



# Market Outlook

## H2 2022

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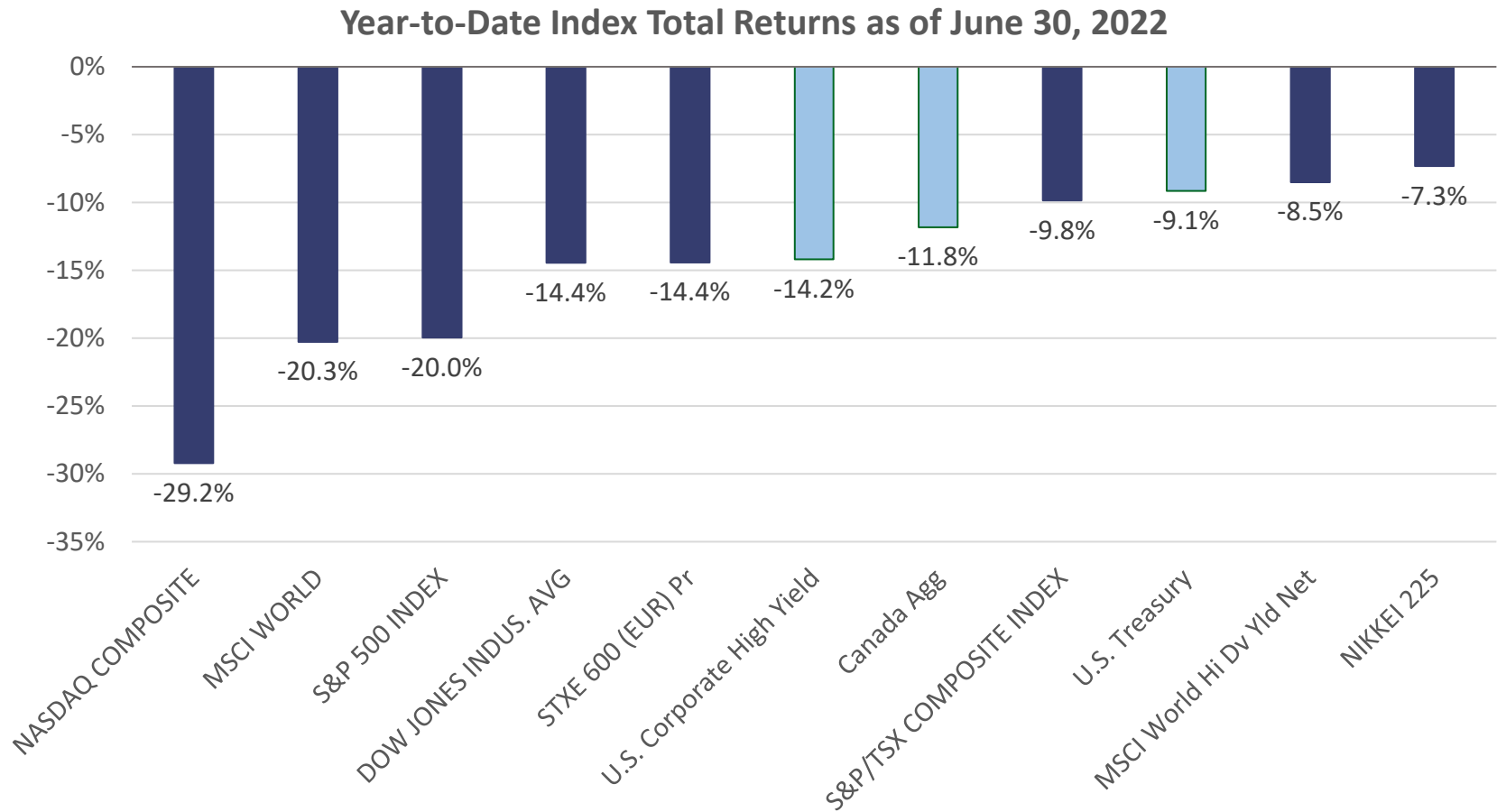
**Billy Huang** – Investment Analyst

**BROMPTON**  
FUNDS

- Worst first half in equity markets since 1970
- Volatile fixed income markets
- High inflation
- Central banks hiking rates
- Economic growth slowing

# Difficult Start to 2022

- Nowhere to hide in the first half of 2022
- Worst first half in equity markets since 1970



Source: Bloomberg as of June 30, 2022

# Volatile Fixed Income Markets

- Higher-than-normal volatility driven by fixed income markets
- Higher stock volatility = more covered call income

