
Categories	% of total CPI
Food	13.5%
Energy	8.8%
Goods ex. Food and Energy (apparel, new and used cars, alcohol, tobacco, etc.)	21.2% (of which new car and used car 8.6%)
Services	56.5% (of which shelter 32.3%, medical care 6.8%, transportation 5.9%, education 5.3%)



Overall, we see some improving trends (transportation; shelter; certain goods with over-inventory at retail level), but risks remain (wage pressure; potential high energy cost in winter months). We expect inflation to remain at high level and volatile in the near term. However, over the medium to longer term (6-12 months), we believe inflation will moderate driven by monetary tightening (monetary policies usually have a lag of 3-6 months; FED started to hike rates in March but more aggressively only from May/June so we will see more impact on economy/demand/job market later), improving supply chain and strong US dollar (imported goods cheaper). More importantly, despite high current inflation, inflation expectation is stable, which means inflation outlook remains well anchored (i.e. inflation will not be long lasting and hyper inflations similar to those in the 1970s is not likely).

Although we expect inflation to moderate, the timing and speed of improvement are highly dependent on the resolution of supply constraints and speed of demand destruction by FED tightening, which still carry a lot of uncertainties.

2) Economic Growth

- With central banks around the world aggressively tightening monetary policies, there are increasing concerns about potential economic slow-down or recessions.
- One measure, yield curve, historically has been a good leading indicator to recessions (historically, an inverted yield curve usually led a recession by 6-18 months). The 10-year to 2-year yield curve has inverted since July. Other indicators, such as lower PMI, slowing housing market, weakening consumer sentiment, rising jobless claims, also suggest a looming recession in 2023. The FED, in its most recent economic projections in September, expected 0.2% GDP growth in 2022, 1.2% in 2023 and back to long term trend growth (~1.8%) from 2024. It is still targeting a soft landing, which may not likely happen.
- However, the question is how severe the recession will be. We think it will likely be a mild one for the following reasons:
    - Personal savings, although declining, are still at high level. This provides support to consumer spending, which accounts for ~70% of US GDP.
    - Job market, while slowing down, is still robust (1.5 job openings to 1 job seeker, and unemployment rate at 3.5%). This again lends support to consumer spending.

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- Unlike 2007/08, banks are well capitalized; corporate and household balance sheets are overall in good shape (no excess leverage).
- Ultimately, this is a self-induced recession by the FED to control inflation. If they are convinced that inflation is under control (we think it will), there is plenty room for the FED to loosen its monetary policies down the road to revive the economy.

- From market point of view, after a 25% decline YTD, we think a good portion of the recession risk has already been priced in. A mild recession may be necessary to reduce inflation pressure and bring down interest rates, without causing too much damage to corporate earnings.

Source: Federal Reserve St. Louis

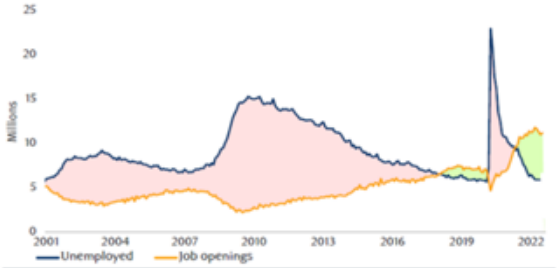
Exhibit 11: Recession signals

Signal	Indicating U.S. recession?
2yr-10yr curve inverts	Yes
Inflation spike	Yes
Oil shock	Yes
Google "recession" news trend	Yes
RBC GAM recession model	Yes
Jobless claims jump	Yes
Monetary tightening cycle	Likely
Duncan Leading Indicator falls	Maybe
Financial conditions tighten	Maybe
NY Fed 3m-10yr curve inverts	No, but getting very close
Fed short-term curve inverts	No, but getting very close

Note: As at 08/31/2022. Analysis for U.S. economy. Source: RBC GAM

Source: U.S. Department of Commerce and Wells Fargo Economics

Exhibit 35: U.S. labor-market shortage – there are far more job openings than unemployed



Note: Unemployment as of Aug 2022, job openings as of Jul 2022. Source: BLS, Macrobond, RBC GAM

3) FED Policy

- FED has turned hawkish since August (Powell's Jackson Hole speech). Latest DOT plan suggested additional 125bps rate hikes in 2022 (after 300bps hike since March) to bring FED Funds Rate to 4.25% to 4.5% by the end of 2022. This is a significant increase from projections in June (3.25%-3.5%). In addition, FED expected another 25bps hike in 2023 and holding the rate through 2023 before cutting it in 2024. Again, this is more aggressive than the June projection and market expectations. After higher-than-expected September CPI, market now expect 75bps hike in Nov. and possible another 75bps hike in December. Expectation for peak FED Fund Rates also moved up 25bps to 4.75-5.0%.
- FED has made it clear that its current priority is to fight inflation and bring it down to reasonable levels (closer to its target rate of 2%). It is willing to depress the economy and labor market to achieve that.
- While market had hoped a potential pivot (which drove the June to August rally and recent rebound in early October), we believe the FED will stick to its plan at least through 2022. FED had misjudged the inflation (called it "transitory" and kept rates low for too long) so it can't afford to make another mistake to lose its credibility. The unpredictable nature of inflation in the post-pandemic era suggests it may be difficult for the FED to claim victory until inflation actually starts falling decidedly toward the 2% target. With the labour market in solid shape, the Fed can afford to be aggressive with monetary tightening.
- As such, monetary conditions will remain tight in the foreseeable future, reflected in current bond yields (2-year treasury yield at 4.6% and 10-year at 4.2%). However, the FED maintains that its monetary policies will be data dependent. Given our outlook of improving inflation and looming recession, it is not impossible for FED to start easing towards the end of 2023.
- From market point of view, market usually recovers well before FED actual pivot. As soon as inflation pressures ease, financial conditions should begin to ease as well. This could provide support to both equity and bond markets.

