January 10, 2023 | Volume 29 | Issue 1

ETF UPDATE

Please perform your own due diligence before making investment decisions. The contents of this newsletter do not constitute a recommendation to buy or sell securities.

IN THIS ISSUE

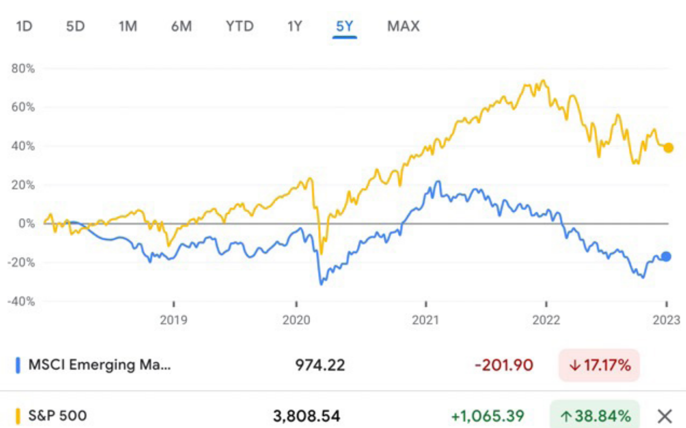
Market Radar		
Markets	**TSX Composite**	**S&P 500**
P/E	11.97	19.45
Yield (%)	3.48	2.16
YTD Performance (%)	2.82	2.14
Top Performers	**ETF**	**Mutual Fund**
1-Month	Invesco S&P Global ex Canada High Div Low Vol	BirchLeaf Growth
YTD	Ninepoint Energy Series ETF	FGP Small Cap Canadian Equity D
3-Year	Horizons Global Uranium ETF	Ninepoint Energy Series F

Market data as of January 9th, 2022; top performers as of month-end.

Mackenzie Emerging Markets Fund Series D (MFC5504)

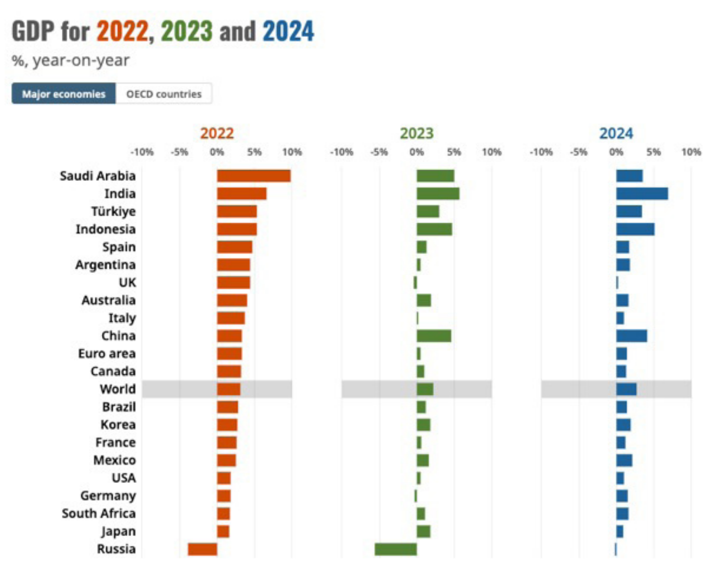
By Barkha Rani, CFA

2022 brought forth a compression in valuations. Riskier assets and geographies were hit the hardest. Faced with the rising U.S. dollar, higher commodity prices, and slowing growth, emerging markets had a rough 2022. For reference, the MSCI Emerging Markets Index was down 32% since its 2021 peak, while the S&P500 was off by 19%. Here is the five-year chart comparing the two indices.



The chart shows the emerging markets started declining in early 2021, driven by a strong U.S. dollar, rising commodity costs and relatively weaker stimulus policies. This contrasts with the S&P500, which only saw a decline beginning in 2022 when inflation became a headline and rising interest rates became a possibility. As per Morningstar, the S&P500 recorded a nine-month drawdown period in 2022, while the timeline stands at 16 months for MSCI Emerging Markets.