Bond Market Fear Index

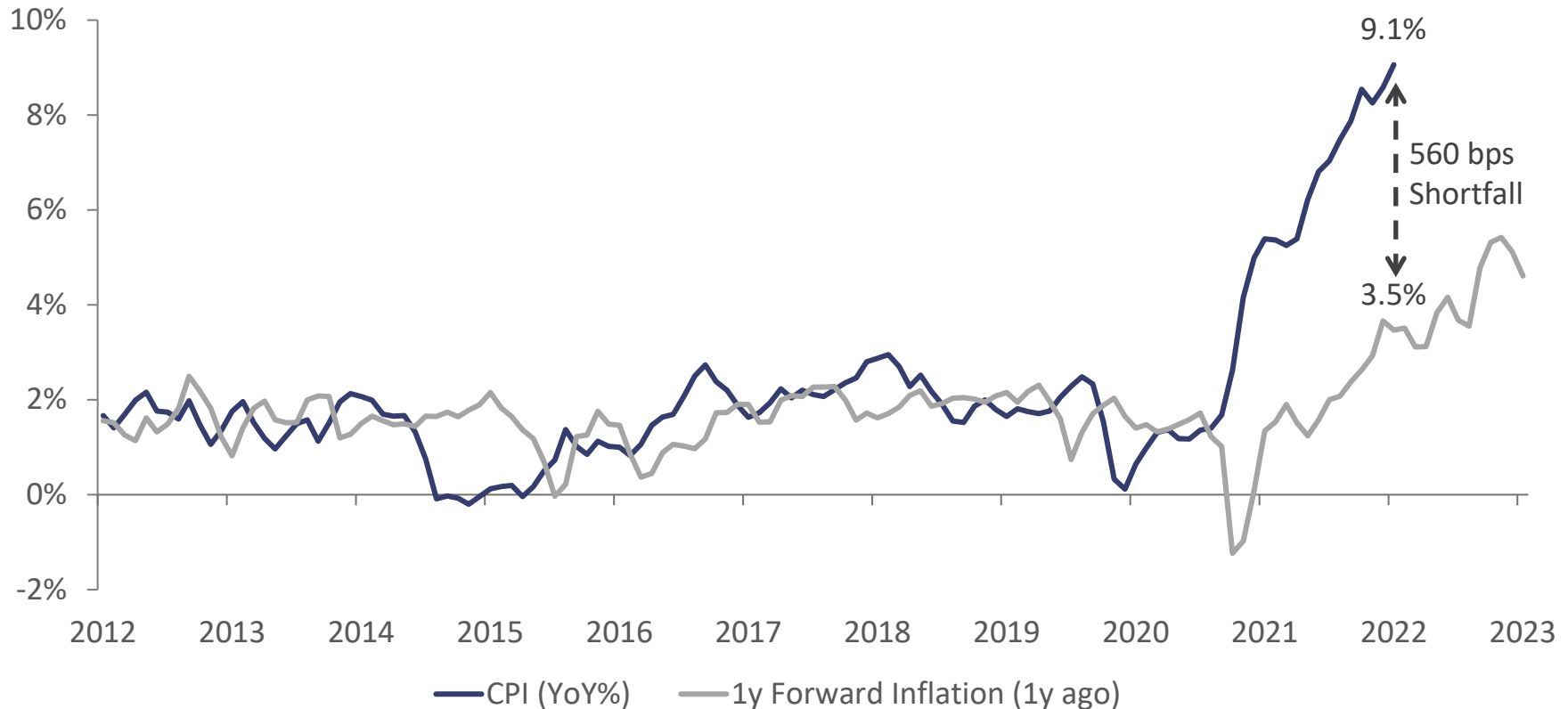


Source: Bloomberg as of July 15, 2022. Bond Market Fear Index is represented by the ICE BofA MOVE Index.

# The Market Has Underestimated Inflation

- “I think we now understand better how little we understand about inflation”  
– Jerome Powell, June 29, 2022
- Inflation likely to stay higher for longer

