

The Rising Risk of Recession



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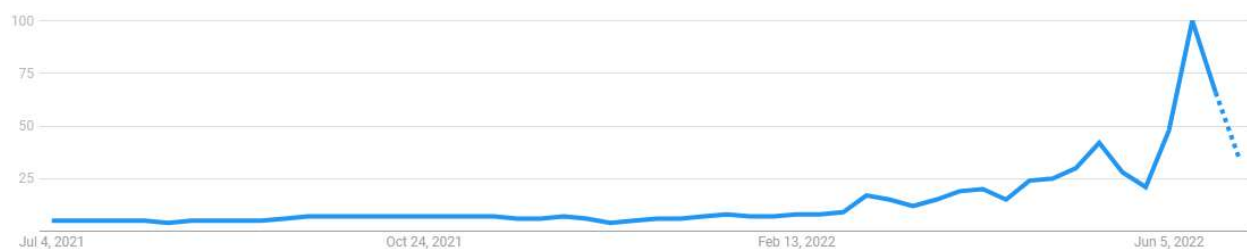


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“Market leadership is always changing”. That truism has been the north star of our investment process with the natural implication being that we must demonstrate the intellectual dexterity, flexibility and adaptability to consider alternative views and potentially implement changes to our portfolio when confronted with new information.

Perhaps we are now at one of those inflection points, with the “R-word” having dominated recent headlines. With slowing economic data and the prospect of more Fed rate hikes on the horizon, a recession (this year or next) has been moving from worst-case scenario to base-case scenario in the eyes of many investors.

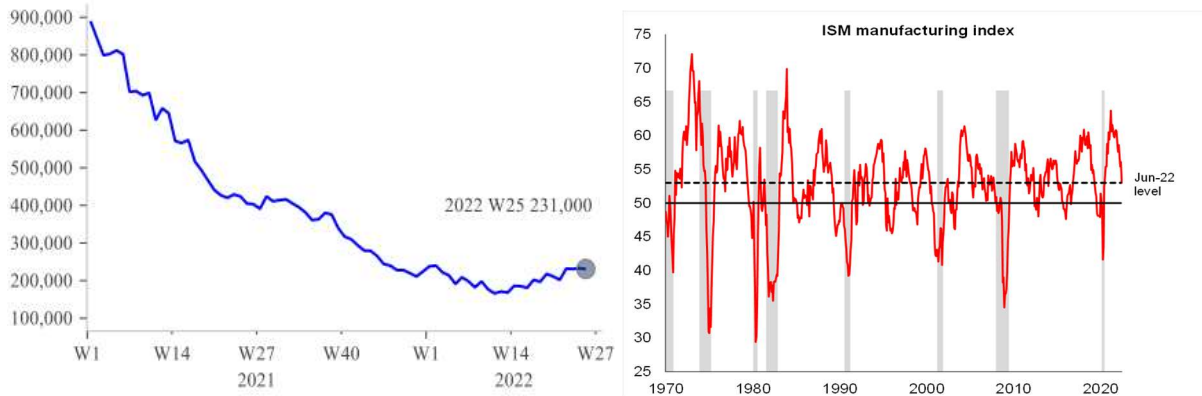
Figure 1 – Google Trends – “Recession” Interest Over Time



Source: Google, as of June 30, 2022

So what's changed? Firstly – we have more evidence of slowing economic data. Initial jobless claims data has been inching higher. Consumer data has been weakening – while the recent retail sales report continues to demonstrate a rotation from goods to services, confidence measures have been declining. The Atlanta Fed's GDPNow indicator is now at -2.1%. And Friday's ISM report had new orders moving below 50 for the first time since May 2020.

