2022 MARKET OUTLOOK

Risk. Return. **Impact.**

NEI

At NEI Investments, we remain cautiously optimistic on equities. Despite recent worries, global economic growth levels remain well above trend growth rates. Equity valuations are high on an absolute basis, but are relatively attractive compared to bonds. Europe and Asia are also facing a potential energy crunch, with low inventories heading into winter. If energy prices were to rise further, it would put additional pressure on already high inflation readings. Yields could see further upside pressure as a result, just as central banks are tightening policy. This could provide some challenges for growth stocks. We favour cyclical and value stocks given this backdrop, but remain cautious given the excessive bullish sentiment in the current market.

For our 2022 Market Outlook, we have identified key risks, return, and impact opportunities from the pages of our report and consolidated them below.

Risk

1. **Inflation**—Higher-than-expected inflation numbers and continued upward pressure on prices force the Fed to raise rates faster than expected while taking the federal funds rate significantly above neutral, tipping the economy into a major slowdown or recession.
2. **COVID-related disruptions**—A new vaccine-resistant COVID variant forces countries or parts of countries to return to a full or partial lockdown. Consumer spending pulls back, denting an already deaccelerating economy. Additionally, COVID-related disruptions could worsen inflationary pressures as more travel restrictions, curbs on manufacturing, and labour shortages intensify an already aggravated supply-chain.
3. **A stalling Chinese economy**—Turmoil in China's real estate market causes the nation's economy to weaken more than expected. Continued regulatory risk creates more uncertainty and damages key drivers of economic growth. Fallout from real estate and regulatory issues weakens not only the outlook for China but spreads to the rest of Asia and potentially into the global economy.

Return

1. **Changes in the yield curve**—Bond investors can take advantage of changing spreads between long-term interest rates and short-term interest rates. For instance, U.S. Treasury bonds are likely to flatten (when spreads decrease) while eurozone bonds are likely to steepen (when spreads increase).
2. **Emerging market bonds**—High-yield emerging market sovereign debt denominated in non-local currencies, such as the U.S. dollar, represent one of the few sectors in fixed income with credit spreads that are still trading higher than their historical median.
3. **High-yield "rising stars"**—Certain high-yield "fallen angels" (companies whose debt has been downgraded to junk bond from investment-grade status), are expected to become 2022's "rising stars," (companies whose debt has been upgraded to investment-grade again), in the energy, food & beverage, and automotive sectors.
4. **Domestic economy plays**—Select Canadian consumer discretionary holdings that are well positioned for strong consumer spending.

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5. **Quality compounders**—Stocks with high-quality characteristics that can consistently compound shareholder value with consistent growth drivers, rather than hypergrowth themes with stretched valuations. In the U.S., select supermarkets and utilities that are attractively valued historically and relative to other stocks.

6. **Next-generation technology companies**—There has been a gradual "changing of the guard" to next-generation technology companies. For instance, companies that are positively aligned with both merchants and consumers to offer simple, honest, and transparent financial service products with the potential to lower costs for stakeholders.

7. **Health care disruptors**—We are on the cusp of great transformation in an industry that has often been described as a change-resistant. These "picks and shovels" of the health care world include gene sequencing machine manufacturers and single cell sequencing services that can be applied to oncology.

8. **Sustainability**—This transition continues to represent exceptional investment opportunities. Companies that play an active role in adapting and mitigating some of our greatest environmental and social challenges are likely to be doubly rewarded, enjoying robust growth in demand while further benefitting from future policy and legislative action to promote sustainable development.

Impact

1. **The transition toward sustainability**—A focus in building energy efficiency, renewable energy, and the circular economy space.

2. **Biodiversity**—Companies working to provide solutions that enhance and regenerate nature, helping create a global economy based on principles of sustainability.

3. **Technology**—Enterprises delivering low carbon digital solutions within the broader economy, working with customers to enable a fast transition to a low carbon economy and a more efficient deployment of technologies, goods, and services at scale.

4. **Emerging markets**—Investment in climate adaptation and mitigation solutions in these fast-growing economies to mitigate the heightened physical risk severity and boost decarbonization efforts.

5. **Electrification**—The conversion of a significant portion of our road-based transportation to electricity, with innovation in cars, trucks, commercial vehicles, batteries, and tires.

Talk to your advisor about how responsible investment solutions from NEI can help you achieve your goals

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