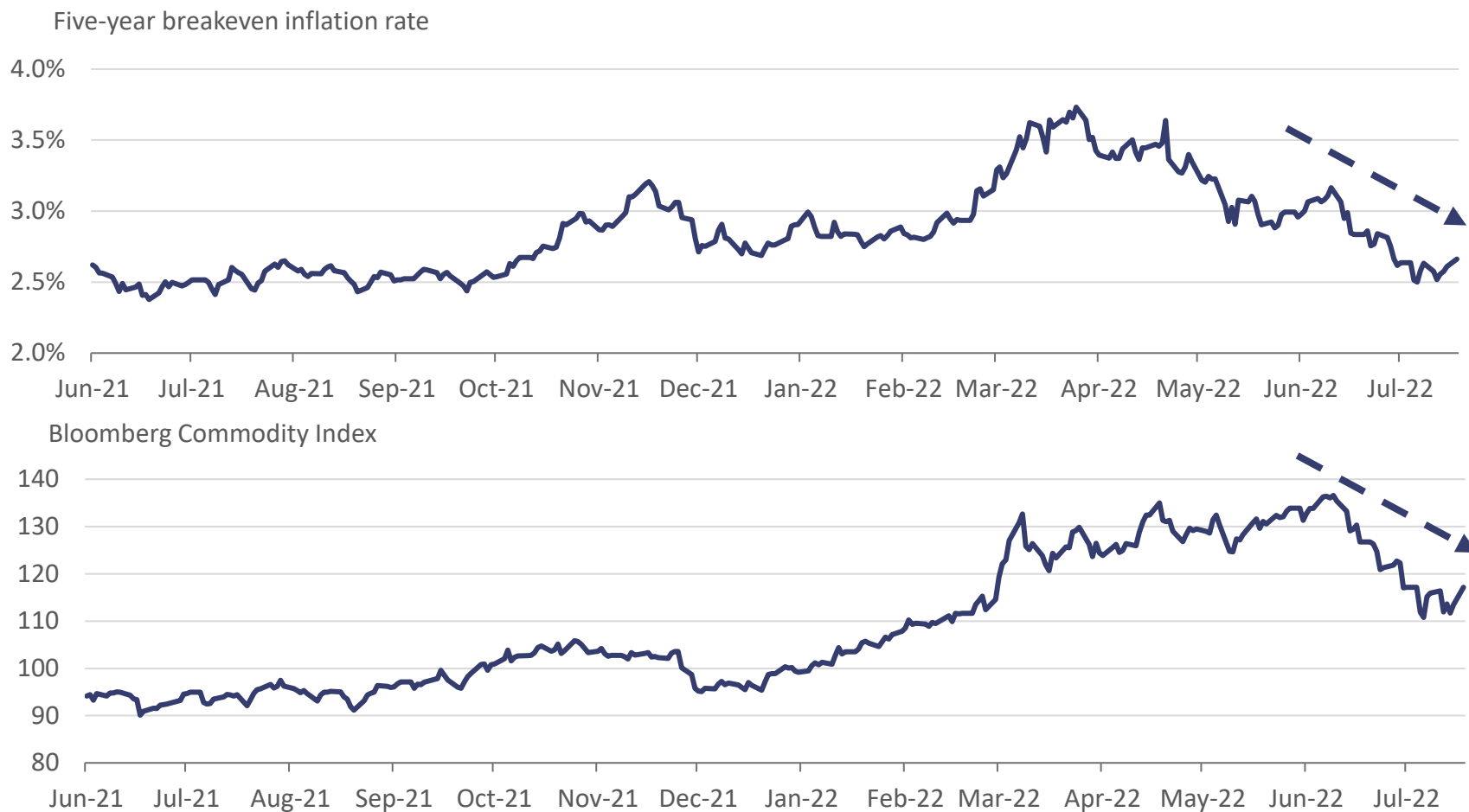
US CPI – Actual vs. Estimates



Source: Bloomberg as of June 30, 2022

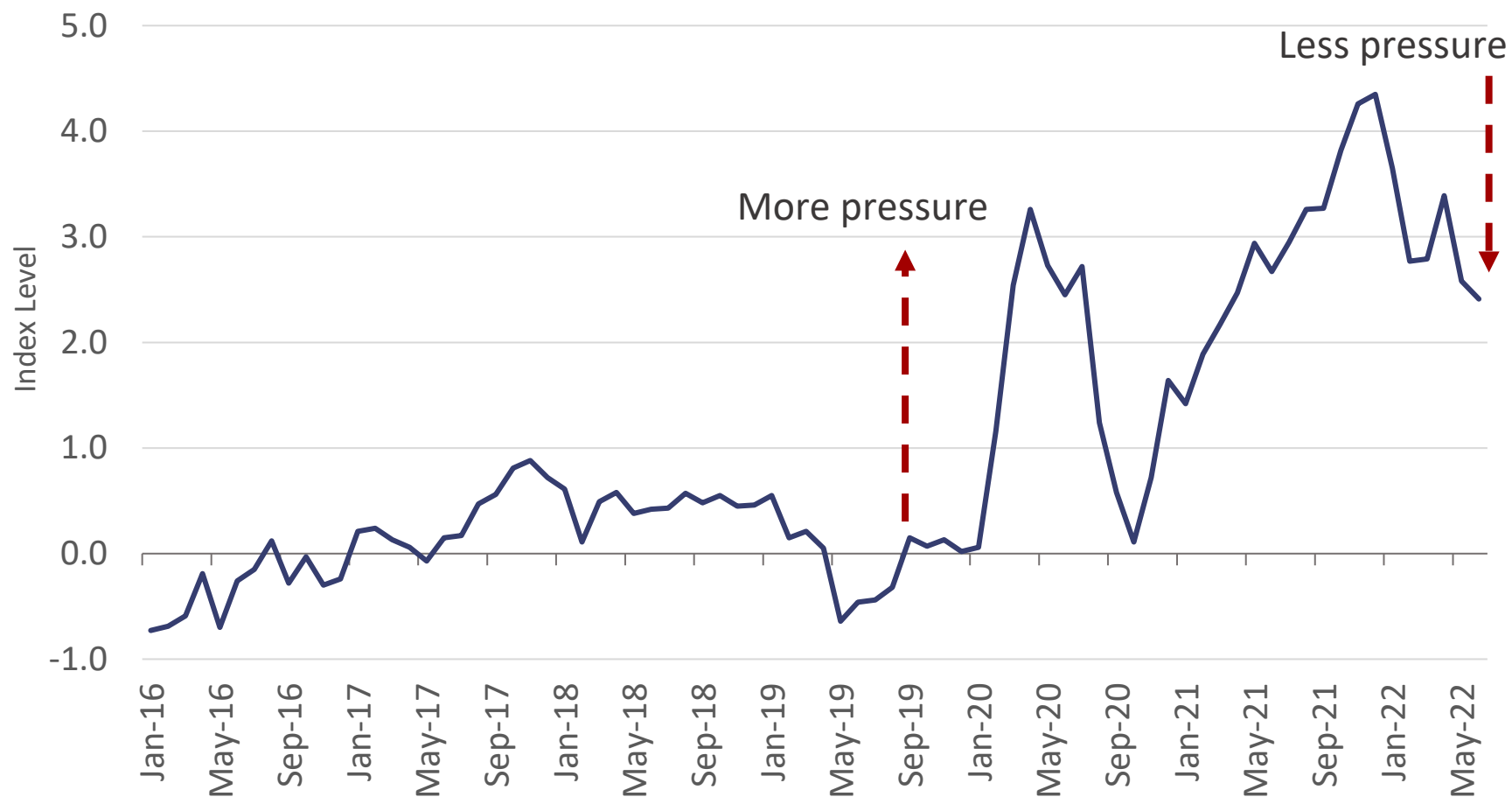
# Expect peak inflation in second half 2022

- Almost half of inflation is commodity-related
- Commodity prices & inflation expectations trending lower after price spike