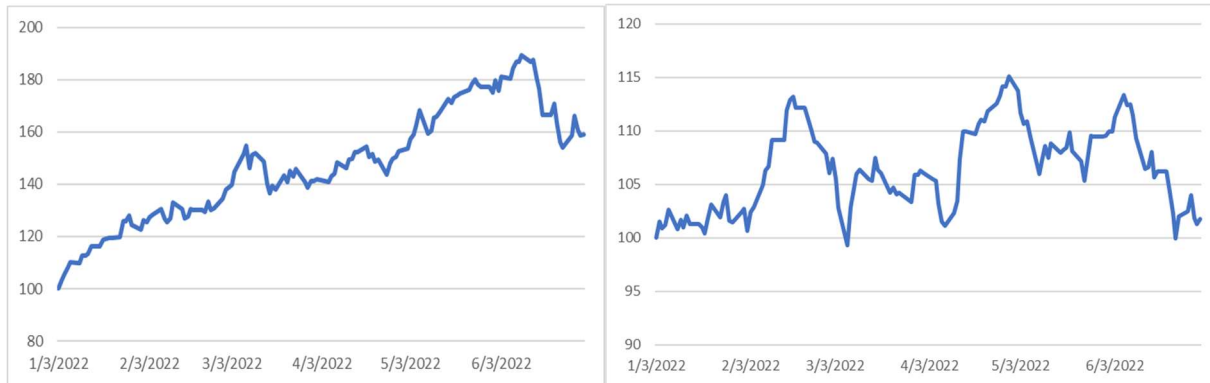
Figure 2 – U.S. Initial Jobless Claims (LHS) and ISM Manufacturing Index (RHS)



Source: Strategas Research (LHS), Macquarie Research (RHS), as of June 2022. One cannot invest directly in an index.

But perhaps more importantly, a strong leading indicator – the stock market – has been giving signals of what might be around the corner. Over the past several weeks, areas of the market such as Energy, and travel and leisure, which had been holding up very well through the first half of the year, began to deteriorate. Both represent a decoupling from current fundamentals – the physical oil market remains tight, while hotel and lodging companies have been reporting robust conditions and strong pricing power. However, the recent market action may be signaling that investors are worried about future prospects in the event of a recession.

Figure 3 – Energy Sector (LHS) and Hotel & Lodging (RHS) Relative to the S&P 500 (Indexed to 100)

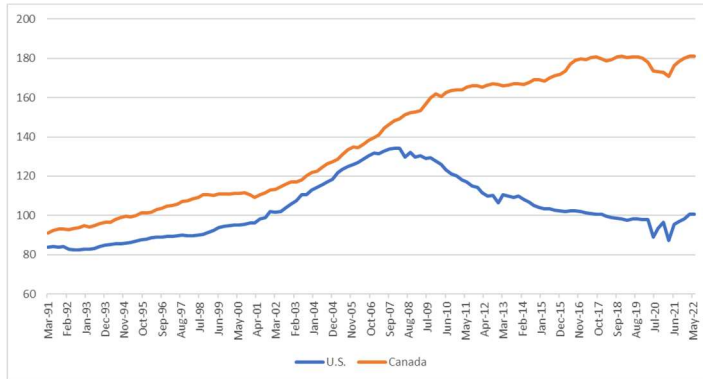


Source: Bloomberg, as of June 30, 2022. One cannot invest directly in an index.

As such, we are revisiting our "no recession" posture to acknowledge the market signals that seem to be pricing in increased odds of a recession. While it remains to be seen whether we will actually get one in the coming months (or whether we are already in one) – it is certainly starting to *feel like one* and it is increasingly factoring into our investment decisions and assessments of individual stocks.

What we do feel comfortable saying at this point, however, is that if the U.S. economy does go into recession, it is likely to be a shallow and mild one rather than a deep one, due to the general lack of imbalances in the system. Household and corporate balance sheets appear to be in good shape (unlike in 2008) and though the consumer has been taking on more credit in recent weeks, that is likely to be short-lived given that this may be the most anticipated recession ever.

