Insights & Strategies

PRIVATE CLIENT SOLUTIONS

December 1, 2022

Contents

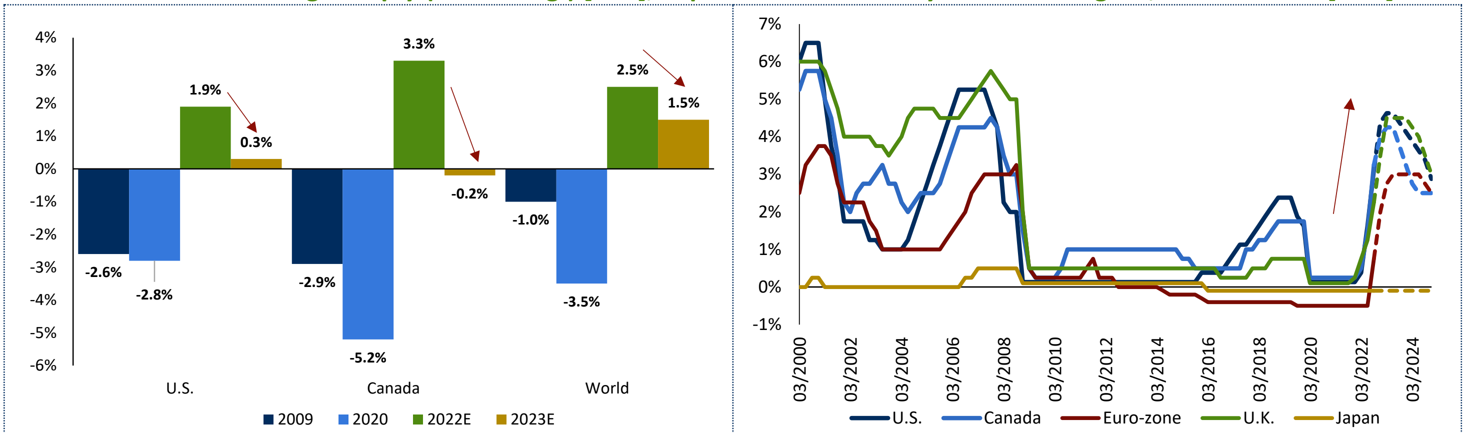
2023 Outlook – It's Complicated…

It's been a whirlwind year for most investors who have had to navigate through a challenging period full of elevated levels of volatility and high uncertainty. The "wall of worries" for investors has continued to evolve, from persistent COVID-19 concerns to the economic/market worries that followed, including fears of an impending recession. For 2023, we expect another challenging year ahead for investors with the level of uncertainty to remain high. But with markets selling off as economic/corporate fundamentals continue to normalize this year, albeit down from very-high/unsustainable levels, we are now seeing a more compelling risk/reward profile for both stocks and bonds globally than we did at the start of the year. For long-term oriented investors, we suggest to: **1)** Stay invested and well-diversified; **2)** Ignore the headlines; **3)** Stick to your investment plan; **4)** Capitalize on mispricing/bargains in the marketplace across asset classes; and, **5)** Remain selective and focus on allocating capital to securities that offer a compelling risk/reward profile – **avoid places to hide and instead focus on places to invest**.

2022 – The Great Normalization!

The economy entered 2022 on a solid footing only to slow materially from peak levels reached in June 2021 when global real GDP rose by 13.1 per cent year-over-year (YoY) versus the 20-year average of 3.5 per cent YoY. Real GDP growth is now set to slow materially from the peaks with the consensus now calling for an increase of only 2.5 per cent and 1.5 per cent YoY in 2022 and 2023, respectively. Inflationary pressures have been very "real" in 2022. While initially viewed by the majority as only a transitory issue and primarily fuelled by the pandemic, inflationary pressures have since broadened out this year to all components in the consumer price index (CPI) basket, including both goods and services. However, we are seeing strong signs that peak inflation is likely behind us, with pressures moderating rather quickly. Monetary and fiscal policy measures, which were ultra-loose at the start of the year, have since tightened aggressively. Pandemic-related fiscal measures have ended, while interest rates have risen at the fastest pace on record! All of these rather abrupt and rapid changes have triggered an aggressive sell-off in global markets and asset classes in 2022, resulting in a complicated outlook for 2023.

Real GDP Growth Slowing Sharply (YoY % Chg.) [LHS]; Expectations for Policy Rates Are Higher, Then Lower? [RHS]



Source: Capital Economics; Raymond James Ltd.; Data as of November 24, 2022.

