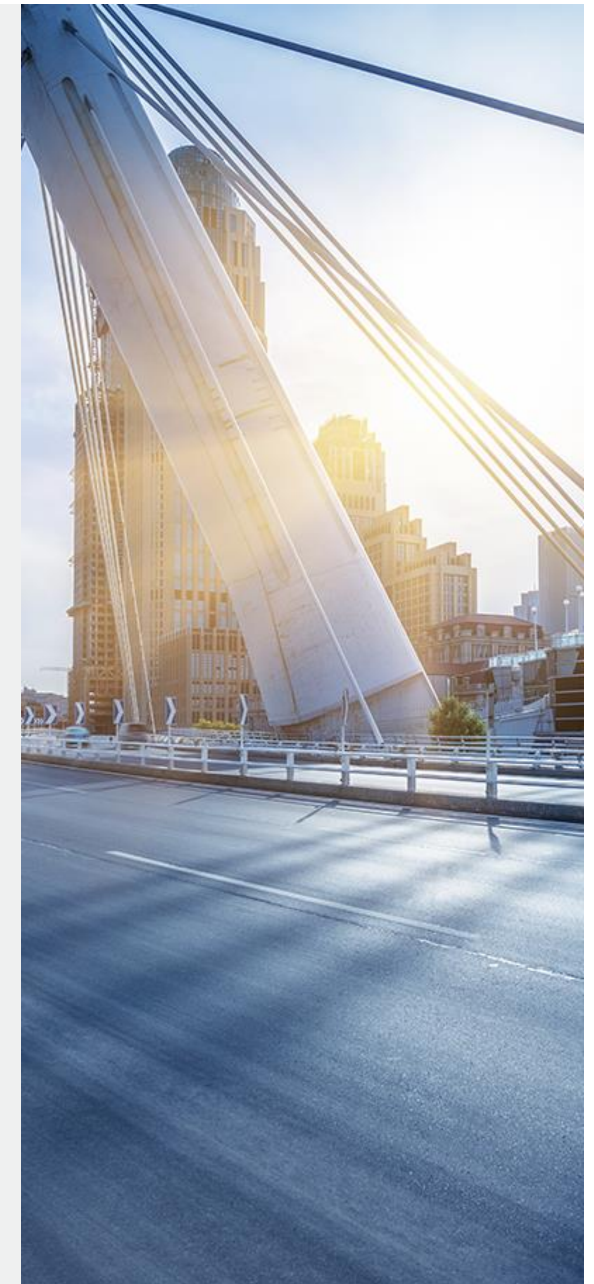
December 1, 2021



Investor Strategy

Preparing for a rate tightening cycle

A collaboration between Richardson Wealth and Purpose Investments

Executive Summary

- **Market Recap**
  - The global reopening led to a record-setting year
- **Key Macro Trends 2022**
  - The global tightening cycle has begun
  - Economic growth continues to broaden
  - Inflation risk building
- **Market Cycle and Positioning**
  - Healthy
- **Equities**
  - Index construction matters
- **Fixed Income**
  - Past tightening cycles and starting to rethink allocations
- **Portfolio Construction**
  - Bonds - We’re not throwing in the towel yet

Market Recap: The global reopening led to a record-setting year

Andy Innis, Phil Kwon

Chart 1: The Global Reopening Leading to a Rate Tightening Cycle

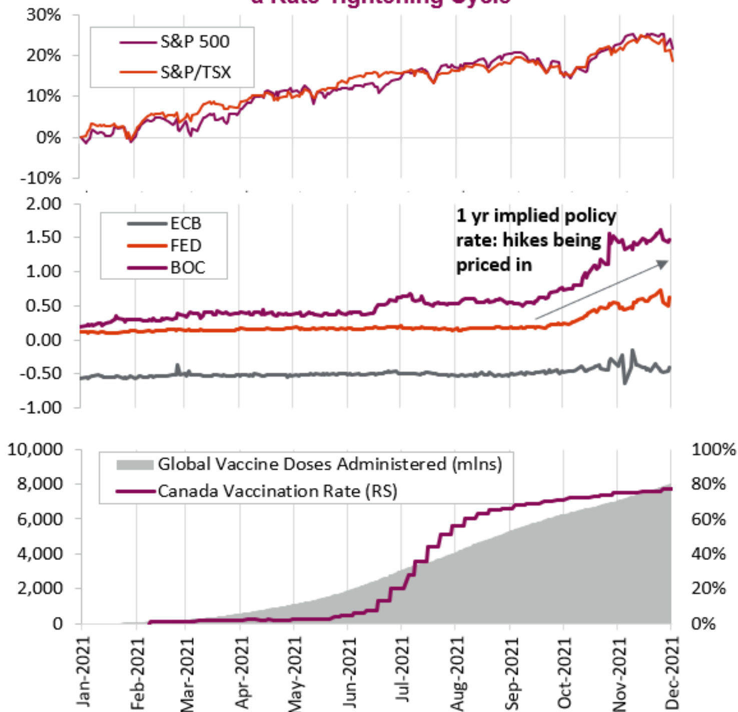
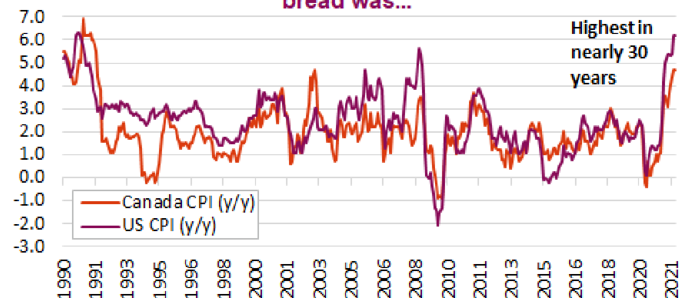


Chart 2: Remember when the price of bread was...