Growth



While the Organization for Economic Co-operation and Development (OECD) forecast slower growth, major emerging markets are expected to account for close to three-quarters of global Gross Domestic Product (GDP) growth in 2023. A slowdown in the pace of interest rate hikes in the developed economies would lead to a softer dollar, falling inflation and reduced import costs, providing much-needed relief. As per Goldman Sachs , stocks in emerging markets are expected to return 11% in the next twelve months in their local currencies or 17% when converted to U.S. dollars. Meanwhile, the S&P500 is expected to deliver a return of 4% to 6%.

Valuation

Trading at 12.1x forward earnings, emerging markets trade below the historical 5-year average of 15.2x. It should be noted, however, that the composition of the index changes more significantly and frequently compared to S&P500. The forward earnings per share (EPS), as shown by the purple line, is above but approaching the pre-pandemic level due to currency headwinds.

Given the favourable backdrop, we would like to highlight the Mackenzie Emerging Markets Fund Series D (MFC5504).

Replacing the Invesco Emerging Markets Fund, Mackenzie Emerging Markets Fund has delivered superior performance while charging a lower Management Expense Ratio (MER) fee. The fund was created to allow exposure across 30 emerging and frontier economies. The system utilizes a quantitative investment approach analyzing 7,000 stocks, narrowing it down to a total of 189 holdings.

Across all series, the fund manages just under $690 million in assets, while series D charges 1.38% in MER fees annually. The fund boasts a 3-year trailing standard deviation of 17.6%, at least two percentage points lower than its closest peer. Additionally, the maximum drawdown of 31% reported by the Mackenzie Fund is at least five percentage points lower than a passive emerging markets Exchange-Traded Fund (ETF). Most of the difference comes down to relatively higher exposure to mid- and small-cap emerging companies. For example, MFC5504's and iShares MSCI Emerging Markets ETF (EEM)'s market cap breakdown is as follows:

Market Cap Breakdown (%)		
Size	MFC5504	EEM
Giant	39.86	55.24
Large	23.98	33.55
Mid	20.94	10.04
Small	4.95	0.23
Micro	4.95	0.00

By regional breakdown, MFC5504's top exposures include China at 29%, India at 17%, Taiwan at 16%, and South Korea at 15%. The remaining individual regional b exposures (a total of 30 countries) are less than 10% each. The top exposures are slightly more overweight for the fund compared to composition of the MSCI Emerging Markets Index benchmark. By sector, top exposures include technology at 21%, financials at 19%, and consumer discretionary at 15%. MFC5504 manages nearly 178 securities, while the benchmark index is made of over 1,300 constituents. The fund's top five holdings are as follows:

Taiwan Semiconductor Manufacturing Co Ltd Taiwan | Semiconductors	7.01%
Meituan China | Internet & Direct Mkt Retail	3.00%
Tencent Holdings Ltd China | Interactive Media & Services	2.29%
China Construction Bank Corp China | Diversified Banks	2.22%
BYD Co Ltd China | Automobile Manufacturers	1.95%

Taiwan Semiconductor Manufacturing (TSMC) is the world's largest semiconductor foundry. In simpler words, TSMC is the biggest world producer of chips. Meituan is China's leading e-commerce platform and is touted as the "Amazon of services" in China, providing a wide range of services, including vouchers for dining, delivery, and other local services. Tencent holdings is one of the highest gross multimedia companies in the world based on revenue and owns PUBG, a popular video game. China Construction Bank is one of the "big four" banks in China and is state-owned. BYD Company is a large conglomerate manufacturing company manufacturing vehicles, including Electric Vehicles (EVs) and electronics.

Offering a trailing twelve-month yield of 3.2%. MFC5504 reports a fairly high turnover at 203%. This is likely driven by the actively managed nature of the fund. The fund was launched in 2018 and reported strong positive returns in 2019, 2020 and 2021. For the year 2022, the fund returned -14.3%. The three-year annualized return stands at 2.4%, coming in ahead of its ETF and mutual fund peers, both of which reported negative returns. The diversification across market capitalizations helped here. The Mackenzie Emerging Markets Fund stands out in more ways than one compared to its peers in the emerging markets segment.