Global Equities – Remain Selective & Well Diversified

Major global equity markets have put up a mixed showing this year as headwinds for some markets have resulted in tailwinds for others. Large-cap, blue-chip and value-oriented indices globally (e.g., FTSE 100, Nikkei 225, S&P/TSX Composite, etc.) have outperformed their growthier and more expensive peers (e.g., Nasdaq 100, S&P 500, etc.) as interest rates have risen from record lows this year. **As a reminder, asset prices (incl. the price of equities, bonds, housing, art, antiques, crypto, etc.) typically fall as rates rise**. The exception has been the MSCI China index, which is being hit by several headwinds, not to mention the ongoing COVID-19 lockdowns in the country. **For 2023, we suggest investors maintain a diversified allocation to global equities and remain highly selective.**

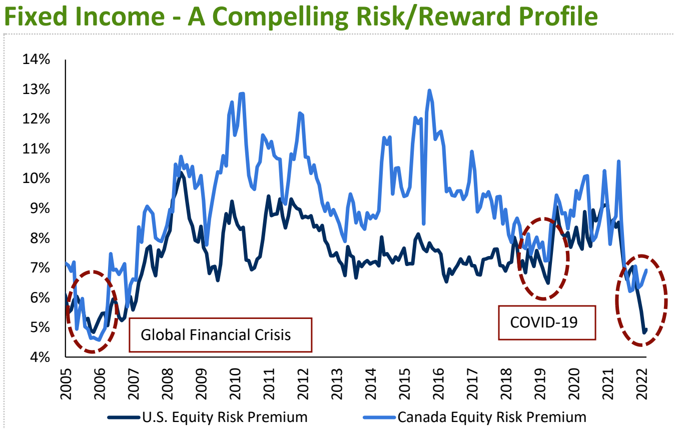
A Mixed Bag for Global Equity Markets

Equity Indices	Current PE NTM	Historical PE Median (Since 2000)	Premium (RED) / Discount (GREEN)	YTD Return
MSCI China (China)	9.91	10.90	-0.99	-30.9%
Nasdaq Composite (U.S.)	24.18	22.20	1.98	-27.3%
MSCI EM (Emerging Markets)	11.33	11.41	-0.08	-22.3%
Hang Seng (Hong Kong)	8.61	12.06	-3.45	-21.9%
MSCI EAFE (Developed Markets ex NA*)	12.15	13.56	-1.41	-15.8%
MSCI World (Developed Markets)	15.30	15.61	-0.31	-15.7%
S&P 500 (U.S.)	17.55	15.94	1.61	-14.3%
DAX (Germany)	11.61	12.87	-1.26	-9.2%
Euro STOXX 50 (Europe)	12.39	13.35	-0.97	-5.2%
CAC 40 (France)	12.31	13.31	-1.00	-3.5%
S&P/TSX Composite (Canada)	12.51	14.59	-2.08	-1.9%
Nikkei 225 (Japan)	15.77	16.45	-0.67	-1.5%
FTSE 100 (U.K.)	9.52	12.52	-3.00	1.7%

Source: FactSet; Raymond James Ltd.; Data as of November 24, 2022. *North America developed markets: U.S. and Canada.

After nearly a decade of ultra-low interest rates, during which the only game in town was equities, the recent move in global interest rates across the yield curve – which move inversely to bond prices – **has created an opportunity where the risk/reward for bonds remain quite attractive and in fact the most compelling since the 2007-2008 Global Financial Crisis**.

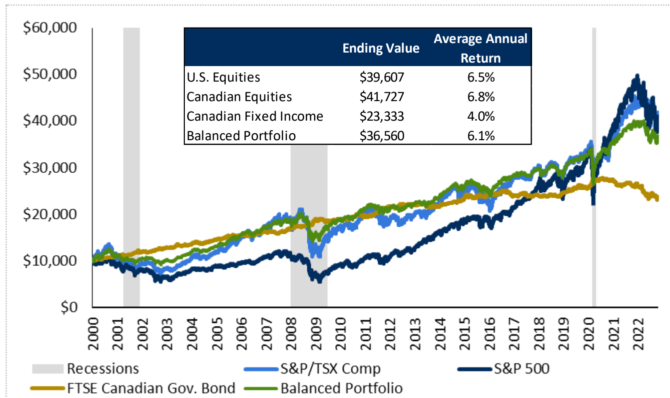
Fixed Income - A Compelling Risk/Reward Profile



Source: Bloomberg; FactSet; Raymond James Ltd.; Data as of November 25, 2022.