Figure 4 – U.S. vs. Canada Household Debt to Disposable Income

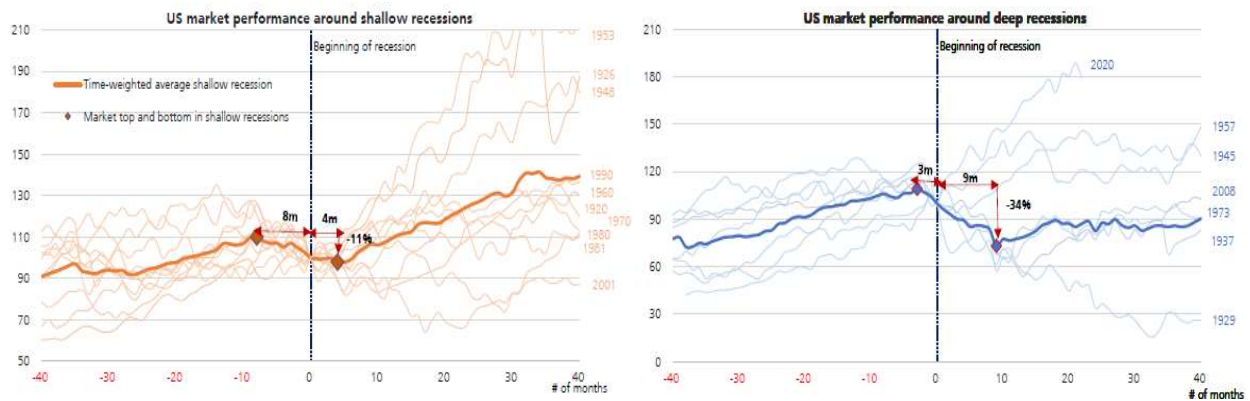


Source: Bloomberg, as of June 30, 2022

And that's good news - recent research from UBS studied how market returns can differ around economic shocks of different magnitude. In the last 17 U.S. recessions, there have been 7 deep recessions (defined as a recession where cumulative GDP decline was greater than 3%), and 10 shallow recessions (where cumulative GDP decline was less than 3%)¹.

As expected, market returns around shallow recessions were considerably less painful (a time weighted drawdown of 11%) than those around deep recessions (34% drawdown). Furthermore, the declines typically began well in advance (8 months) as they have tended to be well telegraphed, and typically associated with central banks hiking rates (very often predictably so) amidst high inflation. Meanwhile deep recessions saw drawdowns begin only 3 months in advance of the recession, signaling an unpreparedness by the economic and financial system for the coming shock, impacting balance sheets of consumers, corporations, and banks.

Figure 5 – Little R vs. Big R



Source: UBS Research, as of June 2022

Today's conditions certainly feel more like the well-anticipated, central bank hiking type – rather than a shock to the economic system.

In conclusion, we understand that the message and tone in this note is markedly different than what we have been writing and presenting over the past several months. But acknowledging the changing economic

¹ Source: UBS Research, as of June 2022

landscape is part of that “white sheet of paper” approach – maintaining a daily test of objectivity and adjusting our approach as the facts on the ground change.

And let's be clear – a recession is not yet a certainty – but its odds are clearly rising, and as such we will be monitoring the data and continuing to adjust our portfolio in response. “Monitoring and adjusting” our portfolio has been underpinning our investment philosophy in trying to give our investors a good experience (see Figure 6) – and in that vein what we will be watching for in the coming weeks includes the employment numbers, progress on inflation, the Russia/Ukraine conflict, loosening of supply chain bottlenecks, earnings results and guidance, Fed messaging, and of course the action of the stock markets.

“When the facts change, I change my mind.”

