

CI PORTFOLIO SERIES COMMENTARY

Third Quarter

AS OF SEPTEMBER 30, 2022

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MARKET PERFORMANCE

It was a dramatic round trip for stock market performance during Q3: the markets rose significantly from the beginning of July to the middle of August, followed by a sharp fall to write off all the gains. Investors continue to be concerned about the potential “hard landing” economic scenario and consequent global recession, with significant interest rate hikes.

The renewed rise in U.S. core inflation fueled expectations for more aggressive interest rate hikes. This prompted global stocks to post their worst YTD performances, while the S&P 500 Index reached a 52-week low by September 30, 2022. The selloff was broad-based, with sticky inflation thwarting the prospects of a dovish pivot in the near term and dimming the likelihood that central banks will be able to achieve a “soft landing”. Bond and equity prices both fell considerably. The yield curve is now significantly inverted, marking a commonly cited indicator of impending recession.

The S&P/TSX Composite Index declined with all sectors lower. Technology and materials were the worst performing sectors, while energy and financials outperformed. In the aftermath of the hot U.S. inflation report, several economists upgraded their forecasts for the Bank of Canada’s terminal policy rate to exceed 4%. The MSCI Emerging Market Index and MSCI EAFE Index are the bottom two performers in both QTD and YTD perspective.

In terms of currencies, U.S. dollar is still on its strong run, while we see notable depreciation of pound sterling and Japanese yen. Crude oil prices reached their lowest level since January, ending the quarter at \$77.1/barrel.

Benchmark returns at September 30, 2022	3 months	1 year	3 years	5 years	10 years
S&P/TSX Composite Index	-1.41%	-5.39%	6.58%	6.54%	7.30%
S&P 500 Index (C\$)	2.07%	-7.81%	9.67%	11.49%	15.56%
MSCI World Index (C\$)	0.67%	-12.35%	6.02%	7.47%	11.85%
FTSE Canada Universe Bond Index	0.52%	-10.48%	-2.51%	0.66%	1.65%

Source: FactSet

PORTFOLIO PERFORMANCE

Our investment committee determined to hold a neutral position starting the second quarter of 2022. Since then, bonds have outperformed equities even though both registered negative returns for the third quarter. Markets remained very volatile in the quarter as the economic backdrop continued to evolve and the central bank officials reaffirmed their commitment to fighting inflation.

We positioned portfolios defensively as we expect a period of continued volatility to persist. We raised cash further by trimming equity allocation. We cut the equity exposure as the risk of a “hard landing” was consistently re-rated higher. Within equity, we find Canada, Japan, emerging markets, energy, and low volatility factor more favorable given our outlook, while we underweight U.S., Eurozone, I.T., and utilities sectors.

Cash is king, at least for the moment, as it generates attractive yield and no volatility. USD is overbought verses other major currencies based on longer term fundamentals but will likely remain the trend. We are underweight equity and bonds and overweight cash across all funds. Our balanced funds are approximately 56% invested in equity, 8% in cash and 36% in fixed income in Q3 (vs a neutral position of 60% equity, 40% bonds).

Contributors and detractors	Contributors	Detractors
Income-Oriented Portfolios	Growth factor	Value factor
	Overweight allocation to cash	Underweight allocation to US equities
	Overweight allocation to Energy sector	CI Canadian Core Plus Bond Fund
	CI Corporate Bond Fund	CI Enhanced Government Bond ETF
Balanced Portfolios	Growth factor	Value factor
	Overweight allocation to cash	Underweight allocation to US equities
	Overweight allocation to Energy sector	CI Canadian Core Plus Bond Fund
	CI Emerging Markets Corporate Class	CI International Equity Fund
Growth-Oriented Portfolios	Growth factor	Value factor
	Overweight allocation to cash	Underweight allocation to US equities
	Overweight allocation to Energy sector	CI International Equity Fund
	CI Emerging Markets Corporate Class	CI Canadian Dividend Fund

Source: CI GAM as at September 30, 2022

Returns at September 30, 2022 (Class F)	3 months	1 year	3 years	5 years	10 years
CI Portfolio Series Income Fund	-0.28%	-8.87%	-0.10%	1.63%	3.95%
CI Portfolio Series Conservative Fund	-0.45%	-10.00%	0.82%	2.42%	4.74%
CI Portfolio Series Conservative Balanced Fund	-0.55%	-9.69%	1.51%	2.73%	5.44%
CI Portfolio Series Balanced Fund	-0.61%	-10.55%	2.12%	3.05%	6.05%
CI Portfolio Series Balanced Growth Fund	-0.88%	-11.75%	2.67%	3.18%	6.55%
CI Portfolio Series Growth Fund	-0.98%	-11.72%	3.52%	3.83%	7.27%
CI Portfolio Series Maximum Growth Fund	-1.24%	-12.64%	4.05%	4.12%	8.19%

