Wickham Investment Counsel Inc.

Quarterly Review **Dec 2021**

A MASSIVE RUN

Canadian and global markets saw one of the most significant recoveries on record in 2021, with the TSX and S&P500 hitting multiple all-time highs. In fact, from a historical perspective, the market gains as shown on the Table below, have been mind boggling, especially under the dire circumstances of Covid. The TSX was up a pedestrian 48.2% over the past three years; the S&P500 has gained 90.1% and the rocket fueled NASDAQ composite index by 135.8%. Numbers like these tend to put the F-U-N in investing and a swagger in your step.

Big runs in markets are not without precedent. The TSX posted three consecutive years of double-digit annual returns from 1995 to 1997, four consecutive double-digit returns from 2003 to 2006, and two double-digit returns in 2009 and 2021. Markets are cyclical and recessionary lows are usually followed by explosive rallies that can go well beyond expectations.

As we enter 2022, it is natural to ask if these blistering gains can continue. Or do elevated price-earnings valuations and previous strong momentum pose a headwind to further upside in equities and does this year potentially offer more volatility and vulnerability should economic conditions deteriorate? Supporting the view that 2022 offers further upside in equities has been the ongoing spectacular recovery in corporate earnings, which are now tracking ahead of their pre-pandemic expected trajectory.

Analysts have been consistently underestimating profits in the recovery, but still look for double-digit profit growth in 2022, after a stunning gain of about 47% in 2021 for the S&P500, for example. This suggests that the S&P500 index could rise to 5,200 by year end 2022 (according to Credit Suisse). In parallel fashion, the TSX Composite index could broach 23,000. Some market analysts are more optimistic. The outlook for global growth appears to be moderating this year, but still remains above normal levels from the past.

If 2022 is a transition year from extraordinary growth, the primary risk is that the Federal Reserve in the US and the Bank of Canada become too aggressive in fighting inflation, as it has become a political issue. Even with the risks of Omicron, the US Fed has signaled it's firm resolve to reduce the bond buying stimulus program early in 2022 and has signaled three Fed Fund rate hikes this year as "inflation developments and the further improvement in the labor market". Historically, all Fed tightening cycles have ended with some form of fiscal or economic calamity related to excesses in some real or financial assets. Financial markets have already reacted negatively to the Fed's more hawkish tone fearing policy overkill.

Real (after inflation is subtracted) inflation rates have been unsustainably low and normal yields will need to rise over time. The yield curve usually flattens as a recovery matures and the gap between long and short-term yields narrows. It is now less than 1% between the ten and two year government bond yields. Occasionally, the yield curve "inverts" and short rates rise above long rates, and invariably a recession is the outcome. Markets do not like interest rates surprises.

In this environment and considering the risks, equities are favored over fixed income, and strong companies based on growth fundamentals, profitability and dividends should perform. The best days for the "meme" stocks, non-earning companies, BITCOIN, SPACS, and speculative ventures may have passed in early 2021. Exposure to alternative investments will also likely lead to enhanced portfolio risk adjusted returns.

	Dec 31, 2014	Dec 31, 2015	Dec 31, 2016	Dec 31, 2017	Dec 31, 2018	Dec 31, 2019	Dec 31, 2020	Dec 31, 2021	% Change Dec-Dec
Stock Market Indices									
S&P/TSX Comp.	14,632	13,010	15,288	16,209	14,323	17,063	17,433	21,223	21.74%
Dow Jones Ind.	17,823	17,425	19,763	24,719	23,328	28,538	30,607	36,338	18.72%
S&P 500	2,059	2,044	2,239	2,674	2,507	3,231	3,756	4,766	26.89%
Nasdaq Comp.	4,736	5,007	5,383	6,903	6,635	8,973	12,888	15,645	21.39%
Commodities									
Gold - US$	1,184	1,060	1,252	1,309	1,281	1,523	1,895	1,829	-3.48%
Crude Oil WTI - US$	53.27	37.04	53.72	60.42	45.41	61.06	48.52	75.21	55.01%
Natural Gas - US$	2.91	2.35	3.74	2.95	2.94	2.19	2.54	3.73	46.85%
Currencies									
€ in Cdn $	1.41	1.50	1.42	1.50	1.56	1.46	1.56	1.44	-7.69%
£ in Cdn $	1.82	2.04	1.66	1.69	1.74	1.72	1.74	1.71	-1.72%
US$ in Cdn $	1.16	1.38	1.34	1.26	1.37	1.30	1.27	1.26	-0.79%
Interest Rates									
Cdn Prime rate	3.00	2.70	2.70	3.20	3.95	3.95	2.45	2.45	0.00%
US Prime rate	3.25	3.50	3.50	4.50	5.50	4.75	3.25	3.25	0.00%
Cdn 10 Yr bond	1.79	1.41	1.72	2.04	1.95	1.64	0.70	1.45	107.14%
US 10 Yr bond	2.17	2.27	2.44	2.40	2.69	1.92	0.93	1.52	63.44%

Source: The Globe & Mail