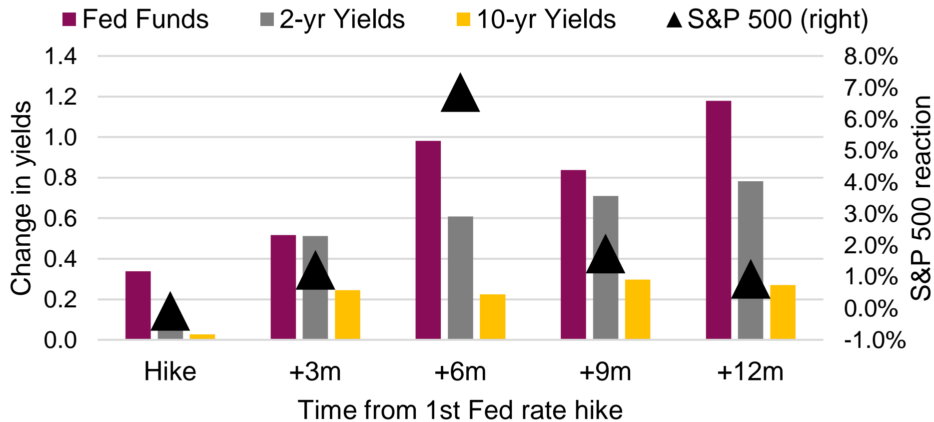
Source: Bloomberg

- After closing at or near record highs in 2020, equity markets continued their upward momentum as the world set out to get vaccinated so that economies could reopen - children went back to class, travelers hopped on planes and foodies were dining in restaurants again. Optimism centered around a return to "normal" has led to a record-setting year in equity markets. Year to date, the S&P 500 notched 66 new highs, and Canada was no slouch with the S&P/TSX Composite almost matching the U.S. with 62. Almost all sectors both north and south of the border are in the green for 2021, except for two in Canada: materials, due to gold (as expected), and health care because of marijuana. As of end of November, total return for the S&P/TSX sits at 21.4% and 23.2% for the S&P 500.
- Central banks with their record-setting balance sheets began the process of slowing stimulus, mainly by tapering asset purchases. The Bank of Canada (BoC) was early and began in October while the Fed is looking to start in December. As tapering announcements surfaced, bond yields rose. Canadian bonds suffered as expected and have posted -4.1% total return for 2021. The tapering has led to early signs that the next move will likely be with rates and hawks have begun to circle as implications of hikes in 2022 began to surface in the latter half of 2021. More on this to come further in the outlook.
- Whether it was supply disruptions or pent-up demand, inflation dominated the headlines this year and continues to impact nearly all areas of the economy; it appears to be getting worse before it gets better. Inflation has been more persistent than central banks expected, leading some to wonder if we should retire (or at least define) the term "transitory" when speaking on the matter. "Transitory" was used to describe the inflation due in part to the dislocation from supply-chain issues but something more fundamental has been going on with the excessive degree of stimulus. We have also seen a shift in the labour market in the form of a sharply lower labour force participation rate which has been a factor in the discussion. The question now: Is this pandemic-related inflation or is it more broadly based? Central banks are determined not to act too soon, as we continue to face new challenges relating to Covid and constant new variants, leading to the fear of another sharp economic slowdown. However, fresh off a re-nomination, Jerome Powell decided to acknowledge recently that inflation may in fact not be so "transitory". Despite hints from central banks that they see conditions returning to normal over the next year or so, investors have been left wondering if that truly will be the case. Inflation across a broad swath of products that consumers buy every day was even worse than expected in October, hitting its highest point in more than 30 years. As supply chain disruptions ease, inflation should moderate, but that will not be the last we see of inflation. The transition from supply to demand and service-push inflation should prompt many central banks to initiate their tightening cycle.
- As we move into the final month of 2021, Omicron has reminded us that we are not out of the woods. However, economies are opening, people are spending and the world is moving again. Even though we don't expect more record highs in markets for the remainder of 2021, it has been a great year in market performance, so it may be time to enjoy the holidays and give someone a big hug that you haven't seen awhile.

Key Macro Trends 2022: the global tightening cycle has begun

Derek Benedet, CMT

Fed hikes lift short term yields but longer yields barely budge. Equity markets rejoice then it depends on the economy

