WATERMARK PRIVATE PORTFOLIOS APRIL 2022 COMMENTARY

Stock markets had a rough April, with more stock market participants finally accepting that Western Central Banks are likely to get serious in the short run about inflation. The TSX Composite fell 5.0%, while the S&P500 (in CAD) fell 6.6%. As a notable comparison, the tech-heavy Nasdaq 100 fell 13.6% with a big chunk of the selling coming over a four-day span. The Canadian Universe Bond Index continues to perform poorly falling another 3.6% on the month and is now down 10.5% year-to-date; this makes it the worst start to a year for the traditional 60/40 portfolio, consisting of sixty percent equities and forty percent bonds. The good news for you is both your private debt and private real estate holdings in your portfolios have seen positive returns year to date, as both asset classes have benefitted from higher interest rates and therefore protected your portfolios from the equity sell-off.

Markets

Markets were grinding sideways in April until April 21 when US Central bank chairman, Jay Powell, stated during an IMF panel discussion "I also think there is something to be said for front-end loading any accommodation one thinks appropriate…and that 50-basis point will be on the table for the May meeting." This statement marked the mid-month high on the S&P500 with the US index subsequently falling 7.7% over four days and the tech-heavy Nasdaq Composite Index suffering larger losses. While it may seem excessive that raising rates by 0.5% is causing stocks to fall so much, stocks still appear to be overvalued on many metrics in a rising rate environment. Furthermore, companies are starting to see inflation impact their earnings, whether it be higher input costs or those with inelastic demand are seeing lower revenues.

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In addition to increasing interest rates, central banks are attempting to reverse the abundance of liquidity they provided after the Great Financial Crisis and then even more so during COVID-19. The result is that we are now starting to see money leave the stock market, and more notably in April, the mega-cap technology stocks Facebook, Amazon, Apple, Netflix, and Google (FAANG) which were huge beneficiaries of the low interest rate environment, are now starting to see increased selling. Even with the pick-up in selling this month, the S&P500 still sits almost 30% higher than where it peaked in February 2020, before the COVID-19 sell off. As seen in the image below, the market to GDP ratio shows that US stocks still appear to be overvalued versus the economy unless earnings can improve:

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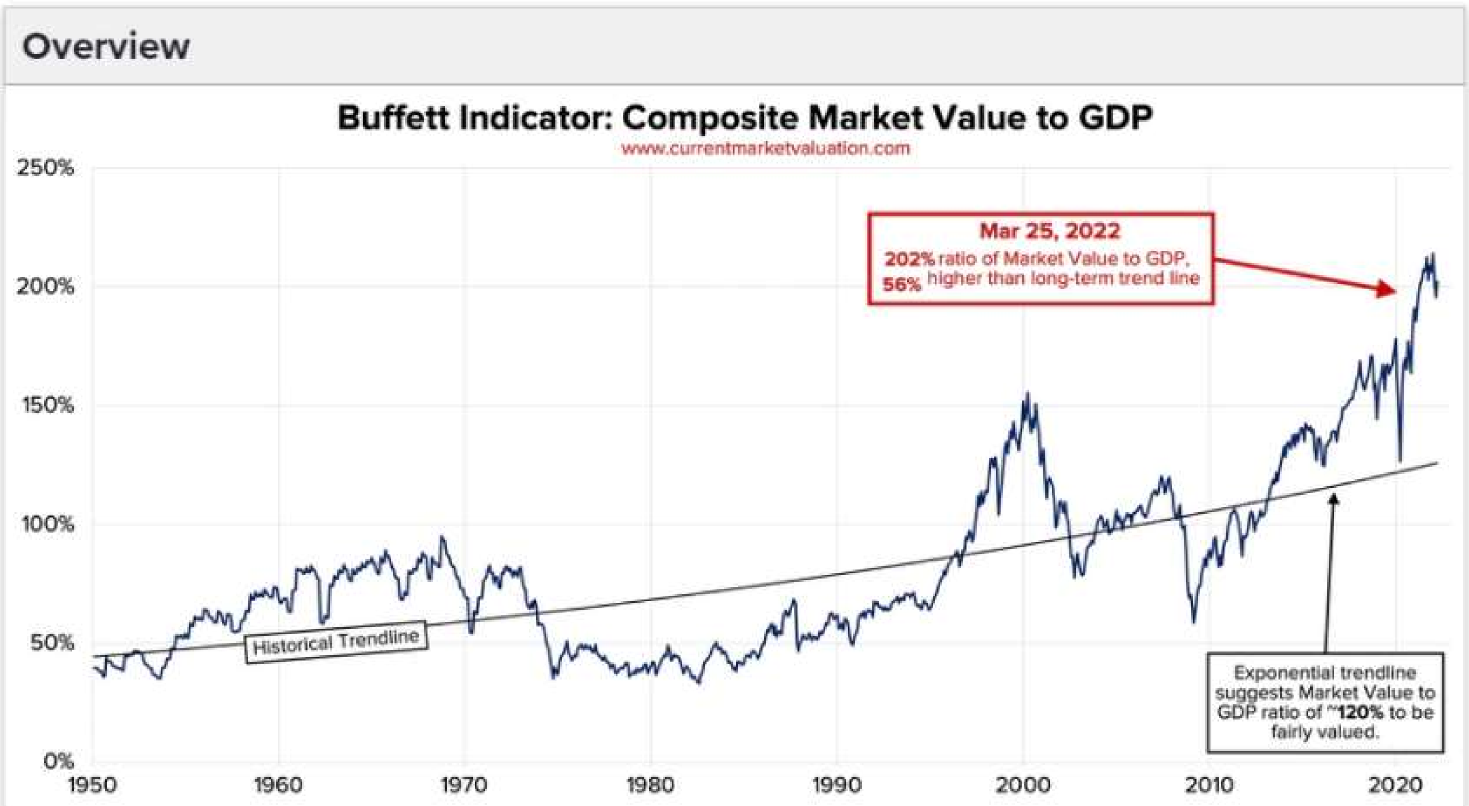