While it may be daunting to look at relatively riskier geographies after a tough 2022, this may be the year for emerging markets to shine. With better balance sheets than before, attractive valuations and growing profitability, free cash flow and dividend yields, earnings growth are expected to gain strength in 2023. Emerging economies continue to have productive opportunities that are yet to be exploited, and with energy transition and the growing middle class in emerging markets, infrastructure and economic development are likely to be higher than for developed economies.

https://www.businessinsider.com/2023-stock-market-outlook-investingforecast-emerging-markets-goldman-sachs-2023-1

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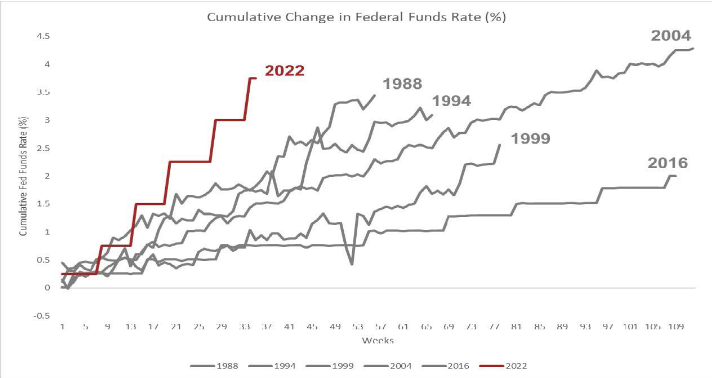
The opportunity in Stocks and Bonds

by Chris White, CFA

A Year of Epic Proportions

2022 has been one for the books, with unprecedented moves across the bond and stock markets and the fastest interest rate hike cycle in over 30 years. As asset prices have declined significantly, we see the opportunity for future wealth creation growing exponentially. Successful investing comes from taking calculated risks, and right now, we see an attractive risk/reward opportunity in bonds and equities. In prior years, investors needed to go further out on the risk curve to garner competitive returns with the market, and this came from all sources of investment vehicles: alternative assets, high-yielding products, Special Purpose Acquisition Companies (SPACs), high-flying Initial Public Offerings (IPOs), etc. Although, with the decline in asset prices that we have seen over the past year, we do not believe that investors need to look much farther out than plain vanilla bonds and traditional equities to see attractive returns.

The primary reason that we have witnessed a year of unprecedented moves in the financial markets is the rapid rate of change in the central bank interest rate. The U.S. Federal Reserve has increased the interest rate by roughly 4% in the past eight months, which marks the fastest rate hike cycle in over 30 years. The previous five instances of rate hike cycles since 1980 reached a cumulative 4% hike in almost double the amount of time as this past year. This rapid change is the leading cause of the recent declines in bonds and equities.



The Opportunity in Bonds

Bonds can be a complex subject, but what we need to know about bonds is that the price of a bond is inversely correlated with interest rates. As interest rates rise, bond prices decline, and vice versa. This year has represented an outlier year for the Bloomberg Global Aggregate Index since its inception in 1990. The index declined a staggering 21.4% as of mid-October 2022. The second worst-performing year in the index was 1999 when the index declined 5.2%. This is indicative of how much wealth destruction 2022 wrought, and in the midst of all this turmoil, we see opportunity.

Accessing bonds via Exchange-Traded Funds (ETFs) is a great strategy to gain exposure to bonds. The benefits of bond ETFs are multiple-fold, and below are a few of the key features of bond ETFs:

<u>Diversification</u>

One of the main benefits of bond ETFs is diversification. Bond ETFs can contain hundreds or even thousands of different bonds, and including bonds from differing issuers, bonds of different maturities, and variations in pricing and yields.