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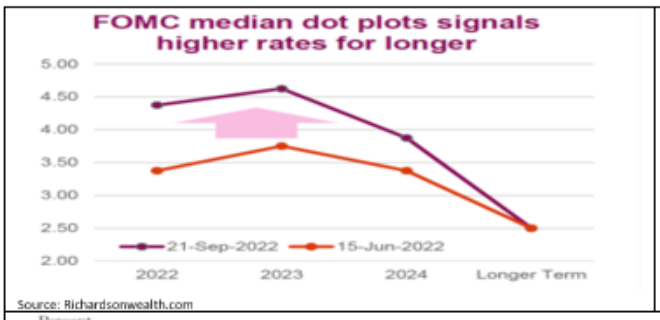

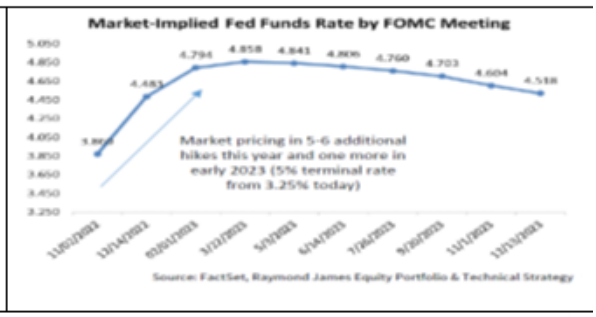

Percent

Variable	Median[1]					Central Tendency[2]					Range[3]				
	2022	2023	2024	2025	Longer run	2022	2023	2024	2025	Longer run	2022	2023	2024	2025	Longer run
Change in real GDP	0.2	1.2	1.7	1.8	1.8	0.1–0.3	0.5–1.5	1.4–2.0	1.6–2.0	1.7–2.0	0.0–0.5	-0.3–1.9	1.0–2.6	1.4–2.4	1.6–2.2
June projection	1.7	1.7	1.9		1.8	1.5–1.9	1.3–2.0	1.5–2.0		1.8–2.0	1.0–2.0	0.8–2.5	1.0–2.2		1.6–2.2
Unemployment rate	3.8	4.4	4.4	4.3	4.0	3.8–3.9	4.1–4.5	4.0–4.6	4.0–4.5	3.8–4.3	3.7–4.0	3.7–5.0	3.7–4.7	3.7–4.6	3.5–4.5
June projection	3.7	3.9	4.1		4.0	3.6–3.8	3.8–4.1	3.9–4.1		3.5–4.2	3.2–4.0	3.2–4.5	3.2–4.3		3.5–4.3
PCE inflation	5.4	2.8	2.3	2.0	2.0	5.3–5.7	2.6–3.5	2.1–2.6	2.0–2.2	2.0	5.0–6.2	2.4–4.1	2.0–3.0	2.0–2.5	2.0
June projection	5.2	2.6	2.2		2.0	5.0–5.3	2.4–3.0	2.0–2.5		2.0	4.8–6.2	2.3–4.0	2.0–3.0		2.0
Core PCE inflation[4]	4.5	3.1	2.3	2.1		4.4–4.6	3.0–3.4	2.2–2.5	2.0–2.2		4.3–4.8	2.8–3.5	2.0–2.8	2.0–2.5	
June projection	4.3	2.7	2.3			4.2–4.5	2.5–3.2	2.1–2.5			4.1–5.0	2.5–3.5	2.0–2.8		
Memo: Projected appropriate policy path															
Federal funds rate	4.4	4.6	3.9	2.9	2.5	4.1–4.4	4.4–4.9	3.4–4.4	2.4–3.4	2.3–2.5	3.9–4.6	3.9–4.9	2.6–4.6	2.4–4.6	2.3–3.0
June projection	3.4	3.8	3.4		2.5	3.1–3.6	3.6–4.1	2.9–3.6		2.3–2.5	3.1–3.9	2.9–4.4	2.1–4.1		2.0–3.0

4) Earnings Growth

- So far, most of the market decline has been driven by valuation destruction. However, as valuation approaches more reasonable level, market's focus will shift to earnings growth (or lack thereof), which may soon encounter headwinds from slowing economic growth, especially if a recession were to materialize.
- Q3 earnings season starts from mid-October leading by large banks. Earnings expectations have been adjusted down quickly. However, with a potential recession, there is room for further cuts (cost increases, demand slowdown, inventory, wage pressure, etc.). Strong US dollar is another factor: close to 40% S&P500 revenue are from outside of US and US dollar appreciation could hurt revenue and earnings of companies with material overseas exposure.
- Consensus still expects 7-8% earnings growth in 2023, which we believe is too optimistic. Guidance and market consensus need to come down for 2023. However, given our assumption of a mild recession, we don't expect significant earnings decline (high inflation provides some support to nominal earnings).
- Market will closely monitor companies' earnings outlook to gauge the economic impact on demand and inflation on margins. So far, companies reported weaker earnings or guidance haven't fared well, such as FedEx, Ford, Nike, chip stocks, etc., which all declined at double digits. Therefore, individual stocks or market could remain volatile around earnings announcements by bellwether companies.
- However, valuation has to some extent priced in weakened expectations. Historically, market bottoms out well ahead of an earnings bottom.

