Optimize Wealth Management

QUARTERLY COMMENTARY

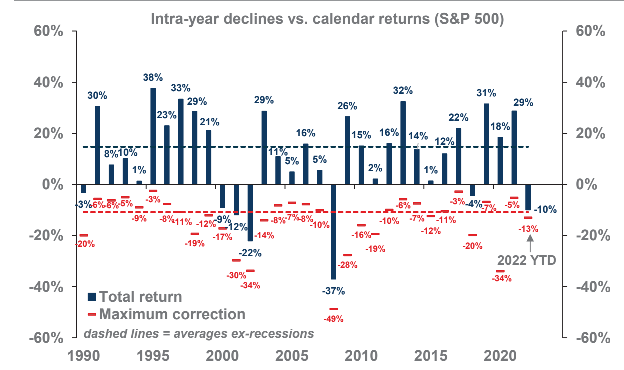
First Quarter 2022

Market Overview

The start of 2022 has seen a return of the volatility that was largely absent from the markets for most of 2021. Both equity and fixed-income markets started the first months of the year with significant pullbacks. While many were hopeful that the world would be progressing towards a return to normal from the pandemic, the Ukraine/Russia war that began in late February largely interrupted this path forward.

While the current crisis has had a devastating humanitarian impact, from an investing perspective we should remember that events such as war can often bring stock market weakness, yet these drops tend to be short-term in nature. Let's also not overlook the fact that market downturns are a natural and common part of the equity markets; something investors may have forgotten given the consistent, upward climb of equity markets last year. The current correction is not far from the intra-year decline we expect to see, which has been around 10%, on average, since 1990 — these corrections are commonplace (see chart).

Stock market downturns are commonplace

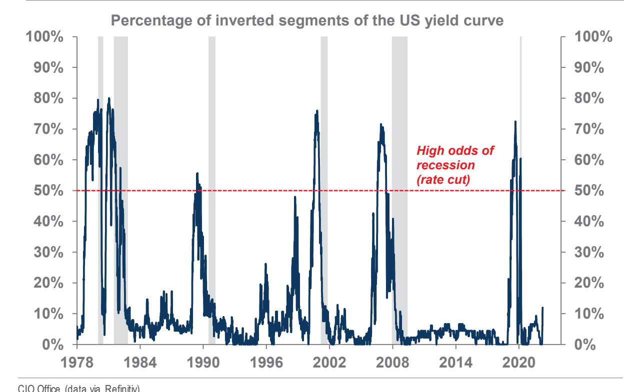


CIO Office (data via Refinitiv).

However, the geopolitical conflict has brought new challenges. It has further contributed to rising energy prices, with oil production once again in the spotlight as a matter of national security. The situation has also helped to create further headwinds in managing the persistent inflation that continues to dominate the financial headlines. While supply-side constraints slowly progress toward resolving themselves as things continue to normalize after the pandemic, the conflict in Europe offers little respite in the pursuit to combat inflation — energy and food prices are expected to face ongoing upward pricing pressures over the coming months.

All eyes continue to be on the central banks who have maintained — to this point — a hawkish stance to start the year and have begun the process of raising the key interest rate. This was a significant driver for the pullback in the fixed-income markets to start the year. Both equity and fixed-income markets appear to have now built in a significant portion of the expected monetary tightening. The central banks continue to have the unenviable task of managing monetary policy in these ever-changing times — returning interest rates to more normal post-pandemic levels, while supporting economic stability and responding to persistent and ongoing inflationary pressures. The latest challenge is slowing economic growth, including recent reports of a contraction in the U.S., with GDP declining by 1.4% in Q1 2022, contrary to expectations of a 1% gain. In April, there was a brief inversion of the yield curve, often seen as a precursor to a recession. However, we maintain that any suggestion of a recession be put to rest for the time being, as a broader-based inversion is needed to increase the probability of a recession (see chart).

Recession risks remain low



CIO Office (data via Refinitiv).

Optimize Wealth Management (Optimize Inc.) represents to the reader that this Mandate or Model Portfolio is not a Mutual Fund or an Investment Product but rather a portfolio strategy. The forward-looking statements and forward-looking information are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in the forward-looking statements and information. Therefore, actual future results and trends may differ materially from what is forecasted in the forward-looking statements due to a variety of factors. Past performance or hypothetical performance is no indication of future performance. Your investment account may deviate from any one Model Portfolio and its performance at any point in time for a variety of reasons.