Moreover, despite the weak performance for fixed income as an asset class in 2022, we see the case for investors to be adding to this asset class over the next year as the economic outlook slows further with several global economies entering into a recession. Though bond prices have been falling in lockstep with equities, and thus not behaving or offering the same degree of diversification benefits most investors would have expected from this asset class, we believe stubbornly high inflation and the rapid pace of interest rate hikes/tightening as the main culprits for this. **That said, we believe the worst of these pressures for the fixed income asset class are likely behind us.**

The 60/40 Portfolio Is Not Dead…



Source: FRED; Raymond James Ltd.; Data as of November 4, 2022. For illustration purposes only. Start investing on January 1, 2000 with an initial investment of $10,000. U.S. Equities: S&P 500 TR Index; Canadian Equities: S&P/TSX Composite TR Index; Canadian Fixed Income: FTSE Canadian Government Bond Index; Balanced Portfolio is 60% S&P/TSX Composite TR Index + 40% FTSE Canadian Government Bond Index.

Final Thoughts for 2023…

For long-term oriented investors, we suggest to: **1)** Stay invested & well-diversified; **2)** Ignore the headlines; **3)** Stick to your investment plan; **4)** Capitalize on mispricing/bargains in the marketplace across asset classes; and, **5)** Remain selective and focus on allocating capital to securities that offer a compelling risk/reward profile – avoid places to hide and instead focus on places to invest.

Finally, as this will be our last edition of the Insights & Strategies report for 2022, we wish everyone a happy holiday season and a very happy New Year. Thank you for your ongoing support.

You can find all previous Insights & Strategies reports here.

Wishing you all the best in 2023!

Nadeem Kassam, MBA, CFA, Head of Investment Strategy
Eve Zhou, Multi-Asset Analyst

Equity Ideas for 2023

Sector	Top Stock Ideas
Communications Services	**Quebecor (QBR.B-CA)** is a telecommunication, entertainment and news media services firm with a strong competitive position in the Quebec marketplace, which supports its strong free cash flows and dividend growth potential. Should the proposed acquisition of Freedom Mobile be approved, we believe this provides the company with a cost-effective path to becoming a national telecom operator. **T-Mobile (TMUS-US)** is a wireless communications service provider and operates under the T-Mobile and MetroPCS brands. It offers postpaid and prepaid wireless voice, messaging and data services and wholesale wireless services. It is one of the big three wireless carriers in the United States, serving over 100 million customers focusing strongly on 5G.
Consumer Discretionary	**Dollarama (DOL-CA)** is a discount retailer that offers an assortment of general merchandise, consumable products and seasonal items through its retail locations. The company has demonstrated its resilience across business cycles and ability to drive revenue growth. **Amazon.com (AMZN-US)** is a leading online retailer that also provides technology infrastructure solutions for businesses and developers. The company has a large direct-to-consumer platform that hosts movies, music, books and games. Recent investments in its distribution network provide growth opportunities for its e-commerce platform and stronger competitive positioning.
Consumer Staples	**Alimentation Couche-Tard (ATD.B-CA)** is one of the largest gas station and convenience store operators with a network of approximately 14,200 stores globally. The company's focus on both organic and M&A-driven growth has proved successful in gaining market share from a highly fragmented industry. **Costco Wholesale (COST-US)** owns and operates membership warehouses with a product mix that comprises of food/consumables and discretionary products ranging from jewellery, electronics, clothing, auto parts and more. The company has a loyal customer base and strong financials. It plans to expand in international markets, particularly Mexico, Australia, Japan, Korea, Taiwan and China.
Energy	**Enbridge (ENB-CA)** is one of the world's largest energy infrastructure companies with an extensive pipeline network that provides the company with a utility-like stream of cash flow, supporting its ability to grow and sustain its dividend distribution. **ConocoPhillips (COP-US)** engages in the exploration, production, transportation and marketing of crude oil, bitumen, natural gas, natural gas liquids and liquefied natural gas worldwide. It is the largest independent U.S. producer by market capitalization and is nearly twice as large as its second largest peer. The management team has a disciplined capital allocation approach, focusing strongly on shareholder returns.
Financials	**Brookfield Asset Management (BAM.A-CA)** is a global alternative asset manager with a focus on real estate, renewable power, infrastructure, private equity and credit. It has a strong management team and benefits from recurring asset management fees from its +USD$750 billion in assets under management. **Wells Fargo (WFC-US)** is a diversified, community-based financial services company, which provides banking, insurance, investments, mortgage products, along with other consumer and commercial financial services to its customers. It has a new management team focused on turning the company around and rebuilding its reputation while improving profitability.
Health Care	**UnitedHealth Group (UNH-US)** provides health care coverage, software and data consultancy services to the health care industry in the U.S. It is primarily focused on improving and modernizing the health care system.

