ivari Portfolio Commentary

Fourth Quarter – 2022

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Market performance

Equity markets finally offered a positive return in the fourth quarter after a challenging year in 2022; the bond markets were relatively flat in Q4. The US reported that the CPI edged 0.1% lower (seasonally adjusted basis) in December, following a 0.1% increase in November. Over the last 12 months, the unadjusted index has risen 6.5%, which was in line with market estimates. Canadian CPI data were weaker than the markets anticipated in October and November, and the drop was broad based. Demand is naturally deteriorating due to the wealth effect. Consumers are finally cutting back on non-essentials with cooling in goods and services. The Fed and BoC, however, are determined to fight inflation by increasing their policy rate for the seventh time this year and implying there are more hikes to come. But there is no doubt that we are very close to terminal.

Emerging markets, led by Chinese stocks, performed strongly in November. After the protests happened in various cities, China had aggressively pivoted its policy by prioritizing the economy ahead of health. We saw a series of reopening policies coming from the Chinese government, and a subsequent explosion of Covid-19 cases, however it is widely expected that this is a directional move and related policies will only get looser. Government strategies have been launched to support economies, and to boost demand in China. Generally, it is a friendlier business environment. EAFE also out-performed North America, helped by a stronger euro and yen.

Benchmark returns in % at December 31, 2022	1 year	3 years	5 years	10 years	10-year standard deviation[1]
S&P/TSX Composite Index	-5.84%	7.54%	6.85%	7.74%	12.07%
S&P 500 Index (C$)	-12.35%	9.18%	11.07%	16.12%	12.49%
MSCI World Index (C$)	-12.38%	6.42%	7.73%	12.29%	11.78%
FTSE Canada Universe Bond Index	-11.69%	-2.20%	0.27%	1.63%	4.79%

[1]Standard deviation: A measure of risk in terms of the volatility of returns. It represents the historical level of volatility in returns over set periods. A lower standard deviation means the returns have historically been less volatile and vice-versa. Historical volatility may not be indicative of future volatility. Standard Deviation calculated on Series Institutional Class.
Source: Bloomberg Finance L.P., FTSE

CI GLOBAL ASSET MANAGEMENT | Multi-Asset Management

Portfolio performance

Our investment committee determined it was appropriate to position portfolios defensively by underweighting equity since the first quarter and cutting bond exposure again in the third quarter. As a result, we were holding more cash for future opportunities. We took the opportunity to redeploy in equities and bonds following the October US CPI print as we re-priced the odds for a soft landing. Thus, asset allocation was the primary driver of performance in Q4 as a modest underweight to US stocks and bonds benefited results.

Within equity, we find Canada, Japan, emerging markets, energy, and health care factor more favorably given our outlook, while we underweight US, eurozone, and IT sectors. Our exposure to value factor and the energy sector added significant value in this quarter. Key contributors included CI Income Fund, CI Enhanced Government Bond ETF, and CI Morningstar Canada Value Index.

Segregated fund net total returns in % at December 31, 2022	1 year	3 years	5 years	10 years	MER[1]	Since Inception Standard Deviation[2]
ivari CI Conservative GIP – imaxxGIF	-12.61%	-1.67%	0.07%	2.63%	3.42%	**6.1%**
ivari CI Canadian Balanced GIP - imaxxGIF	-12.31%	-1.02%	0.45%	2.63%	3.72%	**6.7%**
ivari CI Balanced GIP - imaxxGIF	-12.44%	-0.33%	1.05%	4.01%	3.43%	**7.6%**
ivari CI Growth GIP - imaxxGIF	-12.39%	0.70%	1.76%	5.18%	3.44%	**9.2%**
ivari CI Maximum Growth GIP - imaxxGIF	-12.73%	1.87%	2.37%	6.00%	3.73%	**11.0%**