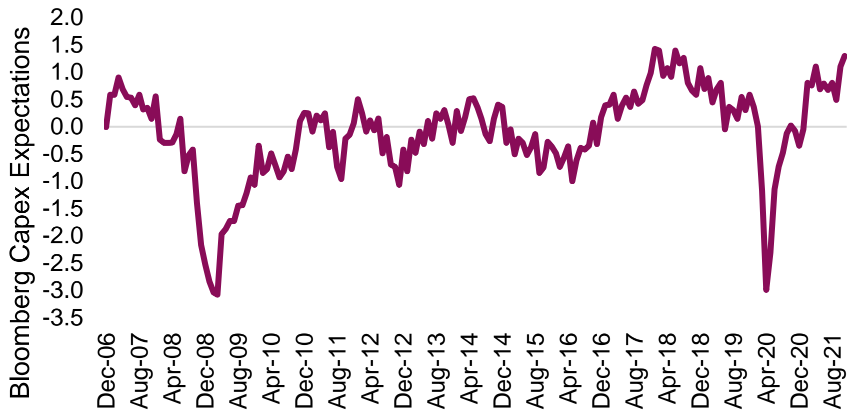


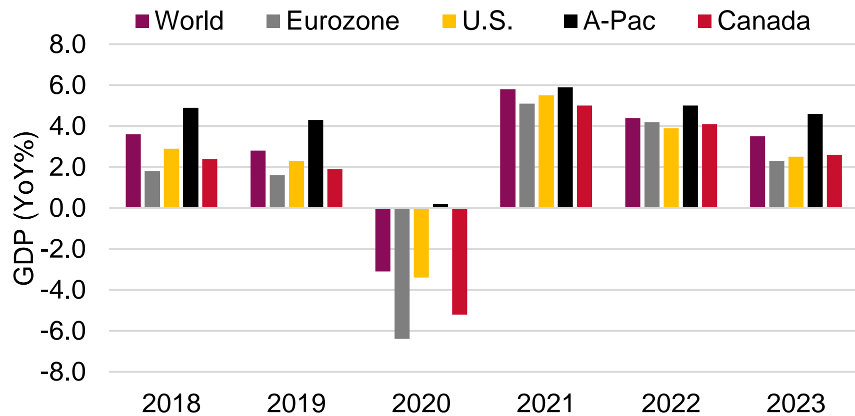
Source: Bloomberg, last 7 tightening cycles

- Few would deny that **central bankers have become the superheroes of global markets**, injecting trillions of capital to help fill the gaps left by a pandemic-induced global economic shutdown. Now with the economy on a more solid footing, the trend among central banks has them taking their foot slowly off the monetary gas pedal.
- Over the past three months, 10 of the bigger central banks hiked their overnight rates. These have been mainly among developing nations but central banks in developed economies edged closer as well. Quantitative easing is on the decline as Canada announced the end of its program in October, while all eyes remain on the Fed as they begin to taper their purchase programs. Each incremental taper gets the market closer to rate hikes. The market has currently priced more than two rate hikes by the Fed in 2022, starting around mid year. The UK and Canada are forecast to move sooner, eurozone later. Unless the economy or markets derail, the tightening cycle is upon us.
- If history is our guide, this isn't necessarily a bad scenario. Intuitively this makes sense. The Fed starts hiking when the market and economy are strong enough to remove accommodation, cooling parts of the economy that may be overheating and giving the central bank more flexibility should weakness arise down the road.
- Looking at the **market's reaction to the last 7 Fed tightening cycles**, there is more good news than bad. Starting with bond yields, raising the overnight rate understandably puts upward pressure on shorter-term yields. However, for longer-term yields such as the 10-year, the reaction is muted. In 3 of the last 7 cycles, the 10-year yield was lower six months following the first hike. The bond markets are foretelling, as yields usually move higher well in advance of the start of a rate-hiking cycle.
- Turning to equities, in the last 7 tightening cycles, the S&P 500 was higher six months after the first hike. Sure, volatility rose as the markets adjusted to the change in monetary policy, but with the Fed hiking due to strength in the economy, equity markets have been amenable. A year later, things are much less clear.
- There are **risks to this gradual pivot in global monetary policy**. On one hand, it is likely overdue given inflationary price pressures and how far the economy has recovered. However, asset prices have been inflated over the past year-and-a-half thanks to these monetary policies. This includes stock prices, bond prices and house prices. The sensitivity of those prices to tightening monetary policies may be higher than historical patterns.
- **2022 will be a monetary adjustment year as policy moves back towards normal**. Given the health of the economy, we don't believe a recession is imminent, which has us believing this will add to market swings but not trigger a bear.