	Its leadership position in medical benefits and strong financials help support its successful dividend growth profile.
Industrials	**Waste Connections (WCN-CA)** provides solid waste services, which include waste collection, transfer, disposal, treatment and recycling to secondary markets in the U.S. and Canada. The company has many growth opportunities available, including potential M&A deals and upside to margins through increased pricing. **United Parcel Service (UPS-US)** operates as a logistics and package delivery company that provides supply chain management services. Its logistics services include transportation, distribution, contract logistics, ground freight, ocean freight, airfreight, customs brokerage, insurance and financing. Management is prioritizing shipping the "right" pieces and focusing on gaining market share in favourable parcel markets (i.e., healthcare, small-to-medium businesses (SMB) and international) that can help improve its margin profile.
Information Technology	**CGI (GIB.A-CA)** is an information technology and consulting services firm providing solutions to its clients in North America and Europe. The company has strong financials and a robust balance sheet to continue its growth strategy through strategic acquisitions and the expansion of its service offering. **Apple (AAPL-US)** designs, manufactures and sells smartphones, personal computers, tablets, wearables and accessories, among other products and services all around the world. It has a high-quality balance sheet and strong cash flow generation that benefit its research and development efforts related to new products that complement its suite of services.
Materials	**Wheaton Precious Metals (WPM-CA)** is a royalty streaming company that focuses on high-quality assets with exposure to gold, silver and other metals. Its royalty-streaming model provides investors with lower risk exposure to precious metals, solid free cash flow generation and an attractive dividend profile.
Real Estate	**Canadian Apartment Properties REIT (CAR.UT-CA)** owns and operates a portfolio of multi-unit residential rental properties across Canada and the Netherlands. CAPREIT generates stable cash flows and has a strong balance sheet, helping fuel further M&A and organic growth projects. **American Tower (AMT-US)** operates and leases essential telecommunication infrastructure assets globally, including wireless and broadcast communications, real estate, wireless towers and distributed antenna systems. The company recently acquired CoreSite Realty, adding a solid data centre platform to its portfolio.
Utilities	**Northland Power (NPI-CA)** is an electric power producer focusing on development, ownership and management of various wind power generation facilities globally. The company's efforts to further develop its offshore wind platforms are expected to provide meaningful growth in cash flows and dividends. **NextEra (NEE-US)** is an electric power and energy infrastructure company with a focus on renewable power generation. The company is led by a strong management team and benefits from its first mover advantage in creating renewable energy assets across North America.

Source: Raymond James Ltd.

Larbi Moumni, CFA, Portfolio Manager and Sr. Equity Specialist
Peter Tewolde, Equity Specialist

The Elephant of 2022

It has been a challenging year for active fund managers, as a handful of factors contributed to constant market volatility. These factors include rising inflation, aggressive monetary policy tightening by the Federal Reserve (Fed), the war in Ukraine, ongoing COVID-19 complications, etc.

Equity Fund Managers

For equity fund managers, macro calls on specific sectors typically explained much of the performance across various equity funds. Active sector calls in energy benefited equity fund performance, whereas active sector calls in technology typically negatively affected performance.

From a style perspective, value managers will likely outperform their growth manager counterparts for the second year in a row. To illustrate, below is the annual performance of **ZQQ-TO** (BMO NASDAQ ETF), representing growth-oriented U.S. companies, and **XXM-TO** (CI Morningstar U.S. Value Index ETF), and representing value-oriented U.S. companies. While both ETFs are currently posting negative returns YTD, **XXM-TO** is currently outperforming by over 20 per cent.

Annual Returns of ZQQ vs. XXM

ETF	2014	2015	2016	2017	2018	2019	2020	2021	YTD
ZQQ	19.4%	8.9%	6.4%	31.6%	-1.8%	36.7%	45.0%	26.8%	-27.6%
XXM	16.7%	-9.0%	18.0%	4.0%	-22.7%	6.3%	-15.3%	50.4%	-7.1%

Source: Morningstar, Raymond James Ltd. Data as of November 24, 2022

Fixed Income Managers

It was also a difficult year for fixed income managers as central banks across the globe – led by the Fed – continued to aggressively lift rates to offset inflation. For the most part, longer-duration funds experienced more volatility to policy rate hikes this year than shorter-duration funds did.

