BROMPTON FUNDS

Brompton Insights

December 2021

2022 Equity Market Outlook: Back to Normal?

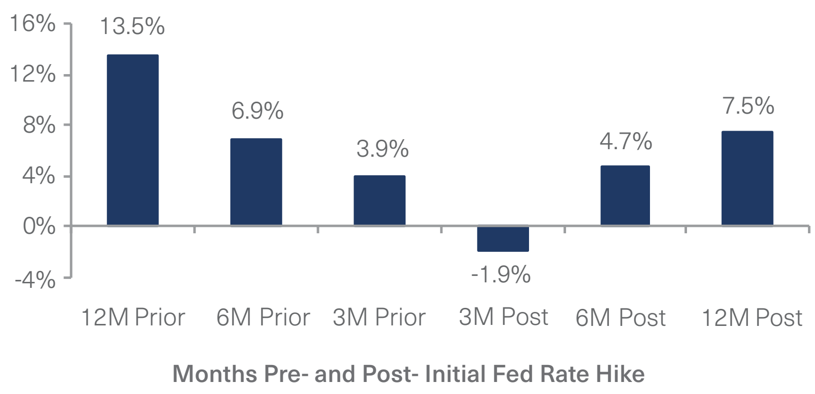
Funds in focus: Brompton North American Financials Dividend ETF (BFIN), Brompton North American Low Volatility Dividend ETF (BLOV), Brompton European Dividend Growth ETF (EDGF), Brompton Global Healthcare Income & Growth ETF (HIG, HIG.U), Dividend Growth Split Corp. (DGS, DGS.PR.A), Life & Banc Split Corp. (LBS, LBS.PR.A), Brompton Lifeco Split Corp. (LCS, LCS.PR.A), Brompton Split Banc Corp. (SBC, SBC.PR.A)

What will 2022 look like?

Let's start with the obvious. It will be difficult for stock market returns in 2022 to keep up the blistering pace of 2021. Looking forward, even new COVID variants are unlikely to derail the tapering of Quantitative Easing all around the world. Central Banks, including the U.S. Federal Reserve, are preparing to increase interest rates and governments plan to reduce their deficit spending. Although inflation is high, Brompton believes we are close to the peak with the holiday season stressing global supply chains. The bottom line is the world is starting to normalize and the pandemic should be viewed as an exceptional time.

We believe that the market should not fear U.S. Federal Reserve ("Fed") rate hikes, especially off these artificially low levels. The Fed will only increase interest rates when the economy is strong. That's why the market typically goes up 6, and 12 months after Fed rate increases as shown in the chart below, after taking a dip in the initial 3-month period.