Despite the various uncertainties, there are many positive signs to support North American economies. Both U.S. and Canadian labour markets have shown recovery and remain strong, though wage growth hasn't been quite as robust. Consumer spending continues to be high, supported by the significant amount of savings accumulated throughout the pandemic. We also shouldn't overlook the recovery and strength in corporate earnings performance. To date, corporate earnings have continued to outperform expectations to start the year. In fact, almost 80% of S&P 500 companies to report their earnings have beat expectations, compared to last year's average of 66% (see chart).

Great start to the earnings season

Earnings Summary	Reported	Beat	Met	Missed	y/y %*
S&P 500	20%	78%	2%	20%	7.9%
Financials	48%	81%	0%	19%	-19.1%
Consumer Staples	31%	90%	10%	0%	3.3%
Industrials	21%	87%	0%	13%	37.6%
Energy	19%	75%	0%	25%	264.6%
Consumer Discretionary	19%	55%	0%	45%	-10.2%
Materials	18%	80%	0%	20%	39.0%
Communication Services	15%	50%	25%	25%	-7.3%
Health Care	12%	88%	0%	13%	10.6%
Information Technology	9%	71%	0%	29%	9.0%
Utilities	7%	50%	0%	50%	8.1%
Real Estate	7%	100%	0%	0%	19.7%

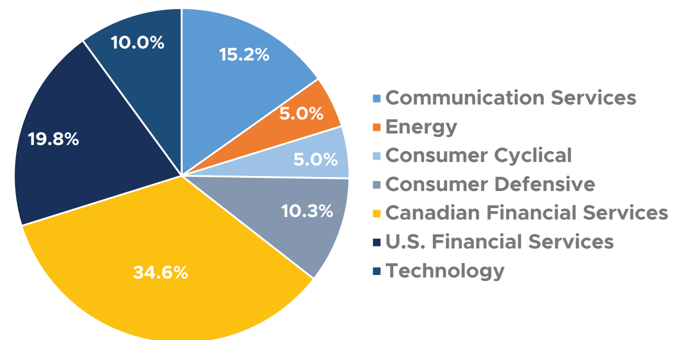
CIO Office (data via Refinitiv).

Portfolio Commentary

The chart below represents the balanced growth portfolio sector allocation.

We continue to see the U.S. markets as well-positioned for investors. As we largely expected, various areas of the economy will continue to benefit as we pass the pandemic woes. With Covid restrictions easing, there has been significant demand for air travel and multiple airlines are now forecasting profits this year. The hospitality industry is also experiencing rising occupancy rates, with an uptick in business travel expected to continue to close the gap with leisure after a significant divergence in 2021. The retail sector also showed strength as consumer spending grew in 10 of 13 categories in March, led by gas stations (+8.9%), general merchandise (+5.4%), electronics (+3.3%) and sporting goods (+3.3%).

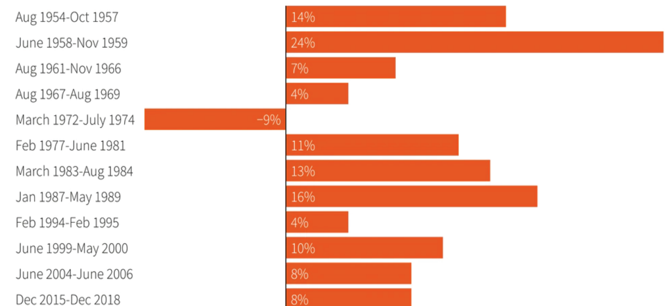
Sector Allocation (as at March 31, 2022)



While there has been significant negative press coverage about the impact of rising rates on the equity markets, we suggest a more balanced perspective. Historical data shows that rate hikes are, on average, correlated with positive annualized returns in the S&P 500. In fact, during the last 12 rate hike cycles, the S&P 500 experienced an average annualized increase of 9.4%, with only one down period, from 1972 to 1974 (see chart).

U.S. stock market during rate hike cycles

S&P 500 has risen at an average annualized rate of 9.4% during 12 rate hike cycles



Note: Data is annualized total return
Source: Truist Advisory Services

Reuters Graphics

The equity market pullback to start the year has opened the door to opportunities to purchase strong companies with long-term value that have been caught in the drawdown. Simply put, there are many discounts to be found in the market. With a broad sector rotation, certain large-cap technology valuations are now at an attractive range. The median P/E ratio of the industry now stands at 23.4x,

Optimize Wealth Management (Optimize Inc.) represents to the reader that this Mandate or Model Portfolio is not a Mutual Fund or an Investment Product but rather a portfolio strategy. The forward-looking statements and forward-looking information are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in the forward-looking statements and information. Therefore, actual future results and trends may differ materially from what is forecasted in the forward-looking statements due to a variety of factors. Past performance or hypothetical performance is no indication of future performance. Your investment account may deviate from any one Model Portfolio and its performance at any point in time for a variety of reasons.

below its 10-year average of 24.8x — the first time it has fallen below the average since March 2020. These price declines are despite strong earnings growth forecasts for the sector of 13% per annum, on average, over the next few years.