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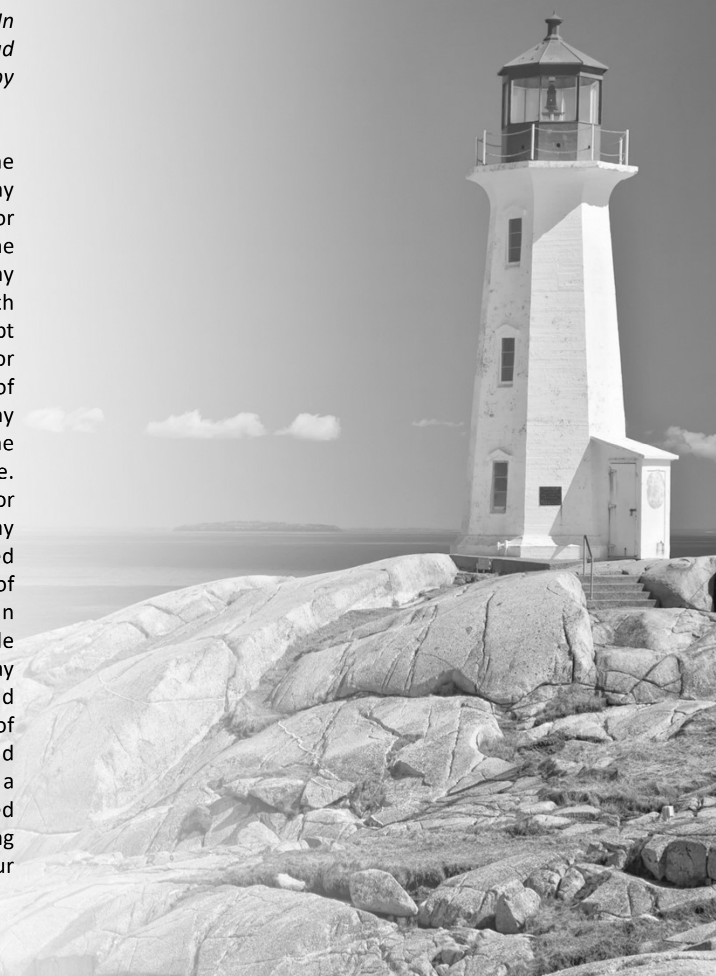
While it does appear that further selling over the course of the year is likely, especially if central banks remain aggressive, there is a good chance that we get a bounce in the short run. Market sentiment is overly negative, and a few sentiment indicators are getting closer to extremely oversold levels. Furthermore, clarity for the US Federal Reserve meeting next week may ease markets in the short run. As such we continue to look for tactical trades in oversold sectors, as rallies on beaten down companies and sectors can be quick and powerful, allowing us to pick up small gains for your portfolios.

The portfolios continue to hold up well despite the carnage in technology stocks and bonds. Our larger portfolios continue to hold a fair-sized cash position in a Liquid Alternative ETF that had a positive month in April and has a strong history of protecting capital when both stocks and bonds go down. It pairs nicely with the private real estate and private debt positions in this tough environment for stocks. If we get a rally after the US Federal Reserve meeting, we will likely further reduce equity positions in all portfolios, moving those proceeds into the Liquid Alt ETF and/or other funds that have reduced equity market exposure.

DISCLAIMER



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