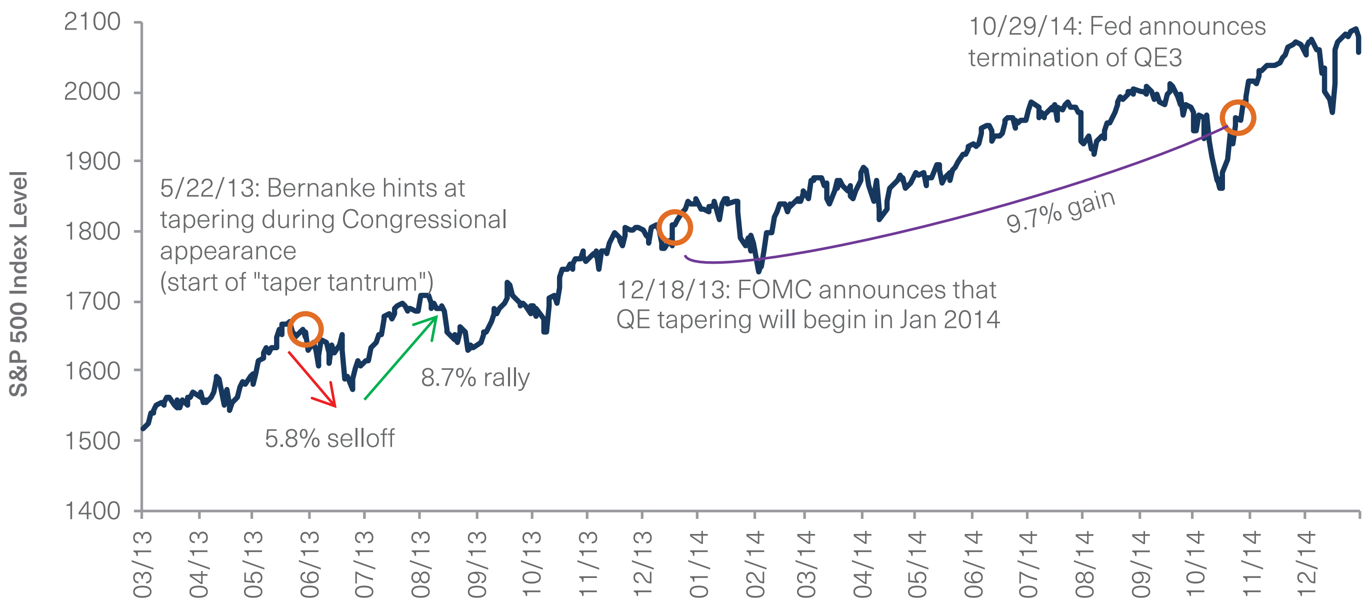
S&P 500 Average Price Performance around Initial Fed Rate Hikes*



**Includes 1994, 1999, 2004, 2016 cycles*
Source: BMO Capital Markets Investment Strategy Group, Factset, Haver, FRB (November 18, 2021)

In fact, the past taper tantrums triggered stock market sell offs when the Fed announced their intention to scale down quantitative easing by reducing their bond buying programs. Tapering announcements have actually represented buying opportunities as shown in the chart below since it means the economy is expanding. Liquidity will still be exceptionally high by historical standards.

2013 “Taper” Tantrum Represented a Buying Opportunity



Source: BMO Capital Markets Investment Strategy Group, Factset, Haver, FRB (November 18, 2021)

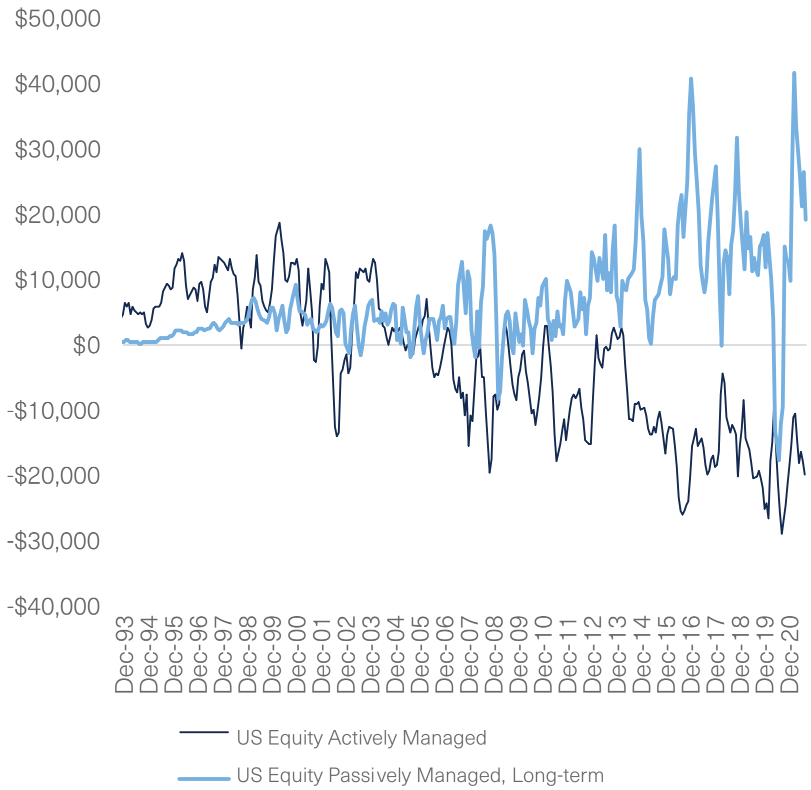
Vaccination rates are climbing and governments are reluctant to impose widespread shutdowns. Ultimately, Brompton expects economic growth to be higher than the pre-COVID historical trend driven by continued reopening. Earnings are still solid with upward revisions, while profit margins have held steady and some have actually expanded. Companies are flush with cash and shareholder distributions are accelerating.