The year 2022 has also been a unique one for the Money Market Category. We saw a burst of new interest in HISA ETFs as the product yields moved in tandem with the Bank of Canada's policy rate hikes. As of November 24, 2022, the Canadian ETF marketplace saw a combined total YTD inflow of over $4.2 billion across **CASH-TO**, **HISA-TO**, **CSAV-TO** and **PSA-TO** ETFs collectively.

Balanced Funds: The Elephant in the Room

What really stands out in 2022 is how highly correlated equity and fixed income markets performed in relation to each other. As a result, this phenomenon has majorly affected one of the most popular and trusted fund structures: balanced funds. According to a recent research report from BlackRock[1], it has been over 50 years since we have seen an environment where bonds *did not* go up when equities went down. There have only been three years when this happened: 1931, 1941 and 1969.

The idea behind balanced funds is grounded in the belief that equity and bond performances tend to move in opposite directions over time. This balanced structure offers instant diversification across asset classes between fixed income and equity, with the objective of smoothing out returns over the long term. A typical goal for a balanced portfolio is to achieve a long-term annualized return of around 6-7 per cent.

While balanced funds were challenged in 2022, the performance is not as bad as it seems over a longer-period analysis. For instance, if you take the actively managed **Capital Group Global Balanced Fund** and the passively managed **iShares Core Balanced ETF Portfolio (XBAL-TO)**, they are both reporting a -7.9 per cent and -9.6 per cent YTD return, respectively (well below the 6-7 per cent target). However, basing performance on one year is not accurate in analyzing a strategy (let alone an entire investment category). By extending the analysis over a five-year period, we find that the same two strategies achieved a five-year annualized return of 5.0 per cent and 4.7 per cent as of November 23, 2022. While it is still below the desired 6-7 per cent return, this longer-term five-year metric is more in line with what one should expect for a balanced fund (still including 2022, one of the worst years for asset allocation strategies).

What to Do with the Elephant?

Despite the argument that balanced funds have potentially lost some of their charm over the years, the notion that a balanced fund structure is no longer an effective investment strategy is an overstatement. Diversified balanced funds can help investors maintain a specific asset allocation that aligns with their risk tolerance. While short-term performance may fluctuate, the investor experience should smooth out over the long term.

If the pace of central bank rate hikes decelerates in 2023, we expect to see more stabilization in balanced funds. In addition, rising coupons have possibly brought back the value of using bonds within a balanced structure. In times of uncertainty, it can be valuable to maintain faith in proven fund structures that have been the foundation of investing for decades to help navigate any potential unchartered waters ahead.

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Mutual Fund and ETF Specialist

[1] https://www.blackrock.com/us/individual/insights/60-40-portfolios-and-alternatives

The USD Show May Go On!

This year has by far been one of the most stellar years for the broader U.S. dollar in recent memory. Over the course of the first nine months of 2022, the Bloomberg Dollar Spot Index rallied by 13 per cent before modestly retreating by roughly 4.5 per cent over the subsequent two months, at the time of writing. If we are to unpack the root causes behind the U.S. dollar's performance, we can certainly point to a few dominating themes. An aggressive Fed fighting to contain inflationary pressures has clearly been the most influential factor by far. A key driver of the dollar's strength has actually been the market's ongoing tweaking of expectations for that critical terminal rate for the Fed. Looking abroad, we saw an eye-watering decline in the EUR, which dipped below par against the USD, largely reflecting the energy shock from the Russian/Ukrainian war. Japan also faced a seemingly uncontrollable decline in its currency, predominately due to its reluctance to deviate from its loose monetary policy position (i.e., yield curve control). Finally, we cannot overlook China's COVID policies and restrictions and shocks to risk markets as global central banks continue to take their respective monetary policies into restrictive territory at the expense of economic growth, all of which benefits the USD via its safe-haven channel.