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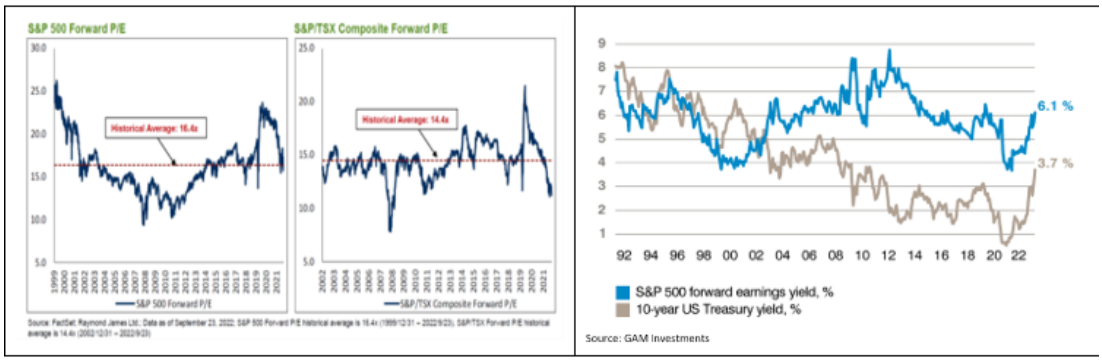
PART II: Market Outlook

5) Valuation

- With recent market pullback, valuation has come down significantly. S&P500 12-month forward P/E is now close to 17x (down from 25x at the peak; long term average 16.4x). Therefore, it looks like a lot of bad news have been priced in. In the last 10 years, severe market drawdowns bottomed around 14-16x P/E, so we are close to the bottom as per valuation.
- Canadian valuation is at more reasonable level than the US market (Canadian market typically trades at discount to the US market given its larger exposure to cyclical sectors and US market's large exposure to tech sector, which usually commands premium valuation). However, the Canadian market currently trades at meaningful discount to historical average while the US market is trading at slightly above historical average.
- Equity Risk Premium (ERP; earnings yield minus real bond yield) has declined slightly as bond yield rose quickly to catch up with earnings yield. However, ERP remains at reasonable levels (2.4%), which suggests equity is still attractive vs. bonds.



6) US Dollar

- US dollar has appreciated significantly (18% YTD). This has some implications: 1) it is beneficial to the US inflation (imported goods are cheaper); 2) it is negative to US corporate earnings (~40% of S&P500 revenue from outside US); 3) it puts pressure on commodity prices; and 4) it poses potential financial risks to other countries (Euro, UK, emerging markets, etc.).
- DXY (US dollar index against a basket of currencies) is now at 20-year high. It is overbought and overvalued by many measures. We believe US dollar could weaken over the medium term (12 months), but in the short term (3-6 months), it could remain at elevated levels (though the pace of appreciation may slow) due to FED aggressive rate hike plan (vs. Euro, UK, Japan, etc.), US economy (despite slowing, still better than most other countries), and safe-haven status amid geopolitical risks.

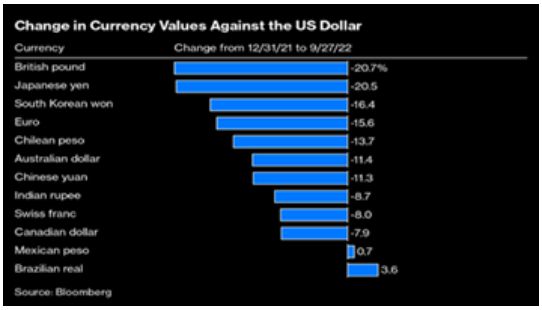
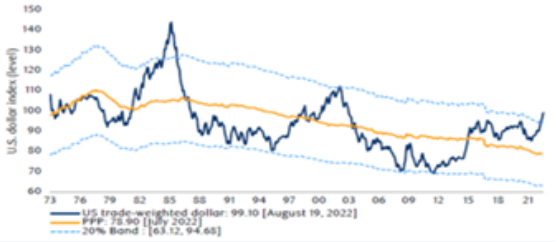


Exhibit 5: U.S. dollar – Purchasing Power Parity valuation



Note: Uses new Fed USD index from December 31, 2019 onward (USTWAFE Index). As at August 19, 2022. Source: U.S. Federal Reserve, Bloomberg, RBC GAM

Exhibit 16: U.S. dollar valuation against Canadian dollar – Purchasing Power Parity valuation