# Supply Chains Improving

## Supply Chain Pressure

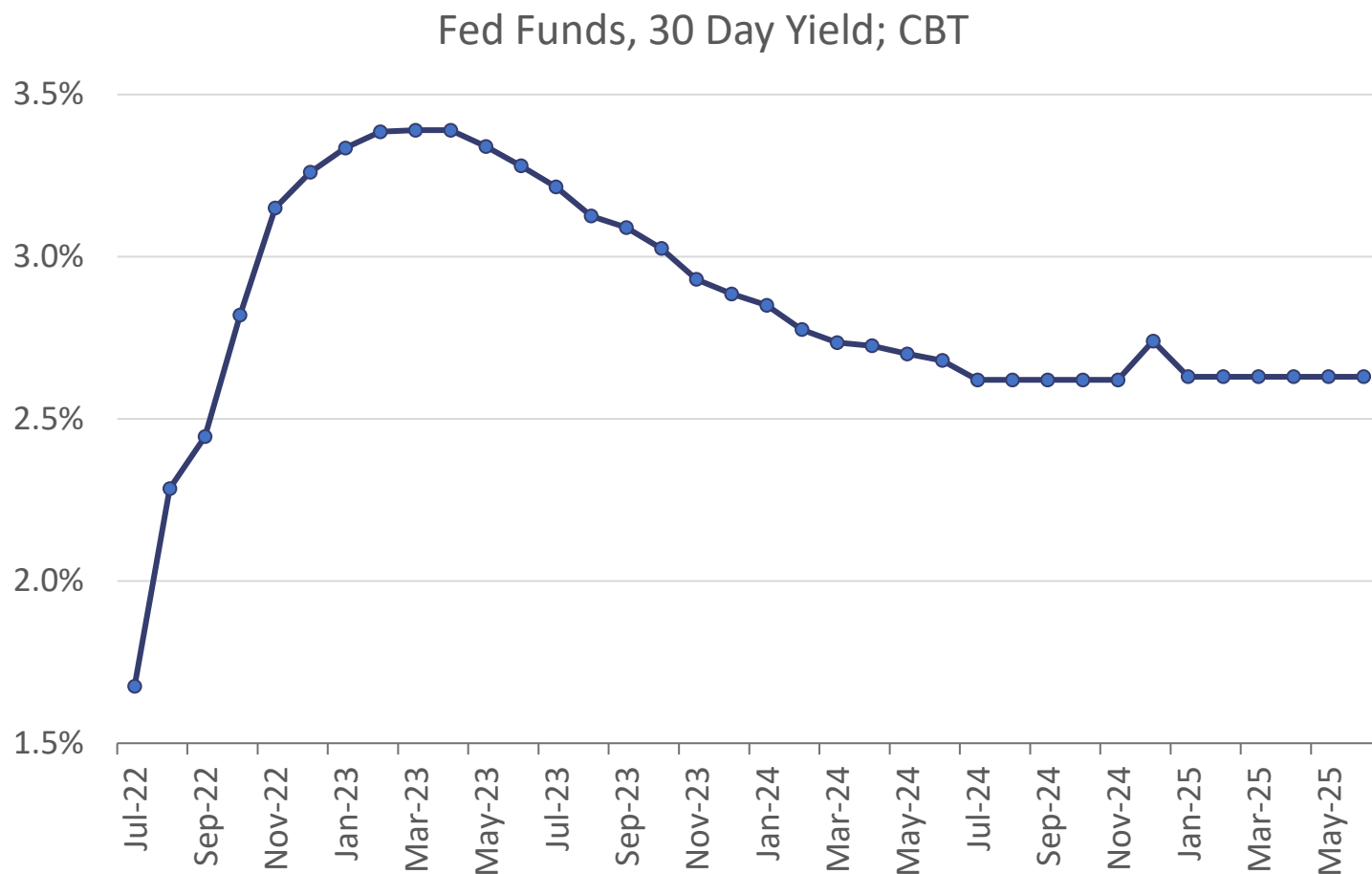


Source: Bloomberg, Federal Reserve Bank of New York as of June 30, 2022. Supply Chain Pressure is represented by the Global Supply Chain Pressure Index.



