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Sent: March 22, 2023 2:30 PM
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Subject: VALUED CLIENT MAIL LIST: Economic Outlook - Q1 2023

iA Private Wealth

MONACO
CAPITAL
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IT FEELS LIKE DEATH BY A THOUSAND CUTS

WE'RE ENTITLED TO FEEL a little confused and frustrated about the current state of global economic affairs. It's now been 3 years since Covid disrupted the world and the financial markets. This has always seemed sufficient time to witness a return to stable recovery. In fact it has but it doesn't feel like it.

INSTEAD we continue to be subject to on-going events creating volatility and undermining economic and investor confidence. None of them have individually triggered a recession but the steady stream of unfavourable economic and business news conveys the feeling of creating a recession "by a thousand cuts".

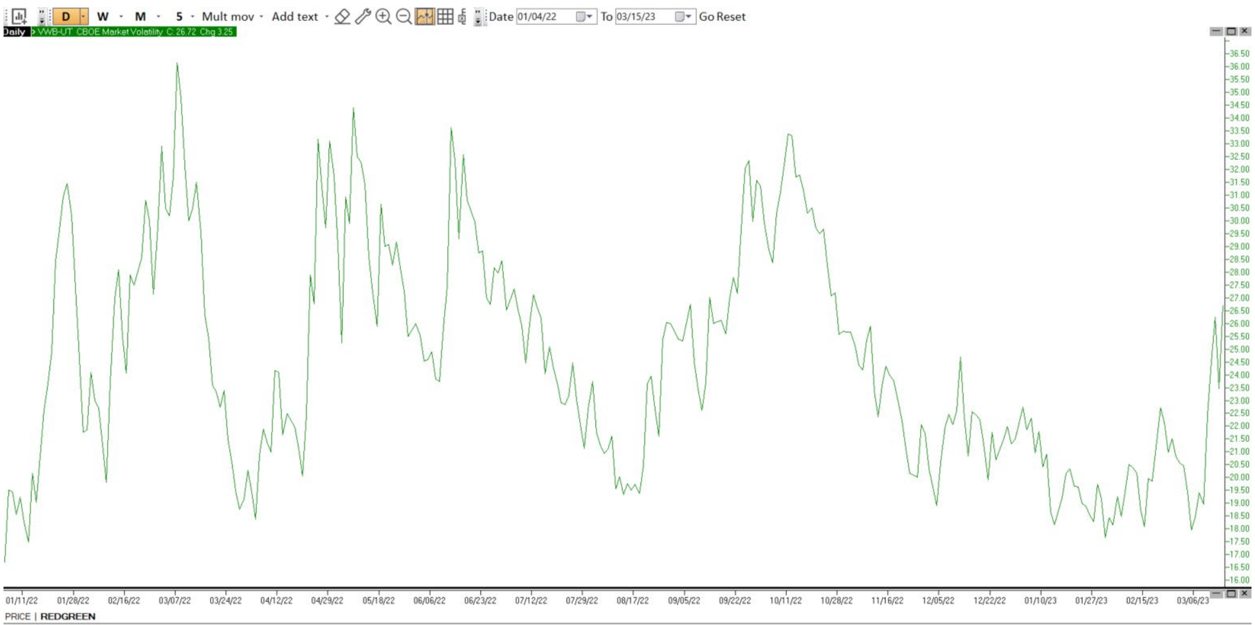
THERE IS APPETITE and underlying strength for recovery to resume. We have seen it in the TSX stock market performance since the Covid outbreak.

TSX Mar 2020 to Mar 2023

Source: Thomson Reuters

HOWEVER, bad news always seems to follow good causing a reaction in investor sentiment as reflected by the volatility (VIX) index; the higher the index the higher the anxiety.

Market Volatility Index (VIX) Jan 2022 to Mar 2023



Source: Thomson Reuters

A brief history of recent economic news:

NEGATIVE	POSITIVE
• Covid breaks out	○ A vaccine is developed
• Supply chain and labour issues	○ Progressive return to work
• Inflation triggering interest rate increases	○ Housing, auto, energy and food prices gradually declining
• Concerns about the soundness of the banking system	○ Federal central bank and larger financial institutions stepping in to support the system

WHAT ABOUT RECESSION?

THE FEAR of another recession is helping fuel investor anxiety but comparison to the 2008 recession is inappropriate. What was a situation of excessive mortgage and consumer lending fuelled by low interest rates and weak regulatory guidelines has now given way to historically higher interest rates and much tighter lending rules.

MOREOVER, we continue to generate <u>positive</u>, if not lower, GDP which has avoided negative territory post Covid over the inflation cycle. Employment remains strong and corporate earnings remain firm except for tech.

THEREFORE, what we are experiencing is <u>a new normal</u>, fuelled by abundant mixed and often biased business news and social media. This has sent the anxiety index to a higher threshold level again. But this is not preventing progress and recovery to occur. What used to be a numerical VIX bar of 14 in assessing volatility and market risk has now been raised higher. Over the past post Covid and Inflation cycle during which the financial markets have been re-building themselves, the average index has been 21.

IT REALLY MEANS PROGRESS HAS BECOME A BIT NOISIER.

IN THE MEANTIME . . .

We continue to recommend diligence with respect to reacting to volatility and market risk in our portfolios. Understanding the cycles present opportunities as they fluctuate we should judiciously consider systematically lessening defensive strategies to benefit from emerging opportunities as the financial markets look forward to recovery.

Regards

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