Source: CI Global Asset Management

OUTLOOK AND POSITIONING

We anticipate the markets will remain challenging in the near term as investors get overwhelmed with macro news (inflation data, jobless claims, non-farm payrolls, etc.). The markets are now pricing for above 4% terminal policy rates to reflect very stubborn inflation rates. There are signs inflation is cooling but it will take time to cut into half and eventually reach the 2% central bank target. Unfortunately, we will only get there with higher unemployment and declining wealth effect driven by weaker asset markets, as they are the only ways to cool consumers.

It is a complicated world with heightened geopolitical tensions led by Russia, North Korea, and China. Outside of the U.S., most markets are trading at abnormal discounts, reflecting rising rates and geopolitics. Despite all the near-term challenges, long-term prospects are solid as we anticipate larger returns driven by resilient earnings and improving multiples over time. In the bond land, yields have improved significantly, thereby creating cushion for any further losses.

We have likely passed the portion of the market correction where markets consistently headed for “lower lows”. There will no doubt be volatility ahead but expected returns for the 3-5 year horizon have also improved for risk taking.

Portfolio Positioning									
Asset Class	QoQ change	Portfolio positioning	Income	Conservative	Conservative Balanced	Balanced	Balanced Growth	Growth	Maximum Growth
Government bonds	▲	Neutral Weight	49.6%	42.5%	35.5%	28.4%	21.3%	14.2%	0.0%
		30-Sep-22	22.7	29.6	24.4	19.4	14.3	9.1	0.0
Investment-grade bonds	▲	Neutral Weight	17.1%	14.6%	12.2%	9.8%	7.3%	4.9%	0.0%
		30-Sep-22	28.0	21.2	17.6	13.9	10.3	6.5	0.0
High-yield bonds	▲	Neutral Weight	3.3%	2.8%	2.4%	1.9%	1.4%	0.9%	0.0%
		30-Sep-22	10.8	4.7	4.0	3.1	2.3	1.5	0.0
U.S. equity	▼	Neutral Weight	10.5%	14.0%	17.5%	21.0%	24.5%	28.0%	35.0%
		30-Sep-22	8.5	10.6	13.1	15.8	20.4	23.3	28.4
Canadian equity	▼	Neutral Weight	9.0%	12.0%	15.0%	18.0%	21.0%	24.0%	30.0%
		30-Sep-22	13.0	14.4	17.6	21.1	24.5	27.8	33.7
International equity	▼	Neutral Weight	10.5%	14.0%	17.5%	21.0%	24.5%	28.0%	35.0%
		30-Sep-22	7.7	11.6	14.6	17.8	21.2	24.4	29.9
Cash & Others	▲	Neutral Weight	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		30-Sep-22	9.3	7.9	8.7	8.9	6.8	7.4	8.0
Commodities	▼	Neutral Weight	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		30-Sep-22	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: CI GAM as at September 30, 2022

MODERN PORTFOLIO CONSTRUCTION TOOLS

	Income	Conservative	Conservative Balanced	Balanced	Balanced Growth	Growth	Maximum Growth
Liquid Alternatives							
Alternative Credit	4.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Long/Short Equity	4.1%	3.4%	4.3%	5.2%	0.0%	0.0%	0.0%
Total	8.2%	3.4%	4.3%	5.2%	0.0%	0.0%	0.0%
Real Assets							
Real Estate	0.74%	0.65%	0.81%	0.99%	1.16%	1.33%	1.62%
Infrastructure	2.51%	2.63%	3.29%	3.99%	4.89%	5.59%	6.84%
Total	3.3%	3.3%	4.1%	5.0%	6.0%	6.9%	8.5%
ETFs							
Active	5.1%	4.6%	4.1%	3.6%	3.1%	2.5%	1.6%
Smart Beta	4.6%	8.2%	10.4%	12.7%	14.9%	17.2%	21.1%
Passive	9.4%	5.7%	5.7%	5.8%	5.8%	5.8%	5.8%
Total	19.2%	18.5%	20.2%	22.0%	23.8%	25.4%	28.5%

Source: CI GAM as at September 30 2022

GLOSSARY OF TERMS:

Beta: A measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole.

Return : The measure of what an investment returned over a given time period. An investment that rose from \$1,000 to \$1,100 would have an absolute return of 10%.

Volatility: Measures how much the price of a security, derivative, or index fluctuates. The most commonly used measure of volatility when it comes to investment funds is standard deviation.

**Speak to your financial advisor
for more information on CI Portfolio Series.**

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