<u>Low Cost</u>

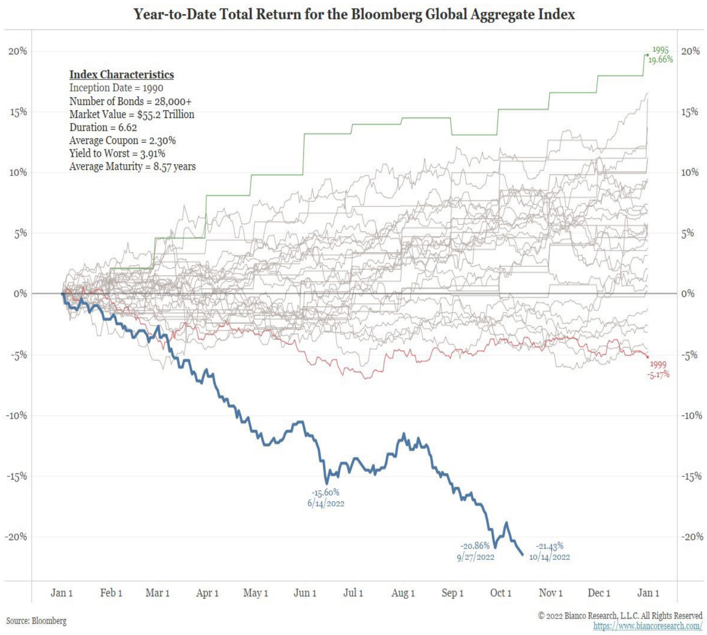
Bond ETFs often have low Management Expense Ratios (MER) as they are mostly passive funds and thus offer investors an inexpensive method of gaining exposure to bonds.

<u>High Liquidity</u>

The public trading of bond ETFs allows for easy trading, and the more popular bond ETFs are highly liquid.

<u>Data Availability</u>

There is a lot of data available for bond ETFs, ranging from the average credit rating on the portfolio of bonds to the portfolio duration and the yields of individual bonds as well as the portfolio.



There are also several different types of bond ETFs, which we outline below:

Municipal Bond ETFs

These are bonds issued by municipalities, and they have a medium default risk but also a fairly attractive yield. The likelihood of a municipal issuer defaulting is low relative to a corporate issuer but higher than a government bond.

Corporate Bond ETFs

These are bonds issued by corporations, and they offer higher yields but also a high risk of default.

Government Bonds ETFs

Bonds issued by the governments usually fall into two categories: long-term and short-term. Long-term bonds have a low risk of default, a medium-sized yield, and a high price sensitivity to changes in the interest rate. Short-term government bonds, on the other hand, have a low yield and low price sensitivity to changes in the interest rate.

High-Yield Bond ETFs

These are bonds issued by subprime borrowers and thus offer a higher yield than the above types of bonds but also substantially more default risk.

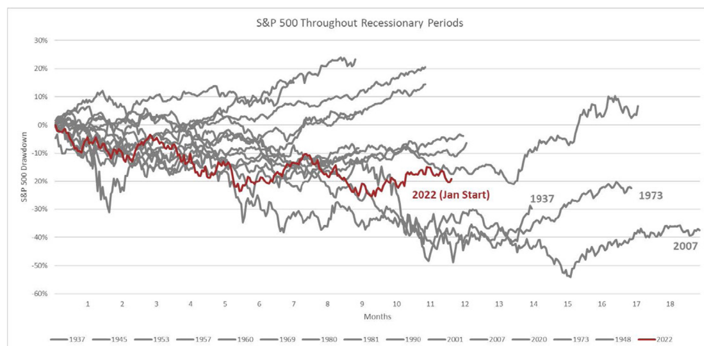
Broad Market Bond ETFs

These are ETFs that are made up of a mix of the above types of bonds and offer investors a more balanced approach.

The Opportunity in Stocks

The equities market was plagued with fears and uncertainty in 2022, ranging from runaway inflation concerns to recessionary fears as the cost of borrowing moved higher. The stock market was volatile this year but also made significant moves lower from time to time. On a year-to-date basis, the S&P 500 was down roughly 20%, reaching a low of ~27%. Compared to all recession instances dating back to the 1930s, there have only been three other instances that have been worse than last year: 1937, 1973, and 2007. 2020 was worse on a percentage decline basis, but it recovered quickly.

Stock market valuations were also suppressed last year amid higher interest rates. Below we can see that small and mid-cap valuation (forward P/E ratios) reached levels that were last seen in 2009.

