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Watson Investment Partners

Allyson Watson

RICHARDSON Wealth

You Can't Predict, You Can Prepare

The topic we address most with current and prospective clients is how to best position their portfolios for the uncertainty of what's to come in the months, quarters, and years ahead.

At Watson Investment Partners, we come from a unique background of investing in a broad suite of asset classes. Our team follows an endowment approach that is focused on utilizing low-cost domestic and international stock and bond portfolios and then enhancing performance & downside protection through high conviction, diversifying strategies. A strategy we are not seeing utilized broadly.

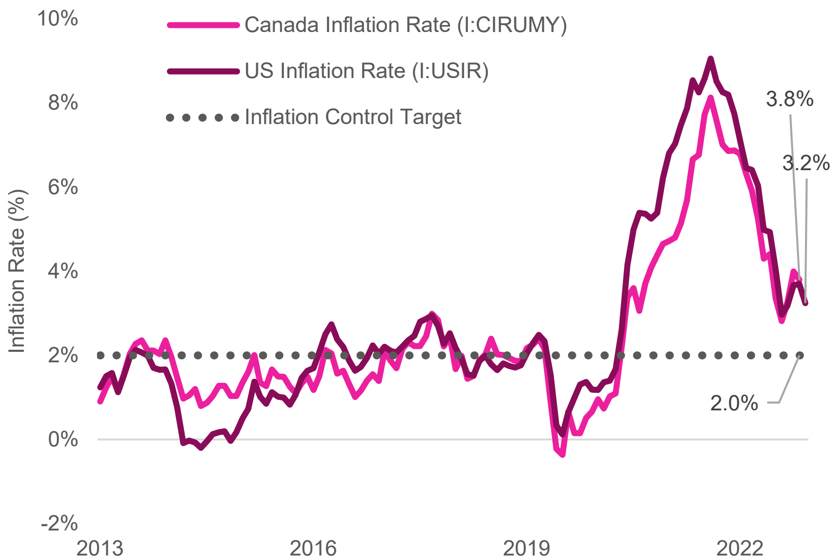
We are currently building portfolios that are preparing investors for:

Persistent Inflation

Although inflation has come down from the highs of June 2022, we have yet to hit the central bank inflation control target rate of 2% in Canada or in the US.

With this in mind, we are concentrating on strategies that deliver inflation protection, persistent returns in all markets, and have the potential to benefit from an inflationary environment. These include uniquely Canadian real asset opportunities in markets with structural supply and demand inequalities.

Inflation Has Come Down, But Not Yet to Target Levels:



Source: Y-Charts

Higher-For-Longer Interest Rates

The threat of persistent inflation is forcing central banks to keep interest rates higher for longer. Both the Bank of Canada and the Federal Reserve maintained overnight rates of 5.0% and 5.3%, respectively. Cooling data is supportive of rate cuts, but central banks are faced with a difficult balancing act and there is still uncertainty ahead.

We do not try to predict the direction of interest rates. Instead, we are biased toward short-dated, high quality, holdings and are utilizing hedging strategies to protect against credit market weakness.

A Slowdown in Economic Growth

Our financial environment is the most restrictive it has been since the Global Financial Crisis (GFC) and lagged impacts of monetary policy could depress economic growth moving forward.