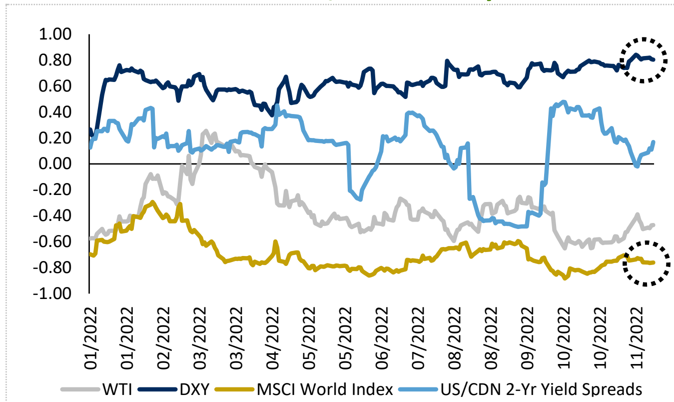
Last Call for the USD Rally Party?

As we head into the New Year, the obvious question is whether the USD has peaked or if there's still some juice left in the tank. We believe there is still room for USD strength in H1/2023 as the Fed continues to ramp up interest rates, albeit in smaller-sized increments, while some uncertainty remains around the Fed's terminal rate. The winter months will also be critical for Europe, coupled with the ongoing situation in Ukraine. This should also continue to feed into USD support via its safe-haven status. As for when the USD rally party will eventually subside, we expect the stage to be set in the back-end of 2023 when the Fed and other major central banks have had the opportunity to reflect on the lagged economic effects of their tightening cycles along with added clarity surrounding terminal rates as well as when we see in what state Europe emerges from the winter months and how far along the Chinese economy is with respect to its re-opening efforts.

Will It Finally be CAD's Time to Shine?

It is important to note that many of the major CAD crosses (i.e., non-USD) actually fared much better over the year, with the CAD largely outperforming the GBP, EUR, JPY, AUD and NZD. However, as far as the USD/CAD pair is concerned, the most influential driver has been the broader USD direction (proxied by the DXY US Dollar Index) followed by global equity markets (proxied by the MSCI World Index), while oil and U.S./Canadian two-year yield spreads had a limited impact on the pair's direction.

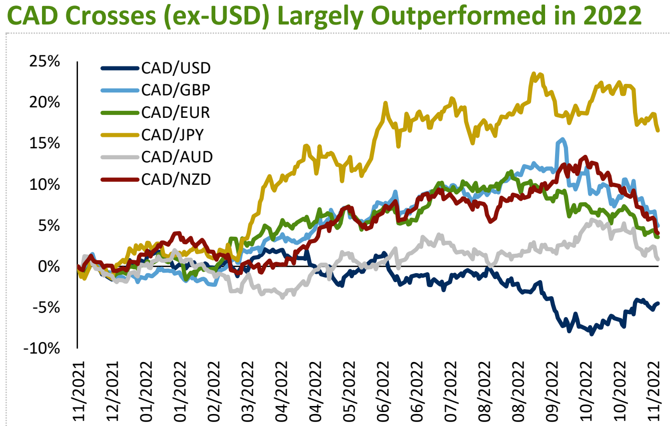
Correlations Between USD/CAD and Key Drivers



Source: FactSet; Raymond James Ltd.; Data as of November 24, 2022.

At the end of the day, we expect the Bank of Canada (BoC) to end its hiking cycle earlier and at a lower terminal rate than that of the Fed. Growing global recessionary risks and terminal rate uncertainties will likely keep the CAD on the defensive as we head into the New Year. We expect the Canadian economy to certainly enter a period of slower growth. However, we do not expect a deep or protracted recessionary shock at this stage. This should put the CAD in a relatively better position to push out of the gate in the back-end of 2023 should we have a global economic recovery underway coupled with an increase in demand for commodities.

CAD Crosses (ex-USD) Largely Outperformed in 2022



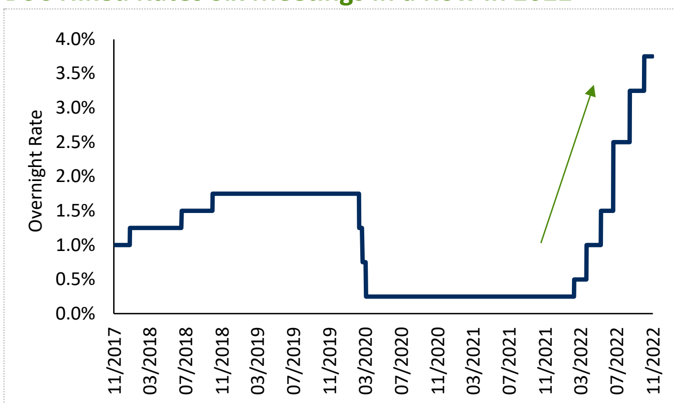
Source: FactSet; Raymond James Ltd.; Data as of November 24, 2022.