Note: As at August 26, 2022. Source: Bloomberg, RBC GAM

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PART II: Market Outlook

7) View on the Market

- In the near term, there are still great uncertainties on several fronts as we discussed above, including high inflation, slowing economy, tightening monetary conditions and downward revisions of corporate earnings. Market will remain challenging and volatile until we have more clarity on inflation, economy, and geopolitical issues. We need to be patient during this difficult transition period.
- However, looking beyond current challenges, we can see some positives: valuation has come down to reasonable levels, rate hikes are largely reflected in bond yields, and the upcoming recession could be a mild one. With market down ~25%, we are much closer to the bottom than we are to the top, so risk-return profile is favorable to long term investors.
- Overall, inflation remains the key driver for how long this transition period will be. If we see consistent improvements in inflation towards FED's target (e.g., a few months of meaningful declines), market will likely bottom out. Economy and earnings while also play a role in the market trend, but historically market bottomed out well before economy and earnings bottomed out as it is very much forward looking.
- It is a dangerous game to guess the market bottom as investors tend to overreact and market tends to overshoot, but by looking at historical bear market performance and valuation, we may get some rough idea how low the market can go:
- Based on historical bear market performance:
  - For the past 17 bear markets since World War II, recessionary bear markets declined ~33% and lasted 13 months on average, while non-recessionary bear markets declined 24% and lasted 7 months on average. Since we believe there will be a recession coming, we will focus on recessionary bear markets.
  - Looking at the recessionary bear markets closely, we can put them into 3 categories:
    - Structural bear markets (stagflation in 1970's, internet bubble in 20 00/01, and financial crisis in 2007-09): average decline was 52%, and average duration was 23 months. Those are the more severe down markets and take longer to recover.
    - Cyclical bear markets (driven by normal economic cycle/policies): average decline was 24% and average duration was 10 months. Those are typical bear markets.
    - Event driven bear market (2020 pandemic): decline was 34% and duration was 1 month. Those are rare and hard to predict.
    - We think the current bear market is more like a cyclical bear market (based on our assumptions that inflation will not last long as those in the 1970's, valuation is not as stretched as in 2000, and financial conditions are not as bad as those in 2007/08). So far, this bear market is over 9-month-old and dropped 25%, similar to the average of a cyclical bear market.
    - Of course, each bear market is different. High inflation could last another few months or quarters and pace of monetary tightening is very aggressive (both magnitude and speed) this time, so there could be some further downside, but our view again is that we are closer to the bottom than to the top. If we have to apply the average decline of 33% of all recessionary bear markets to the current market, there is another 10-15% downside from here (e.g., 3000-3200 level).
- Based on valuation:
  - We can also look at valuation to gauge the market bottom. For the last 10 years, market seems to find a bottom around 14-16x P/E. Market currently trades at 16.7x. Using 14x and 2022 consensus EPS, market could trade at 3080 while using 16x, market could trade at 3500. This is consistent to the level mentioned above.
  - Another way to look at valuation is to use Equity Risk Premium (ERP), which takes the level of interest rate into consideration. Assuming risk-free rate at 4.5% (FED target funds rate by the end of 2022), 4.5% ERP (historical average) and earnings 15% below current consensus estimates, fair value of S&P500 could be around 3800 (please refer to the bottom right table).

Recessionary Bear Markets

Market Top	Market Bottom	Total Months	Bear Market Decline	Months to return to high from bottom	% Decline of P/E	% Decline of Earnings
Jul-57	Oct-57	3	-20%	11	-24%	-23%
Jan-60	Oct-60	10	-18%	3	-27%	-15%
Nov-68	May-70	18	-36%	22	-32%	-18%
Jan-73	Oct-74	21	-48%	69	-64%	-22%
Feb-80	Apr-80	2	-21%	4	-31%	-6%
Nov-80	Aug-82	21	-27%	3	-27%	-26%
Jul-90	Oct-90	3	-21%	4	-18%	-35%
Mar-00	Oct-02	31	-49%	55	-45%	-26%
Oct-07	Mar-09	17	-59%	49	-43%	-33%
Feb-20	Mar-20	1	-34%	5	-32%	-17%
Average		*13*	*-33%*	*23*	*-34%*	*-22%*

Non-Recessionary Bear Markets

Market Top	Market Bottom	Total Months	Bear Market Decline	Months to return to high from bottom	% Decline of P/E	% Decline of Earnings
Dec-61	Jun-62	6	-28%	15	-35%	6%
Feb-66	Oct-66	8	-22%	7	-36%	-3%
Sep-76	Mar-78	18	-19%	18	-40%	13%
Aug-87	Dec-87	4	-34%	20	-38%	-13%
Jul-98	Oct-98	3	-23%	2	-20%	-1%
Apr-11	Oct-11	6	-19%	5	-39%	5%
Sep-18	Dec-18	3	-20%	4	-32%	5%
Average		*7*	*-24%*	*10*	*-34%*	*2%*
Jan-22		9	-24%		-39%	7%

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

S&P 500 current P/E 17x; Recession valuation around 14-16x;		
S&P 500 2022 Earnings	P/E	Target Price
$220	16x	3,520
$220	15x	3,300
$220	14x	3,080

Valuing the S&P 500 on Sept 23, 2022

	Earnings = 30% below Estimates			Earnings = 15% below Estimates			Earnings = Estimates		
Riskfree Rate	ERP =4%	ERP =5%	ERP =6%	ERP =4%	ERP =5%	ERP =6%	ERP =4%	ERP =5%	ERP =6%
2%	4276	3416	2842	4677	3737	3110	5449	4348	3615
3%	4132	3303	2750	4519	3613	3009	5169	4129	3436
4%	3979	3183	2653	4352	3482	2903	4889	3910	3257
5%	3819	3058	2551	4176	3345	2790	4609	3690	3078
6%	3650	2926	2443	3991	3200	2672	4328	3471	2899