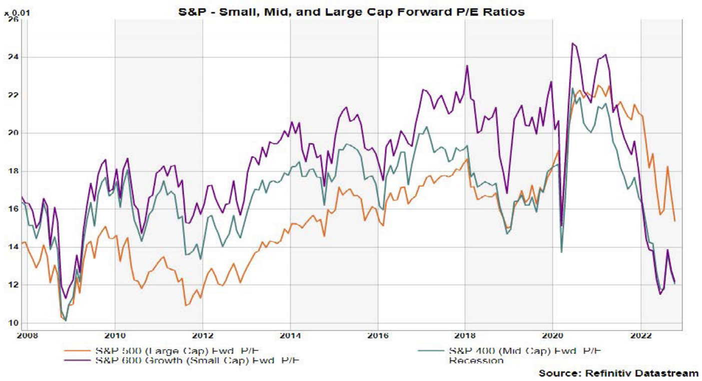


The opportunity in stocks seems obvious—the deterioration in valuations and prices has not been seen for decades, and if we can navigate past a recession and inflationary issues, the market appears to be at a discount. Gaining exposure to stocks through ETFs is an excellent way to cut down on individual stock volatility, as ETFs exhibit lower volatility than individual companies. Equities ETFs often have characteristics of high liquidity, low costs, and relatively low volatility, making them an attractive option in the current environment.

There are many different equity-based ETFs available for an investor, but we have listed below a few main ways to gain exposure to stocks via ETFs:

Sector ETFs

There are multiple ETFs that are focused on the individual sectors of the market, and this is a great method of isolating your exposure to the various sectors of the market. We have listed below the yearto-date performance (from Dec 18, 2022) of the main U.S. sectors.



Broad Market ETFs

There are also ETFs geared toward the major indices, including the TSX 60 and TSX Venture in Canada, the S&P 500, the Nasdaq 100, and the Dow Jones Industrial Average in the U.S.

Factor ETFs

Factor-based ETFs are portfolios of individual stocks that are aimed at achieving a specific objective, be it growth, value, or momentum.

US Sector YTD Performance	
Energy	**38%**
Utilities	**-2%**
Consumer Defensive	**-5%**
Basic Materials	**-8%**
Healthcare	**-10%**
Industrials	**-10%**
Financials	**-13%**
Real Estate	**-29%**
Technology	**-33%**
Consumer Cyclical	**-36%**
Communication Services	**-39%**

Source: Finviz.com

Summary

This past year has been nothing short of unprecedented, and we feel that the most monumental events were the rapid rise in interest rates that led to wealth destruction across the bonds and equities asset classes. The magnitude of the drawdown that we have seen in 2022 in bonds and equities has opened up areas of opportunities for long-term investors. The outlier year that bonds had relative to the past three decades opens up investment opportunities in the bond ETF space for investors.

The relative underperformance of the S&P 500 against all historical recessionary periods, we feel, opens opportunities for investors in the equities ETF space. Largely, the use of ETFs helps to cut down on the volatility that comes from a concentrated position, and with the destruction in asset prices over the past year, we see a favourable moment in time for investors with a long-term horizon.

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Mutual Fund Recommended List Update

by Richard Morrison, CIM

Yes, 2022 was a miserable year for most investments, regardless of their sector or geographic focus. High flying technology stocks came back to more reasonable valuations, Russia invaded Ukraine and ongoing production bottlenecks helped fuel inflation that caused central bankers to raise interest rates.

U.S. indexes suffered their worst decline since 2008. The Nasdaq, where most large tech companies trade, fell 33% last year. The Dow Jones Industrial Index suffered a relatively mild decline of just 8.8%, while the S&P 500 fell 19.4%. Canada's resource-heavy S&P TSX Composite index ended the year down about 8.1%.

You know it was a bad year when less than 10% of the 762 mutual funds in Morningstar's universe generated positive one-year returns. Mutual funds should not be bought for the long term, however, and many excellent funds with solid long-term track records that suffered setbacks in 2022 are simply more reasonably priced than they were a year ago. Investment pundits have long cited the ancient aphorism that a rising tide lifts all boats, meaning that a growing economy generates handsome returns for all funds. Similarly, a sinking tide diminishes returns from even the best funds. These boats may be lower but they have not capsized.

Although the Nasdaq lost a third of its value in 2022, mutual funds focused on technology still have the best five-year records among those on the recommended list.