# Fed Fighting Inflation

- Market expects Fed to aggressively hike rates into the fall and then pause



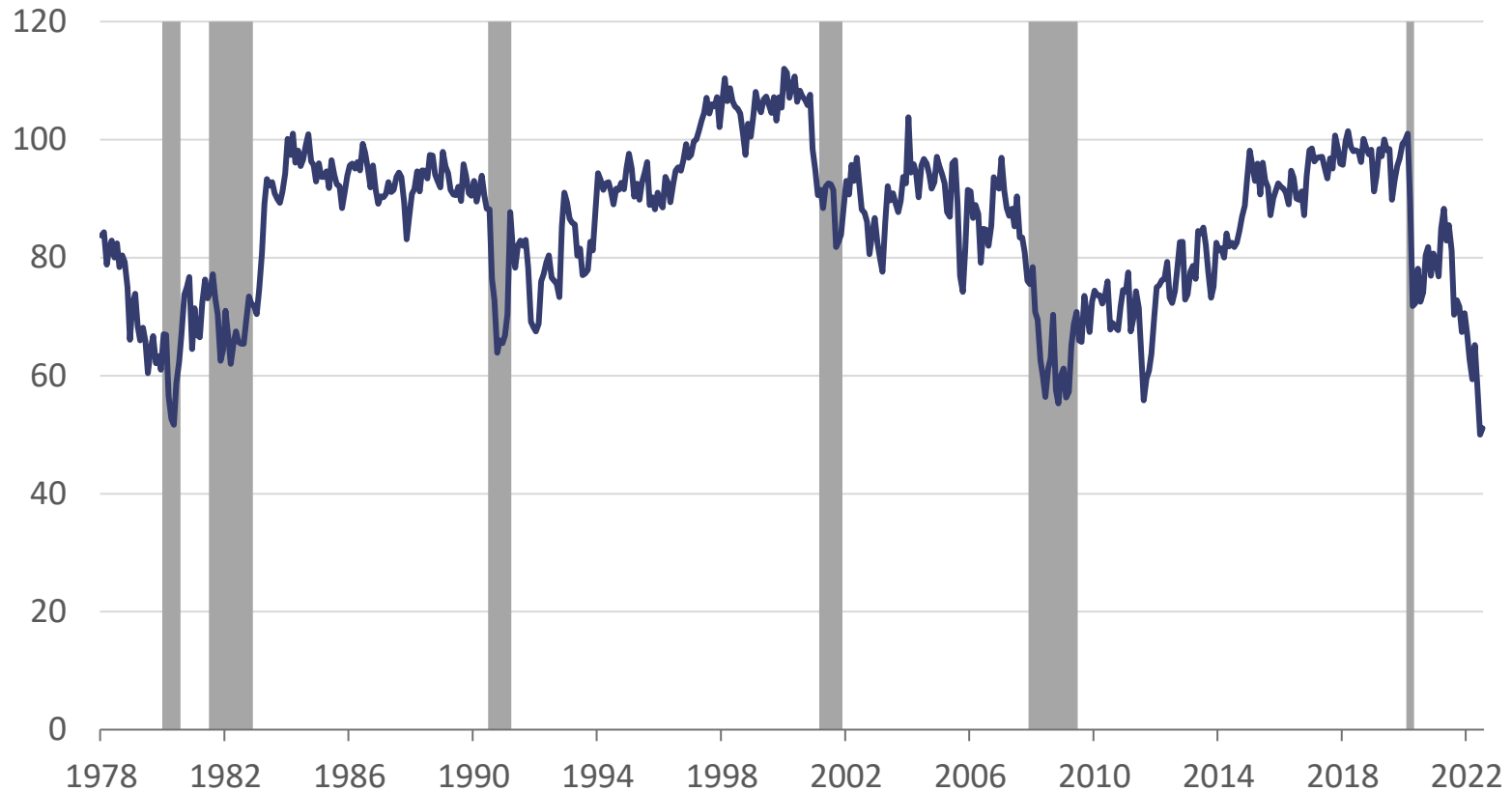
Source: Bloomberg as of July 6, 2022.