Ajay Virk, CFA, CMT
Head Trader, Currencies

The End of Rate Hikes?

Forced by inflation levels not seen in nearly 40 years, the BoC and the Fed increased target overnight rates dramatically in 2022, hoping to bring relief to price pressures. Throughout the year, the BoC consistently hiked rates at their meetings, taking the overnight rate from 0.25 per cent at the start of January to a whopping 3.75 per cent today. Market participants expect to see another 0.25 per cent rate hike at the last meeting of the year on December 7. However, measures of inflation have shown signs of slowing, and if that pattern continues, we can be confident that rate hikes will slow as well.

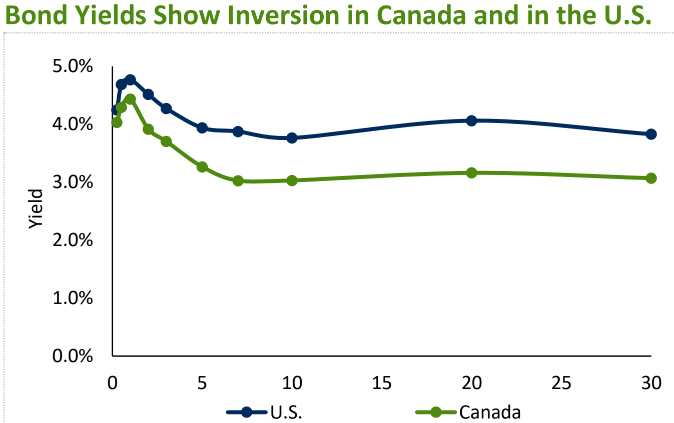
BoC Hiked Rates Six Meetings in a Row in 2022



Source: Bank of Canada, Raymond James Ltd.

Short-end rates are largely impacted by the central bank's monetary policy. They essentially move in lockstep with the BoC's overnight rate. Long-term rates, on the other hand, incorporate other impacts, including forward-looking expectations. Thus, they may not align with today's rates. Currently, the Canadian and U.S. yield curves both display inversion – where short-term rates are higher than those with longer maturities. In addition, U.S. yields are higher than Canadian yields across the board.

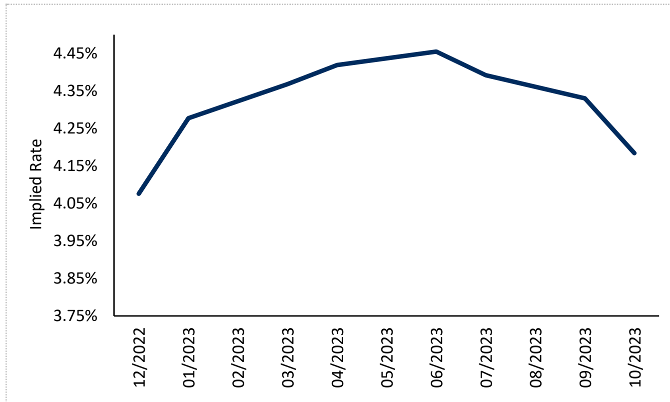
Bond Yields Show Inversion in Canada and in the U.S.



Source: FactSet, Raymond James Ltd.

Looking forward to 2023, if inflation pressures subside, the BoC should ease raising interest rates, and we will reach the highest overnight rate of the cycle – also called the "terminal rate". We believe the BoC prefers to maintain a stable rate environment when possible. Thus, we do not foresee a rate cut in 2023. Allowing for a steady overnight rate would give previous increases more time to work themselves into the end economy and display their effects more clearly before the bank feels it must act again.

Potential to Hit the Terminal Rate in H1/2023



Source: Bloomberg, Raymond James Ltd.

However, we understand that recession fears are mounting. In the fixed income markets, recession worries often creep in as benchmark prices trend higher and credit spreads widen.

If you are concerned about a looming recession, review your fixed income holdings and consider:

- *Quality:* Look to improve the quality of your securities through higher credit ratings. Bonds with the same credit rating may trade differently. In some cases, bonds trading at tighter spreads may indicate a higher level of perceived quality.
- *Spread Risk:* Other than Government of Canada securities, bonds like provincials and corporates trade at a spread. When environmental risks are rising, credit spreads often widen, negatively affecting the price of spread products.
- *Time to Maturity:* If accessing capital prior to maturity may be required, consider investing in shorter terms, which will see lower price volatility.