Inception date: September 1, 2012; [1]MER: Management expense ratio.
[2]Standard deviation: A measure of risk in terms of the volatility of returns. It represents the historical level of volatility in returns over set periods. A lower standard deviation means the returns have historically been less volatile and vice-versa. Historical volatility may not be indicative of future volatility. Standard Deviation calculated on Series Institutional Class. Source: Bloomberg Finance L.P., FTSE
Source: CI GAM | Multi-Asset Management, Bloomberg Finance L.P. and FTSE as at June 30, 2022.
MER: annual audited financial statements as of December 31, 2021 (imaxx GIF 75/100 Class).
Any amount that is allocated to a segregated fund is invested at the risk of the contract holder and may increase or decrease in value. Past results should not be construed as indicative of future performance. Actual fund performance is expected to vary.
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Outlook and positioning

The "boss of the boss": inflation

It is fair to assume inflation is cooling. Supply chain disruption has eased, as evidenced by the falling commodity prices. As interest rates rise, the willingness and ability of consumers to pay up has diminished. We have seen this in the property sector as mortgage rates have more than doubled. However, we recognize the road to 2% target inflation is a long one. Structurally, inflation is likely higher than the previous decade due to demographics, protectionism, and the transition to zero/lower emissions. It is expected that China will significantly reduce Covid-19 restrictions in the coming months and that could boost demand. With interest rates above neutral since the summer of 2022 and likely throughout 2023, North American inflation will likely fall to 3% at the end of 2023.

The "boss": central banks

While rate hikes have ran more than half of their course with multiple 75 basis point hikes in 2022, the tone will likely remain hawkish as that is an important component to taper consumer and investor enthusiasm that causes asset bubbles and inflation. We expect the terminal rates to be 4.5- 5% in both Canada and the US, likely reached by mid-2023. There were calls by the markets for central banks to cut rates quickly as a slowdown or a recession was likely to follow. We do not anticipate higher rates to impact companies' and individuals' finances until later as most loans are set for years. This means economies will remain relatively resilient for the next 12 months. However, interest rates at 4.5-5% is unsustainable. The longer-term average is probably 2.5-3%.

Fixed income markets

Fixed income has proven to be not so boring with very high volatility in 2022. With 4-5% near-term central bank rates and 2.5-3% long-term rates, 10-year US Treasury is undervalued at 3.45% yield and Canada 10-year is overvalued at 2.87%. We are seeing value in short duration credit as they offer a solid premium and low duration risk.

Equity

It is fair to say the world's supposed best equity markets, the US, are largely overvalued. We have the S&P 500 Index at 4200 as the level for a soft-landing scenario and we were almost there. The US has been favored as there were too many problems in other places of the world. Europe was dealing with the impacts of the Russia/Ukraine war and the Chinese economy was slowing rapidly due to very strict Covid-19 policies that kept people from being active. In 2023, the Chinese economy will be on the road to normal with growth likely outpacing developed markets by 4- 5%. We expect capital flows to return to China, boosting the valuations and prices of Chinese companies.

Locally, Canadian markets will benefit from stable commodity prices and attractive valuations. The economy itself will be resilient due to immigration and the tailwinds of the property sector. Energy is interesting. On one hand, everybody hates it as it is associated with pollution. On the other hand, that opposition leads to supply constraint, which supports prices. Normally at higher energy prices companies will be expanding capacity. This time, they are cutting back capital spending and returning cash to shareholders. They are the "cash cows".

It is harder to predict Europe. Valuations are compelling but there are more potential problems than other regions: stubborn inflation, low tolerance for higher interest rates, and commodity supply issues, to name a few. Investors need to be selective in Europe and the US. Higher rates helped to taper valuations in the technology sector. Some of them will continue to deliver high growth and eventually be proven undervalued.

Foreign currencies

The US central bank was amongst the most aggressive in hiking rates in 2022 and as a result, the US dollar was the "king". As the markets expect the Fed to pause sometime in the next six months, the US dollar has probably peaked versus a basket of currencies including the Canadian dollar, yen, the euro, and sterling. Investors should be actively hedging the US dollar. Speaking of yen, after falling dramatically versus all currencies in 2022 as it was the most dovish central bank, it is expected to have some upside as policy may have to shift in 2023.

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