The 10-year chart for the Nasdaq shows a slow and steady rise from 2013 to 2020, then a brief, sharp dip at the beginning of the Covid pandemic, followed by a steep climb between March 2020 and a peak in the autumn of 2021. Recently the chart shows the 2020-2021 climb was unsustainable and that technology stocks and the funds that owned them were in a bubble. The Nasdaq has now drifted down to where it should have been had it continued the pattern it had established between 2013 and 2020. The bubble did not burst; it merely deflated.

The results of many funds are affected by fluctuations in the Canadian dollar. The loonie began 2022 at about US79.2 cents and ended it at just US73.8 cents, a decline of about 6.8% that benefited Canadian mutual funds holding U.S. dollar-denominated securities.

Beutel Goodman American Equity Class D (BGT774)

This fund deserves special mention as its performance has been steady throughout thick and thin. Over the past five years the fund has achieved average annual gains of 9.57%, dipping to 9.44% over three years and a still solid 8.14% one-year return despite 2022's bear market.

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The fund carries a 1.49% MER with a minimum initial investment of $5,000.

Fidelity Floating Rate High Income B (FID2187)

The only other fund that managed to post a positive return despite last year's downturn, this fund managed a 5.8% gain last year. The fund's assets are invested in non-investment grade senior secured floating rate debt issued by U.S. companies and is designed for slow, steady growth with monthly payouts. An investor who put $10,000 into the fund at its launch in October 2013 would have more than $16,000 at the end of 2022. The fund has an MER of 1.49% and has a $500 minimum investment.

TD Dow Jones Industrial Average Inde (TDB903)

This fund managed to finish 2022 with a loss of less than one per cent and has solid long-term returns of 8.11% over three years and 9.28% over five years. The fund holds the 30 blue-chip companies in the venerable Dow Jones Industrial Average, which suffered relatively mild losses compared to the S&P 500 last year.

The DJIA, set up in 1896, is a price-weighted index that gives the companies with the highest share prices the most influence over its movements. The Dow excludes transportation and utility stocks, which are in separate indexes. The Dow's constituent companies include a few giant corporations that withstood last year's downturn, helping the TD DJIA fund maintain its unit price. An investor who put $10,000 into the fund at its launch in 1999 would have about $42,000 at the end of 2022.

The fund has a tiny MER of just 0.33% and an equally small minimum investment of $100.

Here is a brief look at some mutual funds with excellent five-year track records that suffered significant setbacks in 2022.

RBC Life Science & Technology Series D (RBF1030)

This fund still has a solid 12.22% five-year return despite suffering a 22.25% setback in 2022. An investor who put $10,000 into the fund when it was launched in 2007 would have nearly $74,000 at its peak in November 2021, slipping to about $61,000 a year later.

The fund's holdings combine giant information technology stocks with major names in the pharmaceutical and health care sectors, along with a few communications services companies.

As of the end of November, the fund's biggest holdings were tech giants along with credit card leaders and pharmaceutical makers.

Scotia Nasdaq Index Series A (BNS397)

This passive fund, which simply tracks the 100 largest companies on the Nasdaq, was down by about 28.5% over the past year yet still has a three-year return of 8.66% and a five-year return of 12.32%. Like the Nasdaq 100 itself, the fund holds the largest companies in weights that correspond to their market capitalization, and the 10 largest names typically account for almost half of the index's performance. Investors seeking a more balanced version of the technology sector would avoid Nasdaq 100 funds.

An investor who put $10,000 into the fund at its launch in September 2000 would have about $45,000 at the fund's peak in 2021, slipping to about $35,000 today.

The fund's index feature means it has a low MER of just 1.21%; it requires a $500 minimum investment.

Mawer US Equity A (MAW108)

Despite a setback of more than 12% over the past year, this fund still has an excellent five-year annual average return of 11.41%.

This fund is broadly diversified among many sectors, with 58 holdings coming from a blend of information technology, financials, health care, industrials and other sectors. The top 25 of the 58 names in the fund accounted for 69% of its holdings as of Sept. 30.

The fund carries a 1.13% MER and a $500 minimum initial investment.

Change to the Recommended List

Late last year, the Invesco Emerging Markets Class Series D (AIM2100) was replaced by the Mackenzie Emerging Markets D, which has superior performance and a lower MER.

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