To start the quarter, we added exposure to the energy sector foreseeing sustained energy prices as the world moves towards a return to normal from the pandemic. With elevated commodity prices, now exacerbated by the geopolitical situation in Europe, industry performance has been strong. In the first quarter, we have seen many energy companies generate record profits and strong free cash flow, enjoying significant earnings growth.

We continue to maintain an overweight allocation to the financial services sector. Rising rates have historically benefitted this sector, as higher rates generally contribute to increased profit margins through higher borrowing rates and the yield on deposits. In the first quarter, loan growth was up by 1.4% from the previous quarter amongst major U.S. banks. Expected and additional rate hikes by the central banks — following the 50 bps rate hike in May — suggest that the financial sector will benefit, as we have seen historically.

Outlook Ahead

While the start of 2022 has been a turbulent one for the markets, as we look forward, we view the current environment as largely supportive for equity markets. Despite the backdrop of slower economic growth and the ongoing geopolitical tensions in Europe, the Canadian and U.S. markets are well supported and expected to continue to perform well.

As the year progresses, we expect that the supply-side constraints that have helped to drive inflation, largely created by the pandemic, will continue to temper. However, this is likely to be offset by the effects of the conflict in Europe, should it persist, as Ukraine and Russia contribute to the production of various commodities, particularly food and energy. As well, the recent Covid lockdowns in China are expected to create further headwinds. In its meeting in May, Chair Powell was explicit in suggesting that the Fed will continue to tackle inflation and additional 50 bps rate hikes remain on the table. As such, we can expect interest rates to rise in the coming months.

For now, we continue to capitalize on opportunities as they present themselves during market pullbacks, focusing on adding quality companies with lower valuations to our portfolios — opportunities that were largely difficult to find throughout 2021. As we have suggested in the past, this is a time in which thoughtful portfolio oversight, evaluation and scrutiny continue to benefit investors. Most important, we continue to advocate that — during these volatile times — individual investors remember that successful investing involves maintaining the fortitude to stick to your plan, continuing to be invested and staying the course.

Optimize Wealth Management (Optimize Inc.) represents to the reader that this Mandate or Model Portfolio is not a Mutual Fund or an Investment Product but rather a portfolio strategy. The forward-looking statements and forward-looking information are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in the forward-looking statements and information. Therefore, actual future results and trends may differ materially from what is forecasted in the forward-looking statements due to a variety of factors. Past performance or hypothetical performance is no indication of future performance. Your investment account may deviate from any one Model Portfolio and its performance at any point in time for a variety of reasons.