Key Macro Trends 2022: Economic growth continues to broaden

Craig Basinger, CFA





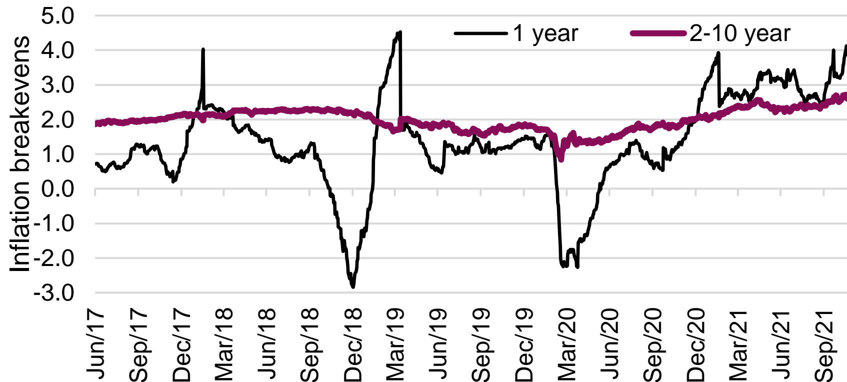
Source: Bloomberg

- Looking out to the year ahead, the **global growth outlook hinges on keeping the recovery on track**. Global vaccination progress remains critical to reduce the virus' impact on real GDP growth. The emergence of Omicron may present a new twist, and admittedly with science still playing catch up, creates a bit of a blind spot. It's difficult to write a complete playbook for the year ahead, however we would venture the economic risk from Omicron is relatively low and add that each subsequent wave should have a more muted impact on economic activity.
- The **global economy will continue to rebound despite current headwinds** including supply chain bottlenecks and ongoing pandemic flareups. Mobility restrictions in Europe and potentially other parts of the globe are damaging to growth but likely not comparable to last winter in terms of duration or strictness. Rather than focus on these risks that we believe will fade over the course of the year, investors should keep in mind the following strong fundamentals below these headwinds:
  - **Healthy corporate balance sheets**, with companies increasingly willing to invest to continue to grow their businesses. Capex expectations have all been very strong recently, a great precursor of broader growth.
  - **Excess savings have boosted household balance sheets** over the course of the pandemic. Add on the wealth effect of surging home prices and this creates a very healthy environment for personal spending on goods as well as an expected shift to services over the coming year.
  - **Ongoing backdrop of pent-up demand**, especially for the service sector. As mobility restrictions ease globally, services expenditure will occupy a more important role in shaping total spending. Growth expectation for services is now outpacing hard manufacturing goods, which we also expect to remain strong. Services expenditure is still lower than it was a year ago in the US, and overall remains low globally compared to pre-pandemic patterns.
  - **Accommodative policy** both monetary and fiscal. Though many central banks have already ended extraordinary easing policies, it's hard to argue that monetary policy will become outright restrictive.
- The economic recovery remains uneven with different areas of the world being impacted by varying degrees of lockdown measures impacting mobility, however global growth expectations remain more synchronized. Overall, growth of global gross domestic product (GDP) will be strong but is expected to moderate in 2022 and 2023 as the recovery moves beyond the rebound phase and the effects of the extraordinary policy stimulus fade. We expect to see continued healthy corporate balance sheets, with companies increasingly willing to invest to continue to grow their businesses. Capex expectations have all been very strong recently, a great precursor of broader growth.
- From an equity market perspective, a backdrop of strong global growth is a strong positive, though earnings pressure is one concern. Rising costs and ongoing supply issues will test even the best companies to maintain what has been fantastic pace of growth. Pricing pressure will inevitably test margins or the willingness for consumers to bear the brunt of rising costs.