- Daniel Kahneman in “Noise: A Flaw in Human Judgement”

Figure 6 – AGF Global Select Fund, AGF American Growth Class, & AGF U.S. Small-Mid Cap Fund Relative Ranks Since Manager Inception

Name	Annualized Return - May 1, 2013 to June 30, 2022	Name	Annualized Return - May 1, 2013 to June 30, 2022	Name	Annualized Return - May 1, 2013 to June 30, 2022
AGF Global Select	14.29	CI Select Global Equity	8.50	CI Portfolio Series Maximum Gr Cl A	6.58
PH&N Global Equity Fund A	12.02	Tangerine Equity Growth Portfolio	8.45	Scotia INNOVA Maximum Growth Port Cl A	6.44
Global Iman	11.90	Fidelity Global Disciplined Eq Cl A	8.42	Epoch Global Shareholder Yield - A	6.43
Mawer Global Equity A	11.76	Fidelity Global Concentrated Eq Sr A	8.34	HSBC World Selection Dvrs Agrsv Gr Inv	6.42
NBI Global Equity A	11.65	Beutel Goodman World Focus Equity Cl B	8.29	CIBC Global Equity	6.32
RBC Global Dividend Growth Fund A	11.21	CI Synergy Global Corporate Class A	8.28	IG Core Portfolio Growth A	6.31
Dynamic Power Global Growth Class	11.17	Fidelity Global Dividend Series A	8.20	NEI Global Dividend RS A	6.26
Canoe Global Equity A	11.16	IA Clarington Global Value	8.19	Franklin Quotential Divers Eq Port A	6.24
Sun Life MFS Global Growth A	11.04	BMO Global Dividend A	8.12	Beutel Goodman Global Dividend Class B	6.22
Dynamic Global Dividend	10.87	RBC QUBE Low Vol Global Equity Fund A	8.06	Mackenzie Ivy Foreign Equity A	6.22
Manulife Global Equity Priv Pool Adv	10.78	NEI Global Equity RS A	8.05	TD Comfort Aggressive Growth Port - I	6.17
Stone Global Growth A	10.73	Marquis Institutional Equity Portfolio A	7.99	Canada Life Aggressive A	6.01
FÉRIQUE World Dividend Equity	10.72	RBC Select Aggressive Growth Port A	7.97	Invesco Global Dividend Class Series A	6.00
CI Global Leaders Fund A	10.68	Fidelity Global Eq Private Pool Cl B	7.96	Mackenzie Global Equity A	5.98
RBC Vision Global Equity Fund A	10.66	HSBC Global Equity Investor	7.96	Manulife Global Franchise Adv	5.87
Manulife Global Equity Class Adv	10.55	Canada Fund Global Equity	7.85	Counsel Global Dividend Sr A	5.84
CI Global Leaders Corporate A	10.53	AGF Global Sustainable Growth Equity	7.83	TD Global Low Volatility A	5.81
FDP Global Equity Portfolio A	10.50	CI Global Dividend A	7.79	IG Mackenzie Ivy Foreign Equity Class A	5.78
Renaissance Global Focus	10.12	IG Mackenzie Global A	7.76	IG Core Portfolio Class Growth A	5.76
EdgePoint Global Portfolio Series A	10.04	Scotia Global Dividend A	7.69	Desjardins SocieTerra Environment A	5.75
Franklin Global Growth A	9.89	Compass Maximum Growth Portfolio	7.68	Symmetry Equity Portfolio A	5.69
Dynamic Global Discovery	9.85	AGF Global Dividend	7.57	CI Select 100e Managed Port Corp Cl A	5.60
Dynamic Power Global Navigator Cl A	9.72	RBC Select Choices Aggr Grwth Port A	7.53	Primerica Global Equity	5.60
Capital Group Global Equity Canada A	9.68	Compass Growth Portfolio	7.33	Desjardins Global Dividend A	5.59
Scotia Global Growth A	9.60	Beutel Goodman Global Equity Class B	7.31	Counsel All Equity Portfolio Sr A	5.42
Marquis Institutional Global Eq Port A	9.50	BMO FundSelect Equity Growth Port A	7.30	Invesco Global Class	5.15
Fidelity Global Series A	9.47	Invesco Global Companies Series A	7.24	Chou Associates	5.11
Fidelity Global Class A	9.45	Axiom All Equity Portfolio	7.23	Invesco FTSE RAFI Global+ ETF A	4.88
IA Clarington Inhance Global Eq SRI Cl A	9.44	CI Global Value	7.17	Templeton Growth A	4.79
Dynamic Blue Chip Equity	9.23	Manulife Global Dividend Growth Adv	7.12	Invesco Global Dividend Achievers ETF A	4.47
Manulife Tax-Managed Growth Adv	9.20	Meritage Global Equity Portfolio A	7.11	CI Global High Dividend Advantage Cl A	4.47
NBI Global Diversified Equity Adv	9.09	NEI Select Maximum Growth RS Portfolio A	7.10	Manulife Global All Cap Focused Adv	4.34
Renaissance Global Growth	9.09	Renaissance Optimal Glb Eq Pt	7.07	Barometer Equity Pool A	4.16
Tradex Global Equity	9.08	AGF Global Equity	7.06	Brandes Global Opportunities A	3.79
Mackenzie Global Growth A	8.90	Renaissance Global Value	7.05	VPI Global Equity Pool Ser A	3.41
Mackenzie Global Div A	8.89	CIBC Managed Growth Plus Portfolio	7.04	Invesco Intactive Max Gr Port Cl Sr A	3.38
MD Growth Investments Limited	8.86	Marquis Equity Portfolio A	6.97	Renaissance Global Markets	3.32
Epoch Global Equity - A	8.82	DFA Global Equity Portfolio A	6.94	NEI Global Growth Fund A	3.15
DynamicEdge Equity Port	8.72	TD Mgd Maximum Equity Growth Port A	6.83	Stone Global Sustainability A	2.81
Sun Life MFS Global Value A	8.70	AGF Elements Global Portfolio	6.73	Invesco Global Focus Fund Series A	2.01
Russell Inv Global Equity Class Sr B	8.66	Brandes Global Equity	6.66	Mackenzie Cundill Value A	1.44
Fidelity Global Large Cap Series A	8.64	IG Mgd Gr Port – Gbl Eq A	6.63		
Scotia Global Equity A	8.62	Invesco Global Select Equity A	6.63		