Index was trading at 3693 on 9/23/22. Shaded cells are higher than 3693

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PART III: Recommendations

- Market will continue to be volatile in the short term. It may have periodic rallies when it gets extremely over-sold. However, to have consistent upside, inflation and/or geopolitical issues need to have meaningful improvement. Before that, it continues to be a range bound market.
- As a result, we recommend taking a moderately defensive stance at this junction. We recommend increasing Fixed Income allocation slightly and maintain a small tilt to defensive sectors in Equities. Our expectation is for inflation to begin to fade sometime as recession talk grows louder, at which point we expect to be more aggressive.
- Our detailed recommendations are as follows:
    - Asset Mix:
        - We recommend increasing Fixed Income allocation slightly. Fixed Income has suffered great loss this year and yield has become more attractive (3-4% now), which has to large extent priced in aggressive FED rate hikes. As we expect inflation to moderate over the medium term, and economy is slowing down to a recession, monetary tightening will ease, which will help Fixed Income stabilize. We would increase the duration moderately as well (currently we are concentrated in short term and inflation protected bonds) but maintain our focus on quality vs. yield.
        - However, we continue to recommend an overweight in Equities, as we believe equity offers superior long-term growth and return especially after recent draw-down.
        - We will also keep a higher cash balance to be flexible and nimble to capture potential market opportunities.
    - Sector:
        - We recommend taking a more balanced approach on sector allocation. We continue to overweight healthcare (defensive and secular growth) but will cut Consumer Staples and Utilities to neutral (those two defensive sectors performed well so far this year but are a bit expensive now). We will have a small overweight on Financials and Energy (valuation; oil price rebound; strong cash flow and distribution) and increase allocation to technology slightly as valuation becomes more reasonable. Overall, we are pivoting moderately towards defensive (Healthcare) and value (Financials; Energy).
- Stock selection: We continue to focus on companies with strong pricing power and visible earnings growth. As mentioned above, market will be driven entirely by earnings growth to offset valuation contraction. High valuation stocks with limited earnings will be under more pressure.
- Markets: we continue to favor North America markets as Europe faces geopolitical uncertainties and energy supply issues with the ongoing Russia/Ukraine war, and Emerging markets are under stress with strong US dollar, high commodity prices, as well as slow-down in China (we will revisit it when global economy starts to pick up). Within North America, we favor Canadian equities slightly (high commodity prices, more depressed valuation, and higher dividend yield).
- Diversification (across asset classes and sectors) is the key to build strong and resilient portfolios, especially in times like this. We also need to be nimble to capture potential opportunities from high market volatility. To borrow a phrase from the FED, during this transition period, our strategy is "data dependent".

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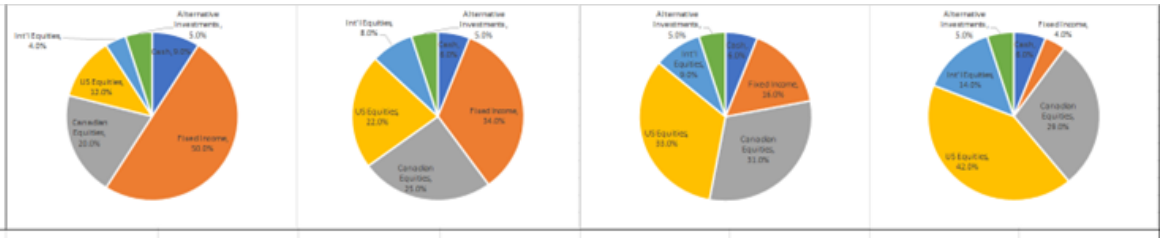
Managed Account Mandates - Asset Allocation

Based on our view of the economy, interest rates, and equity market outlook, we increased our allocation to Fixed Income moderately to provide some stability amid the current market volatility (within Fixed Income, we increase duration slightly). We continue to have an overweight in Equities, as we believe equity offers better long-term return especially after a 25% drop over the last 10 months. Within Equities, we increase allocation to Canadian equities and reduce allocation to US equities as we believe Canadian equities are at more attractive valuation, have higher dividend yield and better inflation protection. We remain underweight in International Equities as Europe and emerging markets continue to face geopolitical and currency risks. We are also overweight in Cash to maintain flexibility (we may use cash-like instruments, such HISA, GIC, money market funds, or ETFs to enhance return on cash holdings).

Tactical Asset Allocation Pie Chart



Description				
	For investors with intermediate-term time horizons who are sensitive to short-term losses yet want to participate in the long-term growth of financial markets. The portfolio, which fixed-income securities tend to make up the largest proportion of holdings, seeks to keep investors well ahead of the effects of inflation while maintaining some principal stability. The portfolio has characteristics that may deliver returns lower than that of the broader market with lower levels of risk and volatility.	For investors seeking a balance between capital preservation and capital growth. This portfolio, which is a split between fixed-income securities and equities, seeks to keep investors well ahead of the effects of inflation while maintaining some principal stability. With slighlty over half of the portfolio invested in a diversified mix of Canadian and international equities, investors should be comfortable with moderate fluctuations in the portfolios.	For investors with long-term time horizons who are not sensitive to short-term losses and want to participate in the long-term growth of the financial markets. This portfolio, which has a higher weighting in equities, seeks to keep investors well ahead of the effects of inflation with principal stability as a secondary consideration.	For investors with long-term time horizons who are not sensitive to short-term losses and want to participate in the long-term growth of the financial markets. This portfolio, which is primarily invested in equities, seeks to keep investors well ahead of the effects of inflation with little regard for maintaining principal stability. The portfolio may deliver returns comparable to those of the broader equity market with similar levels of risk and volatility.