Key Macro Trends 2022: Inflation risk building

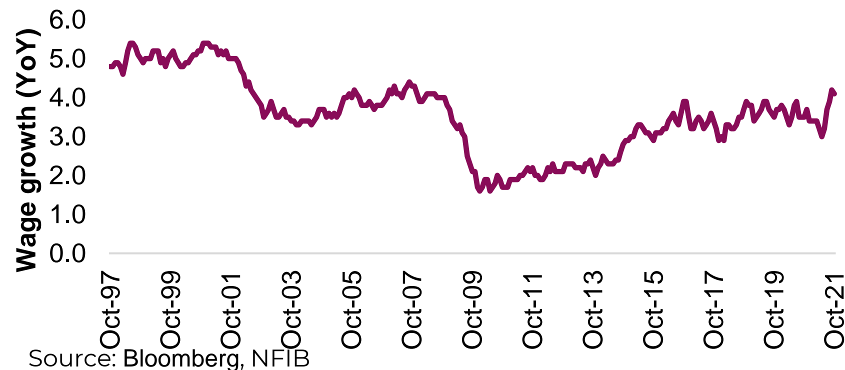
Craig Basinger, CFA

Longer term inflation break evens after the next year remain muted



Source: Bloomberg

Wages are rising but given productivity gains, not an issue yet



Source: Bloomberg, NFIB

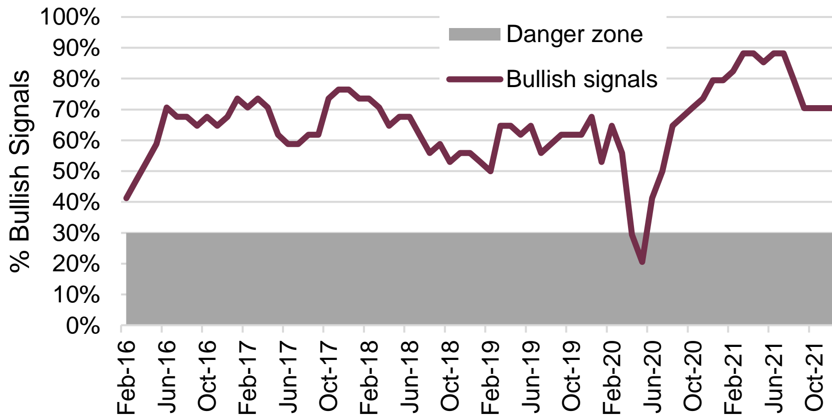
Source: Bloomberg

- It is clearly very trendy to talk about the price of milk, gasoline, used cars or how the core CPI is the highest since the early 1990s. While there are ongoing price gyrations driven by supply issues, robust return of aggregate demand and changing spending patterns, these will sort themselves out. After all, while it is profitable for companies to solve supply bottlenecks, spending patterns are unlikely to continue to change in the same direction (they are actually starting to reverse) and the best solution for high prices, is high prices. This price spike does negatively impact the real value of your portfolio and other assets but given how markets and asset prices have risen over the past year, don't expect too much sympathy. The big question is what happens next?
- The **short-term price gyrations will continue well into 2022**, certainly making this a recurring topic. From a market perspective, we should care more about the longer-term inflation expectations, as it is these long-term inflation expectations that underpin bond yields, valuations and discount rates on the price of just about anything. If these move, it has a big impact, much more so than paying an extra 75 cents for milk.
- The good news so far is **longer-term inflation expectations have only marginally ticked higher**. The chart on the left is the inflation break-evens being priced into the bond market. True, the one-year reading is elevated at nearly 4% but the implied inflation after the next year out to 2031 (2-10 year) remains muted. This is the market telling us that much of the rise in prices is a short-term issue. This number matters more for asset prices, from stocks to bonds to real estate.
- So, what happens after the short-term price spike? There are some very long-term forces on both sides. The amount of debt in the world remains a deflationary force, and wow is there a lot of debt now! Demographics, the gradual aging of the world population especially in developed nations, remains a strong deflationary force. But some deflationary forces are diminishing. Globalization, essentially the relocation of manufacturing to lower labour jurisdictions, has been slowing and could slow even faster as companies/governments are rethinking their supply chains. Company mindsets around logistics and inventory appears to be changing from 'just in time' to 'just in case'. This may pass as the pandemic fades, but if this is a new trend it is inflationary (or at least a deflationary force that is softening).
- While we expect the CPI inflation impulse to fade in 2022, given its longevity it is starting to drag longer-term expectations higher. And the policy impact has likely not flowed through the system as it too hit bottlenecks, from higher savings, to lack of goods, to buying, to inability to spend on some activities during this pandemic. This situation does support higher inflation expectations going forward, and is starting to translate into higher wages.
- This isn't the 1970s (higher prices with falling productivity) nor is it the late 1940s (higher prices driven by rebuilding the world). But the inflationary trend is to the upside and this has implication from financial plans, corporate behaviour on debt and buybacks, value vs growth, yields and valuations. **We believe** investors **should have an inflation protection tilt to their portfolios, and consider the impacts of gradually rising longer-term inflation on all investments.**

RICHARDSON Wealth CONNECTED WEALTH

Market Cycle & Positioning: Healthy

Craig Basinger, CFA



Source: Purpose Investments, Bloomberg

- Few would disagree markets have proven very resilient over the past year and a half since emerging from the briefest bear market in history. Periods of market weakness have proven fleeting and often end before most react, as the 'buy the dip' mantra has been entrenched into the ethos of traders. And while we would not expect 2022 to be as smooth as recent history, characterized by strong returns with limited disruptions, the market cycle indicators continue to point to a healthy encouraging environment.
- Currently, a little over **70% of our Market Cyclic indicators remain bullish for the continuation of the market cycle**. This is WAY above the danger zone typically characterized by 30% or fewer, implying the risk of cycle ending recession/bear market is remote.
  - The U.S. economy has been regaining momentum after a soft few months. Notable improvements in manufacturing and housing are positives.
  - Global economic indicators are less encouraging, which could continue to suffer should the Omicron variant result in more restrictive behaviours.
  - Fundamentals of the equity markets are very strong with earnings growth gaining momentum.
  - Valuations are decent in most jurisdictions other than the U.S. We would also like to highlight that Canada has been improving fundamentally.
- **This doesn't imply a corrective phase is not a risk in 2022.** In fact, we would argue that not seeing a correction in 20 months is a bit long in the tooth by historical standards. Plus looking at how far markets have advanced, even compared to before the pandemic, should raise concerns that we are due. A healthy market cycle does support the view that any correction would be a buying opportunity.
- **Is this a new cycle?** The bear market in Q1 2020 and brief recession technically ticks the boxes for the end of the market cycle that started in 2009. However we remain unsure that the last cycle ended. While every cycle is different, typically cycles end with excesses built up in parts of the economy and the subsequent period sees those excesses worked out. The 2020 pandemic-induced bear was caused by an external shock, not due to internal excesses overheating. As a result there was no work out period which helps explain the rapid recovery in asset prices and the economy.
- Further supporting this view that the bull cycle that started in 2009 may still be intact, is the fact that the market/economy of today does not look like it should less than 2 years into a new cycle. Central banks starting to tighten, inflation a concern, rampant speculation – these are late cycle behaviours.
- This doesn't imply the cycle is at risk of ending soon; we have our trusty Market Cycle framework to warn of such an event. It does mean we should remain more diligent as this could be year 11 of a cycle, not the carefree year 2 environment.

Source: Bloomberg

Market Cycle & Positioning: Healthy

Craig Basinger, CFA

Current Portfolio Tilts

Overall Asset Allocation	-				+
Equities				■	
Fixed Income		■			
Cash				■	
Global Equities	**-**				**+**
Canada				■	
U.S.		■			
International				■	
Value to Growth Tilt		■			
Small to Large Tilt		■			
Fixed Income	**-**				**+**
Overall		■			
Duration		■			
Credit				■	
Currencies	**-**				**+**
CAD Short Term (3m)				■	
CAD Longer Term (1yr)				■	
Alternatives	**-**				**+**
Overall Allocation				■	
Growth		■			
Diversifiers				■	
Alternative Credit				■	
Real Assets					■