# Economy Slowing Down

- Leading indicators show the economy slowing
- Is a recession coming?

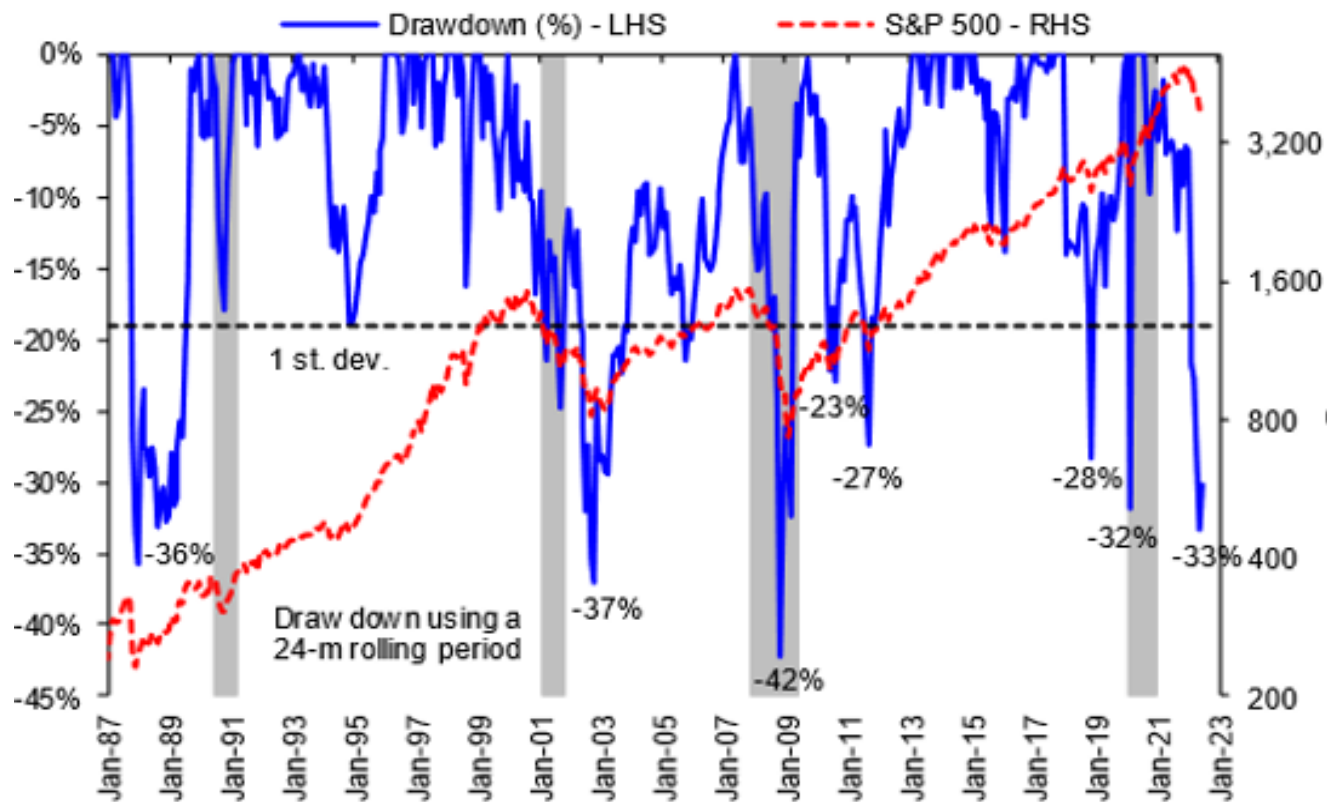
Consumer Confidence & Recessions



# Valuations Pricing in a Recession

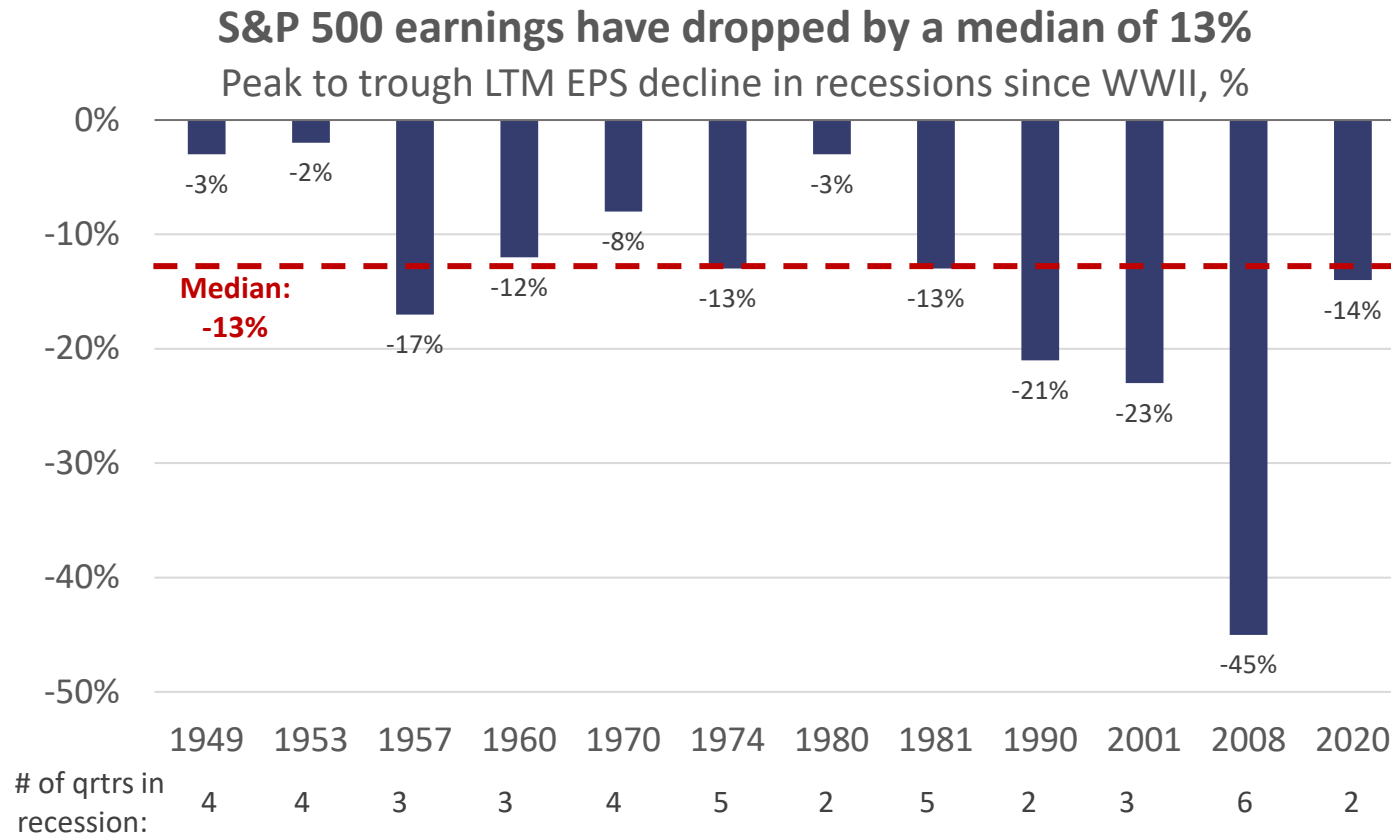
- Price-to-Earnings (P/E) compression in line with previous recessions