	Income Focus				Balanced				Growth				High Growth			
	Target	Apr '22	July '22	Oct '22	Target	Apr '22	July '22	Oct '22	Target	Apr '22	July '22	Oct '22	Target	Apr '22	July '22	Oct '22
Cash	5%	5%	9%	6.0%	0.0%	2.0%	6%	5.0%	0.0%	2.0%	6%	5.0%	0.0%	2.0%	6%	5.0%
Fixed Income	60%	55%	50%	52.0%	45.0%	38.0%	34%	36.0%	25.0%	18.0%	16%	17.0%	10.0%	8.0%	4%	5.0%
Canadian Equities	20%	24%	20%	21.0%	25.0%	28.0%	25%	25.0%	35.0%	37.0%	31%	33.0%	30.0%	33.0%	29%	30.0%
US Equities	10%	12%	12%	12.0%	20.0%	25.0%	22%	21.0%	30.0%	32.0%	33%	32.0%	40.0%	42.0%	42%	41.0%
Int'l Equities	5%	4%	4%	4.0%	10.0%	7.0%	8%	8.0%	10.0%	11.0%	9%	8.0%	20.0%	15.0%	14%	14.0%
Alt. Investments	0.0%	0.0%	5%	5.0%	0.0%	0.0%	5%	5.0%	0.0%	0.0%	5%	5.0%	0.0%	0.0%	5%	5.0%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Performance of Portfolio Mandates
Summary:

Portfolio Name	As of Date	1 Month	3 Month (Q3)	6 Month	YTD	1 Year	Since Inception (Sept. 1, 2021)
Income Focus	9/30/2022	-1.31%	0.84%	-4.59%	-6.44%	-3.43%	-4.54%
Benchmark*	9/30/2022	-2.00%	0.00%	-7.86%	-11.73%	-8.65%	-10.77%
Outperformance (Underperformance)		**0.69%**	**0.84%**	**3.27%**	**5.29%**	**5.22%**	**6.23%**
* 5% cash, 20% S&P TSX Capped Composite TR, 10% S&P500 TR CAD, 60% ICE BofA CA Broad Market TR LOC							
Balanced	9/30/2022	-2.27%	0.48%	-6.85%	-8.57%	-4.29%	-5.87%
Benchmark*	9/30/2022	-2.84%	-0.21%	-9.80%	-13.32%	-9.20%	-11.70%
Outperformance (Underperformance)		**0.57%**	**0.69%**	**2.95%**	**4.75%**	**4.91%**	**5.83%**
* 0% cash, 25% S&P TSX Capped Composite TR, 20% S&P500 TR CAD, 10% MSCI EAFE GR CAD, 45% ICE BofA CA Broad Market TR LOC							
Growth	9/30/2022	-3.09%	0.27%	-8.79%	-9.77%	-4.34%	-6.51%
Benchmark*	9/30/2022	-3.60%	-0.31%	-11.44%	-13.86%	-8.57%	-11.38%
Outperformance (Underperformance)		**0.51%**	**0.58%**	**2.65%**	**4.09%**	**4.23%**	**4.87%**
* 0% cash, 35% S&P TSX Capped Composite TR, 30% S&P500 TR CAD, 10% MSCI EAFE GR CAD, 25% ICE BofA CA Broad Market TR LOC							
High Growth	9/30/2022	-3.62%	0.07%	-9.72%	-11.36%	-5.61%	-8.18%
Benchmark*	9/30/2022	-4.22%	-0.52%	-12.61%	-15.37%	-9.55%	-12.62%
Outperformance (Underperformance)		**0.60%**	**0.59%**	**2.89%**	**4.01%**	**3.94%**	**4.44%**
* 0% cash, 30% S&P TSX Capped Composite TR, 40% S&P500 TR CAD, 20% MSCI EAFE GR CAD, 10% ICE BofA CA Broad Market TR LOC							
Source: Morningstar Direct							

Date created: October 24th, 2022
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VÊRED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

Income Focus Portfolio Performance Report

2022 Q3

Description

This mandate is for investors with intermediate-term time horizons who are sensitive to short-term losses yet want to participate in the long-term growth of financial markets. The portfolio, which fixed-income securities tend to make up the largest proportion of holdings, seeks to keep investors well ahead of the effects of inflation while maintaining some principal stability. The portfolio has characteristics that may deliver returns lower than that of the broader market with lower levels of risk and volatility.

Performance Analysis

The Income Focus mandate managed to have a small positive return in Q3 (+0.84%) despite adverse market conditions, thanks to dividend and interest incomes from our equity, fixed income, and alternative investments holdings, as well as strong US dollar. Our Canadian equity holdings performed better than benchmark (flat vs. -1.4% of the TSX Index) and our fixed income holdings also outperformed the fixed income benchmark (high credit quality and shorter duration).

Portfolio Name	As of Date	1 Month	3 Month (Q3)	6 Month	YTD	1 Year	Since Inception (Sept. 1, 2021)
Income Focus	9/30/2022	-1.31%	0.84%	-4.59%	-6.44%	-3.43%	-4.54%
Benchmark*	9/30/2022	-2.00%	0.00%	-7.86%	-11.73%	-8.65%	-10.77%
Outperformance (Underperformance)		**0.69%**	**0.84%**	**3.27%**	**5.29%**	**5.22%**	**6.23%**

* 5% cash, 20% S&P TSX Capped Composite TR, 10% S&P500 TR CAD, 60% ICE BoA CA Broad Market TR LOC

Asset Mix and Top Holdings

Current Asset Allocation

Portfolio Date: 9/30/2022

	%
Canadian Equity	18.4
U.S. Equity	13.3
International Equity	3.7
Fixed Income	39.8
Cash	9.9
Other	14.9
Total	**100.0**

Top 15 Holdings

	Shares	Portfolio Weighting %
Vanguard Short-Term Corporate Bond ETF		11.34
BMO Aggregate Bond ETF		9.99
iShares Core US Aggregate Bond ETF		8.01
iShares Core Canadian Short Term Bd ETF		7.93
BMO Laddered Preferred Share ETF		7.50
iShares 0-5 Year TIPS Bond ETF		5.11
Centurion Apartment Real Estate Inv F		5.08
iShares Core MSCI EAFE IMI ETF		3.82
Royal Bank of Canada		1.61
The Toronto-Dominion Bank		1.41
Intact Financial Corp		1.29
Brookfield Asset Management Inc Registered Shs -A- Limited Vtg		1.18
Enbridge Inc		1.14
Nutrien Ltd		1.13
Canadian National Railway Co		1.03