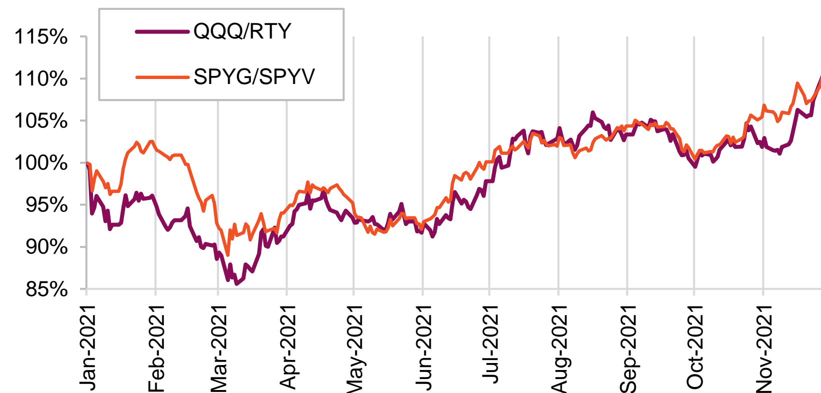
Source: Bloomberg

- Given the continued strength in Market Cycle indicators **we have not made any material changes to recommended portfolio tilts**. Currently have a **mild overweight in equities**, which we would like to increase if / when a period of price weakness develops. The dry powder is sitting in cash and fixed income is a mild underweight.
- **Geographically we continue to like Canada and International at the expense of U.S**. We believe it is still early in a period where value will outperform growth (certainly overdue) which does favour Canada and International relative to the more growth-oriented U.S. equity market. Valuations and trends in forecasts also support this tilt.
- **Fixed income we remain with a mild underweight, with lighter duration and above market credit**. Yields have pulled back on the back of the Omicron variant. If yields do rise, hopefully as the data continues to improve and the variant fades, we hope to add to duration at higher yields than today. Our view on the CAD has become more positive, given the recent rise in USD. We believe the range of 0.78-0.82 is roughly fair and since we are closer to the 78 cent level, this has us opportunistically trimming US currency.
- In the **alternative space we continue to have mild overweight in diversifiers**, this helps provide added protection given the underweight in traditional fixed income. Real assets remains the most material overweight in alternatives. This is designed to provide some added portfolio stability should the current elevated risk of inflation continue.

RICHARDSON Wealth | CONNECTED WEALTH

Equities

James Price, CFA



Source: Bloomberg

Under the hood

- Looking under the hood of the equity market has revealed some surprising revelations. Those that watch the broad indexes like the NASDAQ or the S&P 500 will be surprised at how many parts below the surface are not working.
- We all know the story about growth vs. value. While we won't re-hash it at length here, we will provide the chart to show the NASDAQ vs. the Russell 2000 index, and the Growth vs. Value comparison. Value played catch up last year but ran out of steam and the growth component took over again with the NASDAQ outperforming the Russell by 11%. So it seems like it's all about growth again, right? To a certain extent that is true. The S&P 500 Growth index outperformed the Value index substantially as well.
- However, when we look at the bottom of the returns' attribution lists (those losers that took away from index returns), some of the names are VERY growthy and familiar to us. Despite the "threat of another COVID wave" as we so often hear being blamed for market weakness, many of the names thought to be Covid beneficiaries have been decimated. Peloton, Zoom, Activision – all have had devastating years. Similarly, we see some of the "re-opening" companies that just got ahead of themselves. Cruise lines, airlines, casinos are down there as well. Once again, we need to look somewhat deeper to get all the answers. If growth is beating value, but stay-at-home growth names aren't working, well then what is?
- Simple Cap weighting against equal weighting does not give us the answer either. The equal weighted S&P 500 is neck-and-neck with the cap-weighted S&P 500 for the year. It appears, however, that there is a "sledgehammer" type effect when we looking at returns contributions by decile. Unlike a barbell, it's only heavy on one side. The top decile returns for the cap weighted index absolutely crush the equal weighted brethren. In fact, Microsoft's contribution to the S&P 500 is worth the top 14 stocks' collective contributions to its equal weighted comparison.
- What is the lesson? There are lots of ways to achieve a similar return, but not understanding the underlying attribution could have some consequences when trends reverse. Given our views on tightening cycle and inflation expectations, we encourage you to look under the hood and attribute the returns looking back. Policy tightening and inflation could reverse some of the effects we have seen causing the concentrated conditions, and the headlines indexes have a lot of concentration.

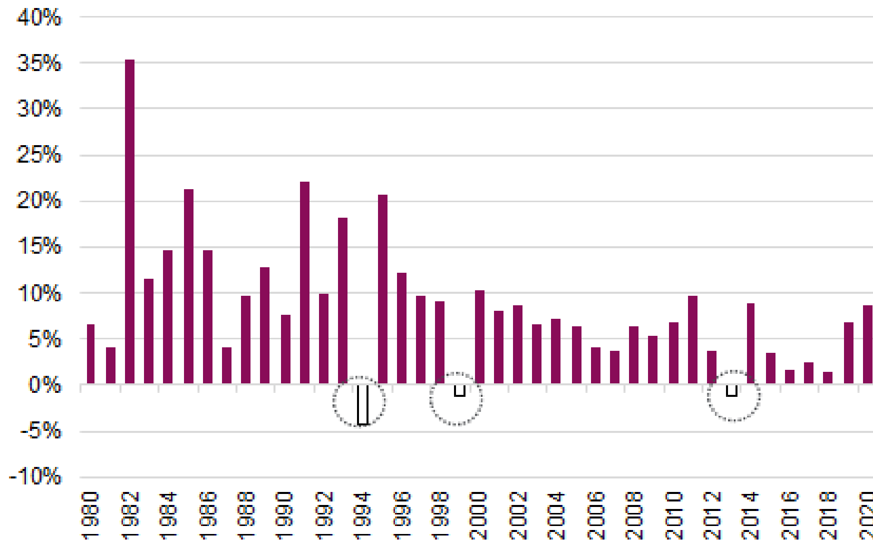
RICHARDSON Wealth CONNECTED WEALTH

Fixed Income: Past tightening cycles and starting to rethink allocations

James Price, CFA, Joey Mack, CFA

Bank of Canada Tightening Cycles

		Total	10-year yields			5-year yields		
Start Date	End Date	Move	Start	End	Change	Start	End	Change
26-Jun-1997	27-Aug-1998	2.75%	6.13%	5.88%	**-0.25%**	5.29%	5.95%	0.66%
09-Nov-1999	17-May-2000	1.25%	6.03%	6.28%	0.25%	5.98%	6.44%	0.46%
05-Apr-2002	22-Apr-2003	1.25%	5.65%	5.03%	**-0.62%**	5.12%	4.31%	**-0.81%**
25-Aug-2004	09-Jul-2007	2.50%	4.69%	4.67%	**-0.02%**	3.84%	4.69%	0.85%
01-Jun-2010	12-Oct-2010	0.75%	3.29%	2.72%	**-0.57%**	2.61%	1.90%	**-0.71%**
11-Jul-2017	24-Oct-2018	1.25%	1.86%	1.95%	0.09%	1.45%	2.39%	0.94%
Average:		1.63%			-0.24%			0.09%