Charlotte Jakubowicz, CMT
Vice President, Fixed Income and Currencies

Diversifying the Balanced Portfolio

In a year when investors experienced the fastest interest rate hiking cycle since the 1980s and stocks and bonds moved lower together, alternative investments played a critical role in client portfolios to dampen volatility, reduce portfolio correlation and buffer returns. Alternative investments can help bridge the gap between equities and fixed income, offering more diversification in an investment portfolio and the potential to achieve a more favourable rate of return than that of fixed income, with less volatility than equities (among other objectives). Investors who held a well--diversified portfolio of alternative investments over the last year would, on average, experience smoother returns.

Alternative mutual funds and ETFs, or more commonly known as "liquid alts", are available to all types of investors and can use more investment tools than traditional funds do (such as short-selling, leverage and derivatives) to enhance returns, reduce risk or create an alternative income stream. The average one-year performance for an equal-weighted basket of 94 liquid alts was -3.12 per cent, the best performing among major equity, fixed income and balanced fund indices. On a risk-adjusted basis, the alternatives allocation would achieve more portfolio diversification (through exposure to different managers, underlying investments, investment styles and geographies), resulting in better risk-adjusted returns for the overall portfolio. This top-performing basket had 61 per cent of the volatility of equities with only 25 per cent more volatility than fixed income.

	1-Year Return %	1-Year Std Dev %
ALTERNATIVE INVESTMENTS Equal-Weight (94 liquid alts)	**-3.12**	**13.48**
S&P/TSX Composite Index	-4.89	19.44
S&P 500 Index	-6.03	26.88
Morningstar Canadian Equity Balanced	-6.61	12.98
Bloomberg US Agg Bond Index	-7.21	11.66
Morningstar Canadian Neutral Balanced	-7.32	10.76
Morningstar Tactical Balanced	-8.83	9.71
Morningstar Canadian Fixed Income Balanced	-9.26	7.41
FTSE Canada Universe Bond Index	-10.43	9.83
Morningstar Global Neutral Balanced	-10.69	7.49
Morningstar Global Fixed Income Balanced	-10.69	10.85
Morningstar Global Equity Balanced	-11.46	13.79
MSCI ACWI GR Index	-11.50	19.61

Source: Morningstar Direct, as of October 31, 2022, Total return in CAD$, F Class.

What Are Alternative Investments?

An alternative investment is an investment that does not fall into one of the traditional asset classes, such as equities, fixed income and cash. It is used to more fully diversify a portfolio (among other objectives). Here are some examples:

- *Real Assets (such as private real estate, infrastructure, natural resources)*
- *Private Equity (includes buyout, mezzanine, venture capital)*
- *Private Debt (such as factoring, asset-backed lending, distressed debt)*
- *Mortgage Products (MICs, mortgage investment trusts)*
- *Hedge Funds and Liquid Alts (various strategies such as market neutral, long/short equity, long-bias, merger arbitrage, multi-strategy)*

Source: Raymond James Ltd.

While the balanced portfolio (60 per cent equities/40 per cent fixed income) has been a recipe for success since interest rates peaked in the early 1980s, the return from the bond component of that allocation has largely benefited from declining interest rates. In the rapidly rising interest rate environment we have witnessed this year, we believe alternative investments will continue to complement and further diversify balanced portfolios in upcoming years.

According to Preqin, global alternative assets under management are expected to reach $23.3 trillion by the end of 2027, up from $13.7 trillion at the end of 2021 (growth of 71 per cent). While individual investors typically have a different investment profile and liquidity needs than those of a large pension plan or endowment, it is worth noting that alternative investments are already integral to the asset allocation for institutional investors. The average allocation to alternative investments in Canada's top 10 pension funds is sitting at 41.6 per cent[2] of retirement assets. This compares to the average allocation for retail investors who have $500k-$1.5M in investable assets at only 6.0 per cent[3].

Alternative investments should not be thought of as a one-size-fits-all portfolio. Investors should be mindful of each alternative investment's objective and risks, as well as their personal liquidity needs and risk tolerance. Additionally, investors should avoid being overly concentrated in any one fund or manager when building their alternatives allocation. While alternatives can be a great way to diversify portfolios, as with all investments, proper due diligence is important before investing, but arguably even more so for alternative investments. Investors should consult with their financial advisor prior to investing in those products.

Emma Querengesser
Associate Vice President, Investment Products

[2] Raymond James Ltd; Latest Financial Reports – CPPIB/OMERS/CDPQ/OTPP/BCIM/PDP/HOOPP/AIMCO/OPB/OPSEU

[3] Raymond James Financial

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