Source: Morningstar, as of June 30, 2022. List contains all Series A/MF funds in Global Equity category with performance history dating back to May 1, 2013, excluding single sector focused funds. **Past performance is not indicative of future results.**

Name	Annualized Return - May 1, 2005 to June 30, 2022	Name	Annualized Return - May 1, 2005 to June 30, 2022	Name	Annualized Return - May 1, 2005 to June 30, 2022
Dynamic Power American Growth	10.98	FÉRIQUE American Equity	7.33	RBC U.S. Equity Fund A	6.05
Maver US Equity A	8.90	Fidelity US Focused Stock Class A	6.82	RBC O'Shaughnessy U.S. Value Fund A	5.69
AGF American Growth Class	8.85	BMO US Equity A	6.76	IA Clarington US Dividend Growth	5.42
Canada Life US All Cap Growth A	8.65	Fidelity US Focused Stock A	6.72	Fidelity American Eq Sr A	5.24
North Growth US Equity	8.62	CI U.S. Stock Selection Class A	6.61	Scotia US Equity A	5.17
Mackenzie US All Cap Growth A	8.51	NEI US Equity RS A	6.59	Desjardins American Equity Value A	5.06
TD U.S. Blue Chip Equity A	8.24	Franklin US Opportunities A	6.52	Scotia US Opportunities A	4.91
MD American Growth	7.90	HSBC US Equity Investor	6.51	Renaissance US Equity Value	4.69
Scotia US Equity Index A	7.85	CI Synergy American	6.49	Manulife US Opportunities Adv	4.48
TD US Equity Pool A	7.81	Epoch US Large-Cap Value - A	6.48	NEI US Dividend A	4.42
FDP US Index Equity Portfolio A	7.73	Invesco US Companies Series	6.42	Renaissance US Equity Growth	4.36
BMO US Dollar Equity Index A	7.71	Franklin US Rising Dividends A	6.22	Brandes US Equity	4.19
Dynamic American A	7.71	Educators US Equity Fund	6.13		
IG Putnam U.S. Growth Class II A	7.70	MD American Value	6.11		