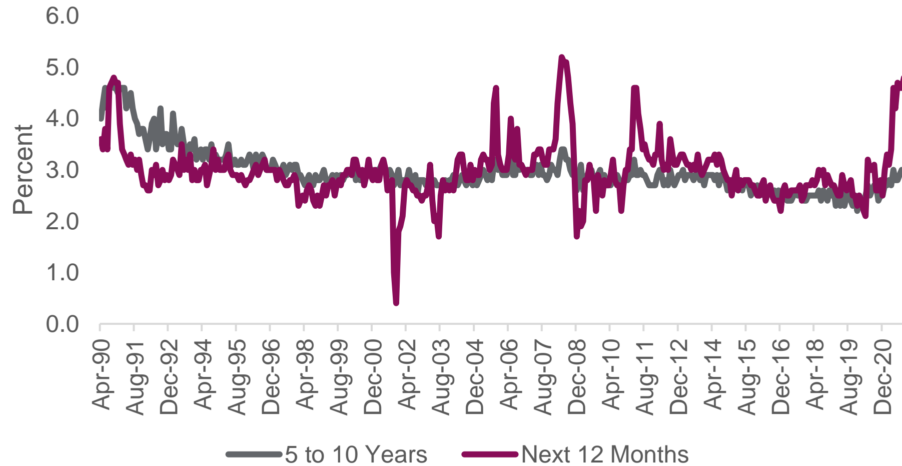
Source: Bloomberg, Morningstar

- We often hear market pundits warning about the value destruction in the bond market that could result if rates rise. However, the performance of bond markets in each of these cycles is not as simple as up and down in price with each bull and bear phase.
- Let's start with a little background. The yield curve generally has four cycles:
  1. **The bull steepener** – rates fall led by the short end, as a worsening economy leads to weaker equity markets and other risky assets, a flight to safety, and then central bank rate cuts
  2. **The bull flattener** – central banks cut rates, then maintain low rates for an extended period, as the economy (and usually risky assets) continue to perform poorly. This leads to further declines in longer-term yields
  3. **The bear steepener** – the economy starts to recover, and markets start to anticipate rising rates. Long yields rise as shorter-term rates remain anchored by central bank rates, but markets price in higher rates (and inflation?) in the future
  4. **The bear flattener** – central banks begin hiking rates, yields continue to rise, especially in the short end
- **Today it appears we are at the end of phase 3 and beginning of phase 4** – right in the middle of the bear. We are starting to price in rate hikes in the months ahead, and are seeing the beginning of a bear flattening. This is why rising rates have kept most market participants – us included – negative in our longer-term outlook for bonds. The Canadian aggregate index is off over 4% this year - however next year is unlikely to follow suit - here's why.
  - Over the past 40 years, we have not seen negative returns in bond markets for two consecutive years.
  - Looking at Canadian 10-year bond yields over past rate hike cycles, 10-year yields ended lower in 4 out of 6 cycles over the past 30 years, and any rise has been small, once the tightening has started.
  - There is far more leverage in the economy at all levels. Governments, corporations, and households carry way more debt than 40 years ago. This in itself would mitigate the extent to which yields can rise, higher yields will cause economic pain far faster, weakening the economy and begetting lower yields again.
  - Also, with a large proportion of bond allocations allocated to credit, the returns drivers are as much about the credit premium as the overall direction of rates. Presumably if rates rise, it is because the economy is doing well, tightening the credit spread and making returns better for the asset class.
  - Potential risk - Real yields may be a concern (just read some of our previous work on inflation expectations), but the damage done to bond portfolios by inflation is slow. The prospect of a sudden spike in inflation generally doesn't last long, and the real return effect provides lots of opportunity to rebalance. Make no mistake, the ravages of inflation over time are real, but we won't be measuring those over quarters on portfolio returns.
- **Conclusion: We are getting closer to the point where we will want to begin to raise our allocations to fixed income within portfolios**. We are not there yet, but by the end of 2022, we expect to have a higher allocation to bonds than currently. This allocation will likely include longer duration bonds, given the expected relative performance along the yield curve.