Sector Weightings

Basic Materials %	9.42
Consumer Cyclical %	6.67
Financial Services %	24.38
Real Estate %	1.88
Consumer Defensive %	7.08
Healthcare %	6.98
Utilities %	3.34
Communication Services %	6.36
Energy %	10.72
Industrials %	11.75
Technology %	11.41

Portfolio Statistics

P/E Ratio	12.80
P/C Ratio	8.58
P/B Ratio	1.99
Avg Mkt Cap (mil)	43,141.43

Portfolio Statistics

Avg Eff Duration	4.59
Avg Eff Maturity	5.60
Avg Credit Quality	AA
Avg Coupon	2.21

Date created: October 24th, 2022

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VÊRED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

Balanced Portfolio Performance Report

2022 Q3

Description

This mandate is for investors seeking a balance between capital preservation and capital growth. This portfolio, which is a split between fixed-income securities and equities, seeks to keep investors well ahead of the effects of inflation while maintaining some principal stability. With slightly over half of the portfolio invested in a diversified mix of Canadian and international equities, investors should be comfortable with moderate fluctuations in the portfolios.

Performance Analysis

The Balanced mandate had a modest positive return in Q3 (+0.48%), outperforming the benchmark by 0.69%, thanks to dividend and interest incomes from our equity, fixed income, and alternative investments holdings as well as strong US dollar. Our Canadian equity holdings performed better than benchmark (flat vs. -1.4% of the TSX Index) and our fixed income holdings also outperformed the fixed income benchmark (high credit quality, shorter duration).

Portfolio Name	As of Date	1 Month	3 Month (Q3)	6 Month	YTD	1 Year	Since Inception (Sept. 1, 2021)
Balanced	9/30/2022	-2.27%	0.48%	-6.85%	-8.57%	-4.29%	-5.87%
Benchmark*	9/30/2022	-2.84%	-0.21%	-9.80%	-13.32%	-9.20%	-11.70%
Outperformance (Underperformance)		**0.57%**	**0.69%**	**2.95%**	**4.75%**	**4.91%**	**5.83%**

* 0% cash, 25% S&P TSX Capped Composite TR, 20% S&P500 TR CAD, 10% MSCI EAFE GR CAD, 45% ICE BofA CA Broad Market TR LOC

Asset Mix and Top Holdings

Current Asset Allocation

Portfolio Date: 9/30/2022

	%
Canadian Equity	23.2
U.S. Equity	23.6
International Equity	7.5
Fixed Income	27.5
Cash	6.7
Other	11.5
Total	**100.0**

Top 15 Holdings

	Shares	Portfolio Weighting %
iShares Core MSCI EAFE IMI ETF		7.68
Vanguard Short-Term Corporate Bond ETF		7.25
iShares Core Canadian Short Term Bd ETF		6.97
BMO Aggregate Bond ETF		6.02
Centurion Apartment Real Estate Inv F		5.11
iShares Core US Aggregate Bond ETF		5.03
BMO Laddered Preferred Share ETF		4.71
iShares 0-5 Year TIPS Bond ETF		4.11
Royal Bank of Canada		2.02
The Toronto-Dominion Bank		1.78
Intact Financial Corp		1.62
Brookfield Asset Management Inc Registered Shs -A- Limited Vtg		1.49
Enbridge Inc		1.44
Nutrien Ltd		1.41
Canadian National Railway Co		1.30

Sector Weightings

Basic Materials %	8.53
Consumer Cyclical %	7.08
Financial Services %	22.54
Real Estate %	1.76
Consumer Defensive %	7.84
Healthcare %	8.55
Utilities %	3.30
Communication Services %	6.67
Energy %	9.59
Industrials %	11.55
Technology %	12.58

Portfolio Statistics

P/E Ratio	12.97
P/C Ratio	8.78
P/B Ratio	2.00
Avg Mkt Cap (mil)	47,860.89

Portfolio Statistics

Avg Eff Duration	4.37
Avg Eff Maturity	5.27
Avg Credit Quality	AA
Avg Coupon	2.13

Date created: October 24th, 2022

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VÊRED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

Growth Portfolio Performance Report

2022 Q3

Description

This mandate is for investors with long-term time horizons who are not sensitive to short-term losses and want to participate in the long-term growth of the financial markets. This portfolio, which has a higher weighting in equities, seeks to keep investors well ahead of the effects of inflation with principal stability as a secondary consideration.

Performance Analysis

The Growth mandate was up 0.27% in Q3, outperforming the relevant benchmark by 0.58%, thanks to dividend and interest incomes from our equity, fixed income, and alternative investments holdings as well as strong US dollar. Our Canadian equity holdings performed better than benchmark (flat vs. -1.4% of the TSX Index) and our fixed income holdings also outperformed the fixed income benchmark (high credit quality, shorter duration). Those was partially offset by our US equity holdings (-5.87% vs -4.88% benchmark).