Source: Morningstar, as of June 30, 2022. List contains all Series A/MF funds in US Equity category with performance history dating back to May 1, 2005, excluding single sector focused funds. **Past performance is not indicative of future results.**

Name	Annualized Return - May 1, 2013 to June 30, 2022	Name	Annualized Return - May 1, 2013 to June 30, 2022	Name	Annualized Return - May 1, 2013 to June 30, 2022
TD US Mid-Cap Growth - A	12.48	IG Mackenzie U.S. Opportunities A	10.22	Hillsdale US Small Cap Eq Srs A CA\$ US\$	7.69
RBC U.S. Mid-Cap Growth Equity Fund A	11.97	CIBC US Small Companies	9.97	United US Equity Small Cap Corp CI A	7.28
Mackenzie US Small-Mid Cap Growth A	11.97	CI American Small Companies	9.25	RBC U.S. Small-Cap Core Equity Fund A	6.94
Canada Life US Small-Mid Cap Growth A	11.89	Pembroke American Growth Inc	9.13	Invesco Main Street US Sm Cp CI Series A	6.85
TD US Small-Cap Equity - A	11.34	Fidelity Small Cap America CI A	9.09	RBC U.S. Mid-Cap Value Equity Fund A	6.63
AGF US Small-Mid Cap	10.84	RBC U.S. Mid-Cap Grwth Eq Cur Ntl Fd A	8.26	RBC O'Shaughnessy U.S. Growth Fund A	3.50

Source: Morningstar, as of June 30, 2022. List contains all Series A/MF funds in US Small/Mid Cap Equity category with performance history dating back to May 1, 2013, excluding single sector focused funds. **Past performance is not indicative of future results.**

Figure 9 – Fund Performance vs. Benchmarks and Category Average

CAD (Annualized, net of fees) as of May 31, 2022	3 Mo.	YTD	1 Year	3 Years	5 Years	10 Years
AGF Global Select Fund - Series F (Net)	-4.9%	-11.6%	-1.3%	16.2%	14.8%	16.9%
AGF Global Select Fund - MF Series (Net)	-5.2%	-12.1%	-2.6%	14.6%	13.2%	15.3%
MSCI All Country World Index	-5.9%	-12.7%	-1.9%	9.8%	8.1%	13.1%
Morningstar Global Equity Category	-6.1%	-13.7%	-4.9%	7.6%	5.9%	10.1%
Quartile Rank - F Series	2	2	2	1	1	1
Quartile Rank - MF Series	2	2	2	1	1	1

Source: AGF Investments Inc. as of May 31, 2022. Morningstar as of May 31, 2022. You cannot invest directly into an index. MF Series includes a 2.59% Management Expense Ratio (MER), while the Series F version of the fund includes a 1.22% MER, as of



March 31, 2022. Morningstar Rankings reflect performance as of May 31, 2022 and are subject to change monthly. The rankings are calculated from a fund's total return percentile rank against others in its Global Equity category for the period of one, three, five, and 10 years. Percentile ranks always range from 1 (best) to 100 (worst), with all intermediate values spread evenly over that range. The quartile ranking and number of Global Equity funds for AGF Global Select Fund for each period are as follows: one year third quartile (485 funds), three years first quartile (422 funds), five year first quartile (404 funds). For greater detail, see <http://www.morningstar.ca>. **Past performance is not indicative of future results.**