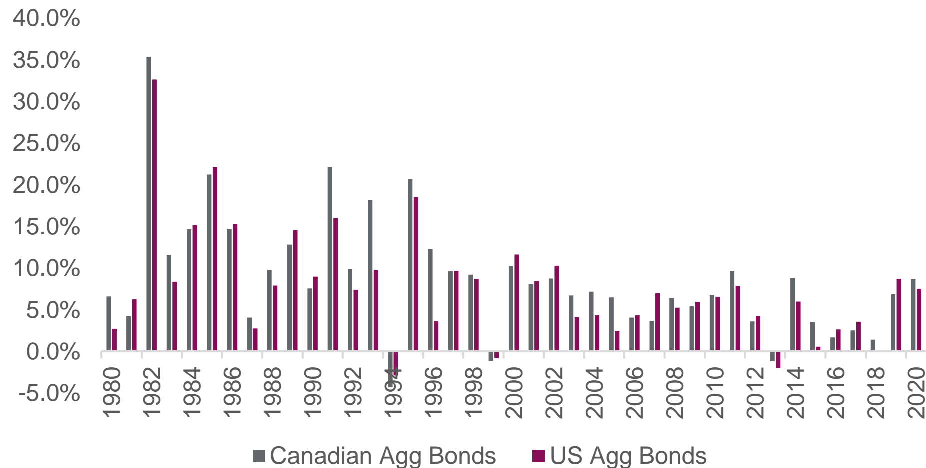
RICHARDSON Wealth | CONNECTED WEALTH

Portfolio Construction: Bonds - We're not throwing in the towel yet

An Nguyen, CFA



Inflation expectations: University of Michigan survey



Source: Bloomberg

- Bond markets had a lot to say this year. Yields spiked for the first three months of the year, sending returns down. However, after peaking on March 19, U.S. 10-year treasury bond yields retraced more than half of its meteoric rise by August. Bond yields continued to oscillate in the final months of the year amidst inflation worries, a more hawkish fed tone, decelerating growth expectations and ongoing covid variant concerns.
- Inflation readings have steadily risen, up 6.2% year over year in October, the highest level in three decades. November consensus inflation expectations are expected to reach 6.7%. We know that supply chain issues and pent-up demand have exacerbated the inflation outlook. As a result, central banks have struck a more hawkish tone to not only reduce/end quantitative easing but also set expectations to begin rate hikes sooner than had been previously projected, a sign they are willing to manage inflation expectations should they remain persistent for longer than anticipated. While inflation is currently running at multi-decade highs and as of late is commensurate with consumers' shorter-term inflation expectations, it falls short of consumers' longer-term inflation expectations (in 5-10-years) of just under 3%, indicating that consumers believe the inflation outlook has not spiraled out of control.
- Against this backdrop, Canadian and U.S. aggregate bond bonds are down -4.1% and -1.34% (in local currency terms) respectively, year-to-date. If both indices end the year negative, it does so in rare company as bonds have declined only three times in the last 40 years and have not done so in consecutive years. (repetitive) Granted, we have enjoyed extraordinary interest rate conditions as rates have declined over the last four decades and bond returns have benefited. However, one could argue that despite low interest rates, investors have managed to bid up treasuries in periods of market stress, as we saw in the March 2020 market meltdown.
- **Our longer-term objectives for the fixed income portion of our balanced mandates remain the same** - to improve portfolio diversification, minimize equity drawdown and reduce overall portfolio volatility. With approximately 40% of balanced portfolios allocated to fixed income, rising yields will impair the main characteristic that make its inclusion critical in many portfolios – principal protection. For this reason and more, we have been cautious with the portfolio's interest rate exposure and have maintained a much shorter duration posture relative to the broader market, enlisting a liquid bond alternative strategy to mitigate interest rate risk. As global central banks inch closer to a tightening cycle, we anticipate some yield volatility and will look to tactically add back some duration should yields spike back up in a meaningful way.

RICHARDSON Wealth | CONNECTED WEALTH

Disclaimer

Source: Charts are sourced to Bloomberg L.P. and Richardson Wealth unless otherwise noted.

Authors:

Purpose Investments: Craig Basinger, Chief Market Strategist; Derek Benedet, Portfolio Manager

Richardson Wealth: An Nguyen, VP Investment Services; Andrew Innis, Investment Analyst; James Price, SVP Capital Markets and Investor Strategy; Joey Mack, Director Fixed Income; Phil Kwon, Head of Portfolio Analytics

Richardson Wealth Inc. Disclaimers

The opinions expressed in this report are the opinions of the author and readers should not assume they reflect the opinions or recommendations of Richardson Wealth Limited or its affiliates. Assumptions, opinions and estimates constitute the author's judgment as of the date of this material and are subject to change without notice. We do not warrant the completeness or accuracy of this material, and it should not be relied upon as such. Before acting on any recommendation, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice. Past performance is not indicative of future results. The comments contained herein are general in nature and are not intended to be, nor should be construed to be, legal or tax advice to any particular individual. Accordingly, individuals should consult their own legal or tax advisors for advice with respect to the tax consequences to them.

Richardson Wealth is a trademark of James Richardson & Sons, Limited used under license.

Purpose Investments Inc. Disclaimers

Commissions, trailing commissions, management fees and expenses all may be associated with investment funds. Please read the prospectus before investing. If the securities are purchased or sold on a stock exchange, you may pay more or receive less than the current net asset value. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated.

Certain statements in this document are forward-looking. Forward-looking statements (“FLS”) are statements that are predictive in nature, depend on or refer to future events or conditions, or that include words such as “may,” “will,” “should,” “could,” “expect,” “anticipate,” intend,” “plan,” “believe,” “estimate” or other similar expressions. Statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in the FLS. FLS are not guarantees of future performance and are by their nature based on numerous assumptions. Although the FLS contained in this document are based upon what Purpose Investments Inc. believe to be reasonable assumptions, Purpose Investments cannot assure that actual results will be consistent with these FLS. The reader is cautioned to consider the FLS carefully and not to place undue reliance on the FLS. Unless required by applicable law, it is not undertaken, and specifically disclaimed, that there is any intention or obligation to update or revise FLS, whether as a result of new information, future events or otherwise.

This document is not for public distribution, is for informational purposes only, and is not being delivered to you in the context of an offering of any securities, nor is it a recommendation or solicitation to buy, hold or sell any security.