Disclaimer

Readers should ensure that their individual circumstances have been considered and that if they do take any action, such action is taken based on the most applicable and most available information. This document contains certain forward-looking statements and forward-looking information, within the meaning of applicable securities law, which are based on current expectations, estimates, projections, assumptions and beliefs. By their nature, forward-looking statements involve a number of risks and uncertainties, because they relate to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. The forward-looking statements and forward-looking information are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in the forward-looking statements and information. Therefore, actual future results and trends may differ materially from what is forecasted in the forward-looking statements due to a variety of factors. Optimize Inc. ("Optimize") does not and cannot guarantee the future performance of your Account or the success of any investment decision or strategy that it may use or suggest. Optimize makes no promise that the investments recommended to you will be profitable or will not lose you money. The investments Optimize may recommend are subject to various market, currency, economic, political and business risks. Investing involves a high level of risk and the securities in which your Account invests may be volatile and may depreciate rapidly. Investing using leverage involves a higher degree of risk and should not be undertaken without a complete awareness and acceptance of the additional risks involved. Your Account may deviate from any one Model Portfolio and its performance at any point in time for a variety of reasons. Your Account may not be assigned to any one specific Model Portfolio. Two or more Accounts which are managed according to the same Model Portfolio can have different performance returns for a variety of reasons, mainly stemming from the fact that you are not purchasing fund units in the same fund but rather you are having your Accounts managed on a separate basis. Furthermore, if you and Optimize agree to hold investments in your Account which are not held in the Model Portfolio assigned to your Account, or are not recommended by Optimize, or are not held in the Model Portfolio assigned to your Account in the same proportions as your Account, then your Account will have a different performance than the Model Portfolio assigned to your Account, either higher or lower, or could exhibit poor performance and Optimize shall not be responsible. All returns presented as hypothetical are hypothetical and are back-tested. As such, any returns marked as hypothetical do not represent the investment performance of actual Accounts of any investors. Optimize Inc., doing business as Optimize or Optimize Wealth Management, is the investment manager to the Optimize Premium Income Fund, the Optimize Core Equity Fund, the Optimize Growth Equity Fund and any funds within the Optimize Pooled Funds or within the Optimize Private Opportunity Program (collectively, the "Funds"). This brochure is not a complete description of the Optimize Private Opportunities Program (OPOP) or of the Funds. Prior to making a decision to invest in the OPOP or any of the Funds, you should review the Confidential Offering Memorandum of the Optimize Pooled Funds (the "Offering Memorandum"), access to which has been provided together with this brochure. An investment in the OPOP or any of the Funds is speculative and is not intended to be a complete investment program. Risk factors, fees, and conflicts of interest associated with the Funds are disclosed in the Offering Memorandum and should be reviewed prior to making an investment decision. The Funds are offered on a private placement basis pursuant to the Offering Memorandum and are only available to investors who meet certain eligibility or minimum purchase amount requirements under applicable securities legislation. The Offering Memorandum contains important information about the Funds, including their investment objectives and strategies, purchase options, applicable management fees, performance fees, other charges and expenses, and should be read carefully before investing. Please contact your personal Optimize advisor on your particular circumstance. This communication does not constitute an offer or solicitation to purchase securities of the Funds. The information contained herein does not constitute an offer or solicitation by anyone in the United States or in any other jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Prospective investors who are not resident in Canada should contact their financial advisor to determine whether securities of the Funds may be lawfully sold in their jurisdiction. The opinions, estimates and projections ("information") contained within this report are solely those of Optimize Inc. and are subject to change without notice. Optimize Inc. makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, Optimize Inc. assumes no responsibility for any losses or damages, whether direct or indirect, which arise out of the use of this information. Optimize Inc. is not under any obligation to update or keep current the information contained herein. The information should not be regarded by recipients as a substitute for the exercise of their own judgement. Please contact your personal Optimize advisor on your particular circumstances. Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of the Funds or the OPOP. These views are not to be considered as investment advice nor should they be considered a recommendation to buy or sell. The Funds are generally exposed to the following risks. See the offering memorandum of the Funds for a description of these risks: nature of investment; securities laws; equity risk; lack of liquidity; availability of investments; reliance on the manager; allocation of personnel; exchange rate fluctuations; accounting and disclosure standards; limited information; future trading; changes in laws or regulations; use of leverage; distributions in kind; recourse to the funds' assets; unitholder liability; indemnification; environmental liabilities; effects of bankruptcy; investments in public companies; unit holders will not participate in management of the funds; management fee; fees for service; performance fees; diverse investor group; co-investment opportunities; no separate counsel; limited remedies against the manager; use of placement agents; cash management policy; taxation of fund and unitholders; fluctuation in NAV; potential conflicts of interest; cyber security risk; counterparty risk; subscription and redemption price based on unaudited data; valuation of the underlying funds' assets and liabilities; competitive market for investment opportunities; management fund capital; limited information regarding the portfolio companies; reliance upon borrowed funds; investments in less established companies; investment in restructurings of distressed companies; dependence on key management personnel; available opportunities and competitive marketplace; bridge financing; risks upon dispositions of investments; risk arising from provision of managerial assistance; difficulty in valuing investment portfolio; operating company board participation; investments in small and middle-market companies; minority investments; need for follow-on investments; special risks associated with offshore investments; general economic conditions; new strategies; illiquidity of investments.

Optimize Wealth Management (Optimize Inc.) represents to the reader that this Mandate or Model Portfolio is not a Mutual Fund or an Investment Product but rather a portfolio strategy. The forward-looking statements and forward-looking information are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in the forward-looking statements and information. Therefore, actual future results and trends may differ materially from what is forecasted in the forward-looking statements due to a variety of factors. Past performance or hypothetical performance is no indication of future performance. Your investment account may deviate from any one Model Portfolio and its performance at any point in time for a variety of reasons.