CAD (Annualized, net of fees) as of May 31, 2022	3 Mo.	YTD	1 Year	3 Years	5 Years	10 Years
AGF American Growth Class - Series F (Net)	-4.6%	-10.1%	4.0%	18.4%	14.2%	17.2%
AGF American Growth Class - MF Series (Net)	-5.0%	-10.7%	2.6%	16.7%	12.6%	15.7%
S&P 500 Net Index	-5.5%	-12.9%	4.0%	12.9%	11.3%	16.3%
Morningstar US Equity Category	-5.2%	-12.5%	0.4%	11.0%	9.3%	13.4%
Quartile Rank - F Series	2	2	2	1	1	1
Quartile Rank - MF Series	2	2	2	1	1	1

Source: AGF Investments Inc. as of May 31, 2022. Morningstar as of May 31, 2022. On December 1, 2015, the Fund's benchmark changed from the S&P 500 Total Return Index to the S&P Net Return Index. The benchmark change was applied from that date forward. You cannot invest directly into an index. The MF Series includes a 2.65% management expense ratio (MER) while the Series F includes a 1.20% MER, as of March 31, 2022. The number of funds for the Morningstar U.S. Equity Category for each period are as follows: three months – 1,771, YTD – 1,718, one year - 1,671, three years - 1,352, five years – 1,070, ten years – 381. Morningstar rankings reflect performance as of May 31, 2022 and are subject to change monthly. The rankings are calculated from a fund's total return percentile rank against others in its applicable Morningstar category for the period of 1, 3, 5, and 10 years. Percentile ranks always range from 1 (best) to 100 (worst), with all intermediate values spread evenly over that range. The quartile ranking and number of U.S. Equity funds for AGF American Growth Class for each period are as follows: one year third quartile (429 funds), three years second quartile (338 funds), five years first quartile (268 funds). For greater detail see www.morningstar.ca. **Past performance is not indicative of future results.**

CAD (Annualized, net of fees) as of May 31, 2022	3 Mo.	YTD	1 Year	3 Years	5 Years	10 Years
AGF U.S. Small-Mid Cap Fund - Series F (Net)	-10.0%	-17.8%	-12.6%	7.2%	12.1%	14.0%
AGF U.S. Small-Mid Cap Fund - MF Series (Net)	-10.3%	-18.3%	-13.7%	5.7%	10.6%	12.5%
S&P MidCap 400 Index	-5.3%	-11.0%	-2.0%	10.8%	8.1%	15.1%
Morningstar US Small/Mid Cap Equity Category	-6.8%	-14.0%	-6.4%	8.1%	6.2%	11.4%
Quartile Rank - F Series	4	3	4	3	1	1
Quartile Rank - MF Series	4	4	4	4	1	2

Source: AGF Investments Inc. as of May 31, 2022. Morningstar as of May 31, 2022. You cannot invest directly into an index. The benchmark performance is as of the nearest month-end to the performance start date of the Fund. On December 1, 2013, the Fund's benchmark changed from the Russell 2500 Total Return Index to the S&P MidCap 400 Index. The benchmark change was applied from that date forward. The MF Series includes a 2.54% management expense ratio (MER), while the Series F fund includes a 1.22% MER, as of March 31, 2022. The number of funds for the Morningstar U.S. Small/Mid Cap Equity Category for



each period are as follows: three months – 277 , YTD – 277 , one year – 251, three years – 198, five years – 168 , ten years – 65. Morningstar rankings reflect performance as of May 31, 2022 and are subject to change monthly. The rankings are calculated from a fund's total return percentile rank against others in its applicable Morningstar category for the period of 1, 3, 5, and 10 years. Percentile ranks always range from 1 (best) to 100 (worst), with all intermediate values spread evenly over that range. The quartile ranking and number of U.S. Small/Mid Cap Equity funds for AGF U.S. Small-Mid Cap for each period are as follows: one year fourth quartile (63 funds), three years first quartile (49 funds), five years first quartile (42 funds). For greater detail see www.morningstar.ca. **Past performance is not indicative of future results.**

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