A summary of the concerns are listed below:

Concerns	Reality
High Inflation	Logistical bottlenecks peaking with holiday season
Reduce Quantitative Easing	Well telegraphed. Liquidity still at very high levels
Less Deficit Spending	Biden's Infrastructure Investment & Jobs Act U$1.2T, EU Green & Recovery funds almost €3tn
Fed Raising Rates	Only when economy is strong. Returns higher after 6 Months
Economic Growth Slowing	Yes, but high savings so growth still higher than before COVID
2^{nd} Year of Presidential Cycle	Democrats will likely lose control of congress. Market likes split of power

2021 was characterized by P/E multiple expansion in anticipation of a recovery in earnings. Brompton expects earnings to continue to recover, but performance will be driven more by earnings, so by nature will be more uneven. Performance should be more dispersed with stock selection and hence active management becoming more important. We are starting to see more funds flow into active strategies at the expense of passive, as shown in the chart below.

Monthly US Equity Flows: Active vs. Passive (3-Month Average)



Source: RBC US Equity strategy, Morningstar (October 31, 2021)

Brompton believes there will be a tug of war between COVID and economic re-opening so we expect elevated volatility in 2022 which is when covered call strategies can add value. Brompton employs an active covered call strategy. Call writing levels were low throughout our portfolios in 2021 recognizing the bull market. Brompton expects to increase call writing levels in 2022 to harvest what we expect to be a more volatile market with more attractive options premiums.

In the beginning of the year Brompton expects cyclicals and value to outperform, but going into Fed rate increases, we expect quality such as dividend growers to outperform.

If investors are looking for value, financials (BFIN, SBC, LBS, LCS) and healthcare (HIG) sectors are amongst the most reasonably priced. Geographically, Europe (EDGF) and Canada (DGS) have the best combinations of vaccination rates, revenue growth and valuations. If investors worry about volatility, a low volatility strategy (BLOV) should be considered.

Brompton's Approach

Brompton's equity mandates typically employ an active covered call strategy to help increase the income potential of the fund while reducing portfolio volatility, particularly in a more uncertain market environment.

Brompton North American Financials Dividend ETF (BFIN, BFIN.U): Actively managed portfolio of large cap North American financial services companies.

Brompton North American Low Volatility Dividend ETF (BLOV): Portfolio of North American large capitalization equity securities. Brompton employs quantitative analysis with an active fundamentals overlay to construct a portfolio with lower overall volatility than the market.

Brompton European Dividend Growth ETF (EDGF): Actively managed portfolio of large cap European dividend growth companies, focusing on European companies that are leaders in their respective segments.

Brompton Global Healthcare Income & Growth ETF (HIG, HIG.U): Actively managed portfolio of large cap global Healthcare companies.

Dividend Growth Split Corp. (DGS, DGS.PR.A): Actively managed portfolio of large-cap, primarily Canadian equities with high dividend growth rates and high current yields.

Life & Banc Split Corp. (LBS, LBS.PR.A): Equal weight portfolio of Canada's four largest publicly-listed life insurance companies and "Big Six" banks.

Brompton Lifeco Split Corp. (LCS, LCS.PR.A): Equal weight portfolio of Canada's four largest publicly-listed life insurance companies.

Brompton Split Banc Corp. (SBC, SBC.PR.A): Portfolio primarily invested in the "Big Six" Canadian Banks on an approximately equally weighted basis.

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