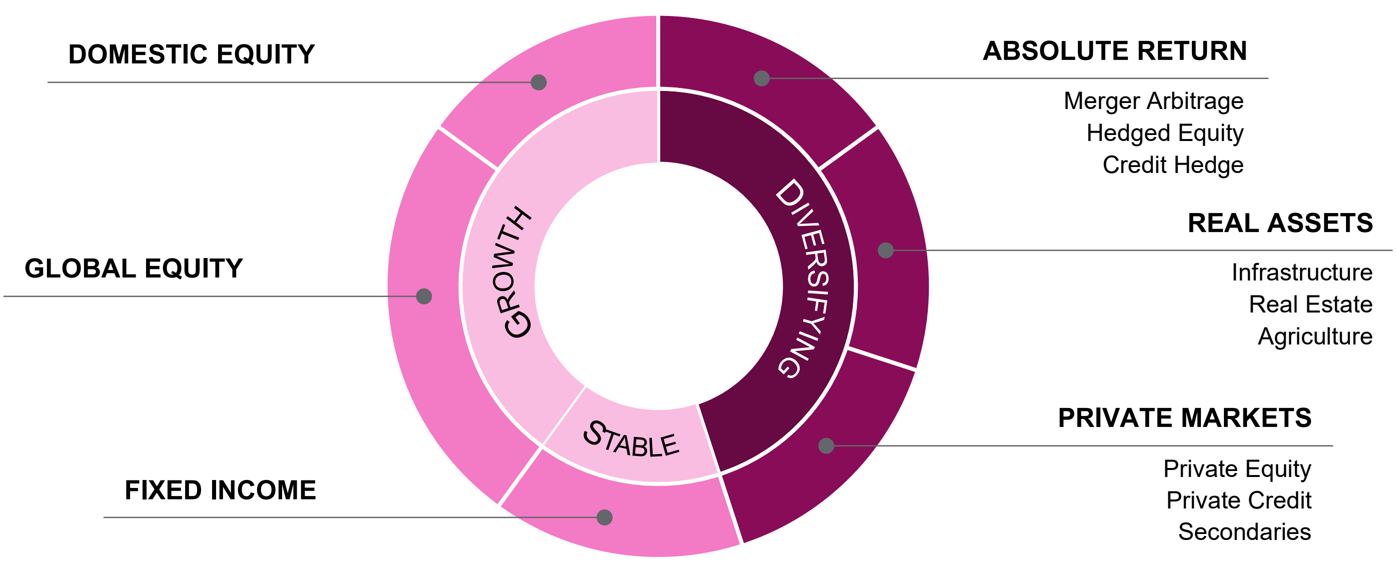
We avoid "chasing the market" at all times and instead focus on quality. Our equity exposure is comprised of companies with track records of delivering long-term revenue growth. These companies have strong cash flows, low debt levels and management teams who are exceptional stewards of capital. They tend to attract capital during flight to quality scenarios and, therefore, perform better than the broader market in risk-off environments.

Increased Market Volatility

The S&P 500 just had its best three weeks since 2020 following a dramatic fall of -10% from July to October. Highly volatile markets like this are typical of the late cycle economies, and we expect this trend to continue.

We have allocated capital into diversifying strategies to mitigate volatility and steep declines. Avoiding drawdowns is a key component to successfully compounding wealth. If we see equity valuations come under pressure and credit spreads widening from here, investors in more traditional portfolios could be faced with significant mark-to-market losses.

Our Multi-Asset Strategy: Growth & Resilience



What Led us to This Point?

The word "transitory" was used, by pundits, at nauseum to describe the inflationary pressures on global economies. This was in 2021, as the initial impact of the COVID-19 pandemic subsided and prices for goods and services began rising steeply. We were in "unprecedented" territory – a word that seems to have lost its meaning given almost every market environment nowadays is "unprecedented".

The actions taken by Central Banks during the pandemic were swift as they largely just dusted off their Great Financial Crisis playbooks. While these measures were crucial in preventing a deeper economic crisis during the pandemic, they also had complex and sometimes unintended consequences. The aftermath was heightened inflation, supply chain disruptions, geopolitical tensions, trade disputes, volatile energy prices, high levels of private and public debts, and labour market disruptions.

At a high level, Central Banks responded to this new environment by reversing course and tightening monetary policy, largely by increasing interest rates and tapering off quantitative easing programs. These actions will continue to have their own effects on capital markets that we must now be prepared for.

Where Do We Go from Here?

We are positioning our clients for an environment of persistent inflation, higher-for-longer interest rates, a slowdown in economic growth, and increased market volatility.

Our team is working hard to both protect capital and take advantage of opportunities in this new regime. If you're looking for a review of your current portfolio and would like to chat with us, please do not hesitate to reach out.

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