Portfolio Name	As of Date	1 Month	3 Month (Q3)	6 Month	YTD	1 Year	Since Inception (Sept. 1, 2021)
Growth	9/30/2022	-3.09%	0.27%	-8.79%	-9.77%	-4.34%	-6.51%
Benchmark*	9/30/2022	-3.60%	-0.31%	-11.44%	-13.86%	-8.57%	-11.38%
Outperformance (Underperformance)		**0.51%**	**0.58%**	**2.65%**	**4.09%**	**4.23%**	**4.87%**

* 0% cash, 35% S&P TSX Capped Composite TR, 30% S&P500 TR CAD, 10% MSCI EAFE GR CAD, 25% ICE BofA CA Broad Market TR LOC

Asset Mix and Top Holdings

Current Asset Allocation

Portfolio Date: 9/30/2022

	%
Canadian Equity	28.8
U.S. Equity	35.0
International Equity	8.5
Fixed Income	12.5
Cash	6.6
Other	8.7
Total	**100.0**

Top 15 Holdings

	Shares	Portfolio Weighting %
iShares Core MSCI EAFE IMI ETF		6.74
Centurion Apartment Real Estate Inv F		5.12
Vanguard Short-Term Corporate Bond ETF		4.15
BMO Aggregate Bond ETF		3.02
BMO Laddered Preferred Share ETF		2.84
Royal Bank of Canada		2.51
The Toronto-Dominion Bank		2.21
iShares 0-5 Year TIPS Bond ETF		2.06
Intact Financial Corp		2.02
iShares Core US Aggregate Bond ETF		2.02
iShares Core Canadian Short Term Bd ETF		2.00
Vanguard FTSE Emerging Mkts All Cap ETF		1.91
Microsoft Corp		1.90
Brookfield Asset Management Inc Registered Shs -A- Limited Vtg		1.85
CVS Health Corp		1.80

Sector Weightings

Basic Materials %	8.16
Consumer Cyclical %	7.17
Financial Services %	21.98
Real Estate %	1.56
Consumer Defensive %	8.00
Healthcare %	8.93
Utilities %	3.31
Communication Services %	7.02
Energy %	9.26
Industrials %	11.02
Technology %	13.58

Portfolio Statistics

P/E Ratio	13.14
P/C Ratio	8.91
P/B Ratio	2.06
Avg Mkt Cap (mil)	51,846.24

Portfolio Statistics

Avg Eff Duration	4.41
Avg Eff Maturity	5.51
Avg Credit Quality	AA
Avg Coupon	2.07

Date created: October 24th, 2022

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Description

This mandate is for investors with long-term time horizons who are not sensitive to short-term losses and want to participate in the long-term growth of the financial markets. This portfolio, which is primarily invested in equities, seeks to keep investors well ahead of the effects of inflation with little regard for maintaining principal stability. The portfolio may deliver returns comparable to those of the broader equity market with similar levels of risk and volatility.

Performance Analysis

The High Growth mandate was flat in Q3, outperforming the relevant benchmark by 0.59%, thanks to dividend and interest incomes from our equity, fixed income, and alternative investments holdings as well as strong US dollar. Our Canadian equity holdings performed better than benchmark (flat vs. -1.4% of the TSX Index) and our fixed income holdings also outperformed the fixed income benchmark (high credit quality, shorter duration). Those was partially offset by our US equity holdings (-5.87% vs -4.88% of the S&P Index) and weak performance of Emerging Market holdings.

Portfolio Name	As of Date	1 Month	3 Month (Q3)	6 Month	YTD	1 Year	Since Inception (Sept. 1, 2021)
High Growth	9/30/2022	-3.62%	0.07%	-9.72%	-11.36%	-5.61%	-8.18%
Benchmark*	9/30/2022	-4.22%	-0.52%	-12.61%	-15.37%	-9.55%	-12.62%
Outperformance (Underperformance)		**0.60%**	**0.59%**	**2.89%**	**4.01%**	**3.94%**	**4.44%**

* 0% cash, 30% S&P TSX Capped Composite TR, 40% S&P500 TR CAD, 20% MSCI EAFE GR CAD, 10% ICE BofA CA Broad Market TR LOC

Asset Mix and Top Holdings

Current Asset Allocation

Portfolio Date: 9/30/2022

	%
Canadian Equity	27.0
U.S. Equity	44.0
International Equity	13.2
Fixed Income	3.7
Cash	6.6
Other	5.6
Total	**100.0**

Top 15 Holdings

	Shares	Portfolio Weighting %
iShares Core MSCI EAFE IMI ETF		8.69
Centurion Apartment Real Estate Inv F		5.14
Vanguard FTSE Emerging Mkts All Cap ETF		4.79
Microsoft Corp		2.43
Royal Bank of Canada		2.35
CVS Health Corp		2.30
Apple Inc		2.24
Merck & Co Inc		2.11
Amazon.com Inc		2.09
Vanguard Short-Term Corporate Bond ETF		2.08
The Toronto-Dominion Bank		2.07
iShares Core Canadian Short Term Bd ETF		2.00
Intact Financial Corp		1.90
Exxon Mobil Corp		1.81
Dollar General Corp		1.75

Sector Weightings

Basic Materials %	7.53
Consumer Cyclical %	7.61
Financial Services %	20.64
Real Estate %	1.48
Consumer Defensive %	8.49
Healthcare %	9.93
Utilities %	3.30
Communication Services %	7.36
Energy %	8.36
Industrials %	10.69
Technology %	14.63

Portfolio Statistics

P/E Ratio	13.23
P/C Ratio	9.06
P/B Ratio	2.07
Avg Mkt Cap (mil)	55,152.19

Portfolio Statistics

Avg Eff Duration	2.76
Avg Eff Maturity	3.02
Avg Credit Quality	A
Avg Coupon	2.33

Date created: October 24th, 2022

* All returns stated in this document are gross returns reflective of an investment's return before expenses or any deduction.

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