S&P 500 Forward P/E Drawdown



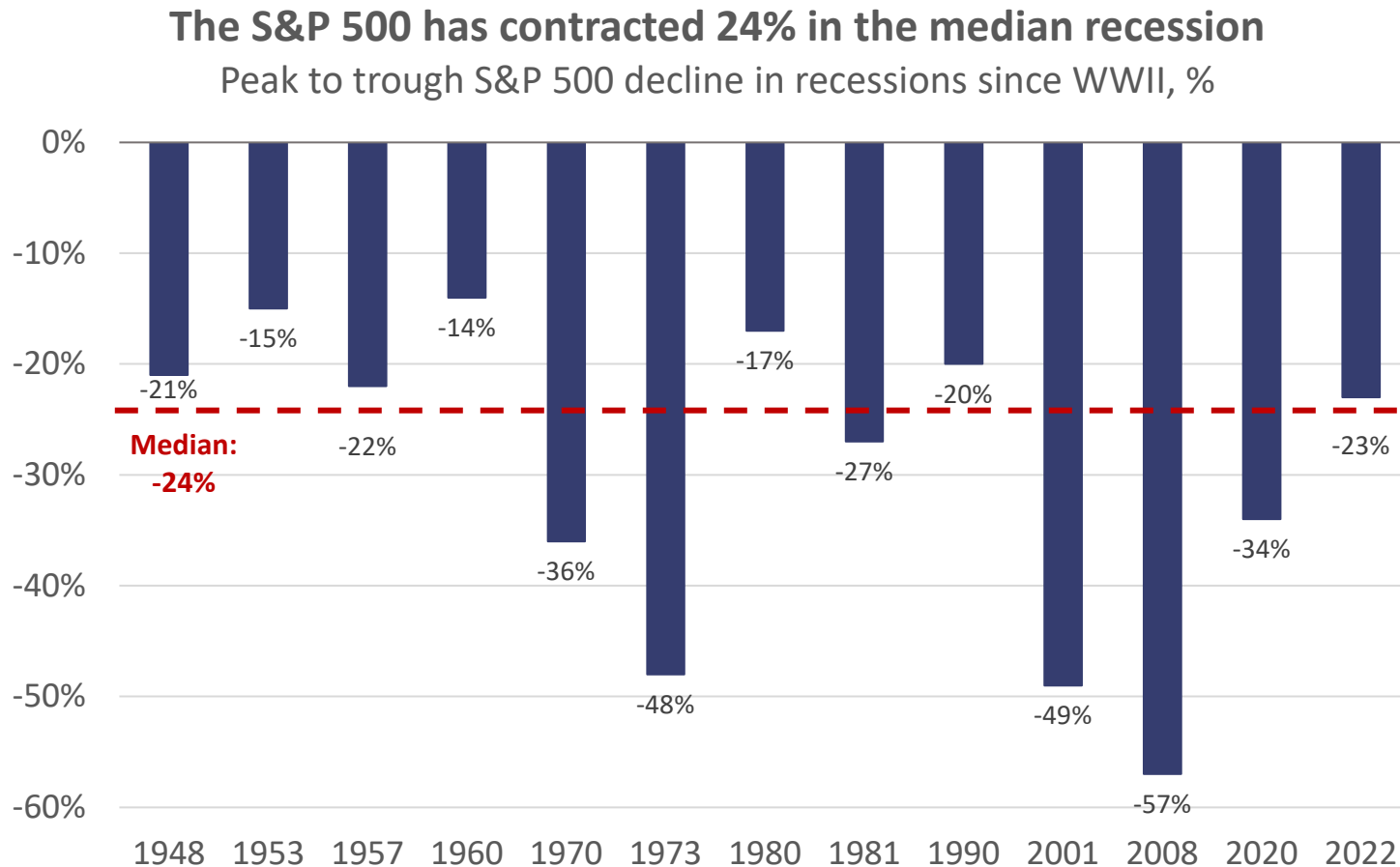
# Previous Recessions

- Earnings expectations are not pricing in recession
- Consumer & business balance sheets in great shape
- Margins are at historic peaks, expected to compress
- Median earnings decline has been 13% in past recessions since 1949



# Already Experienced Normal Bear Market

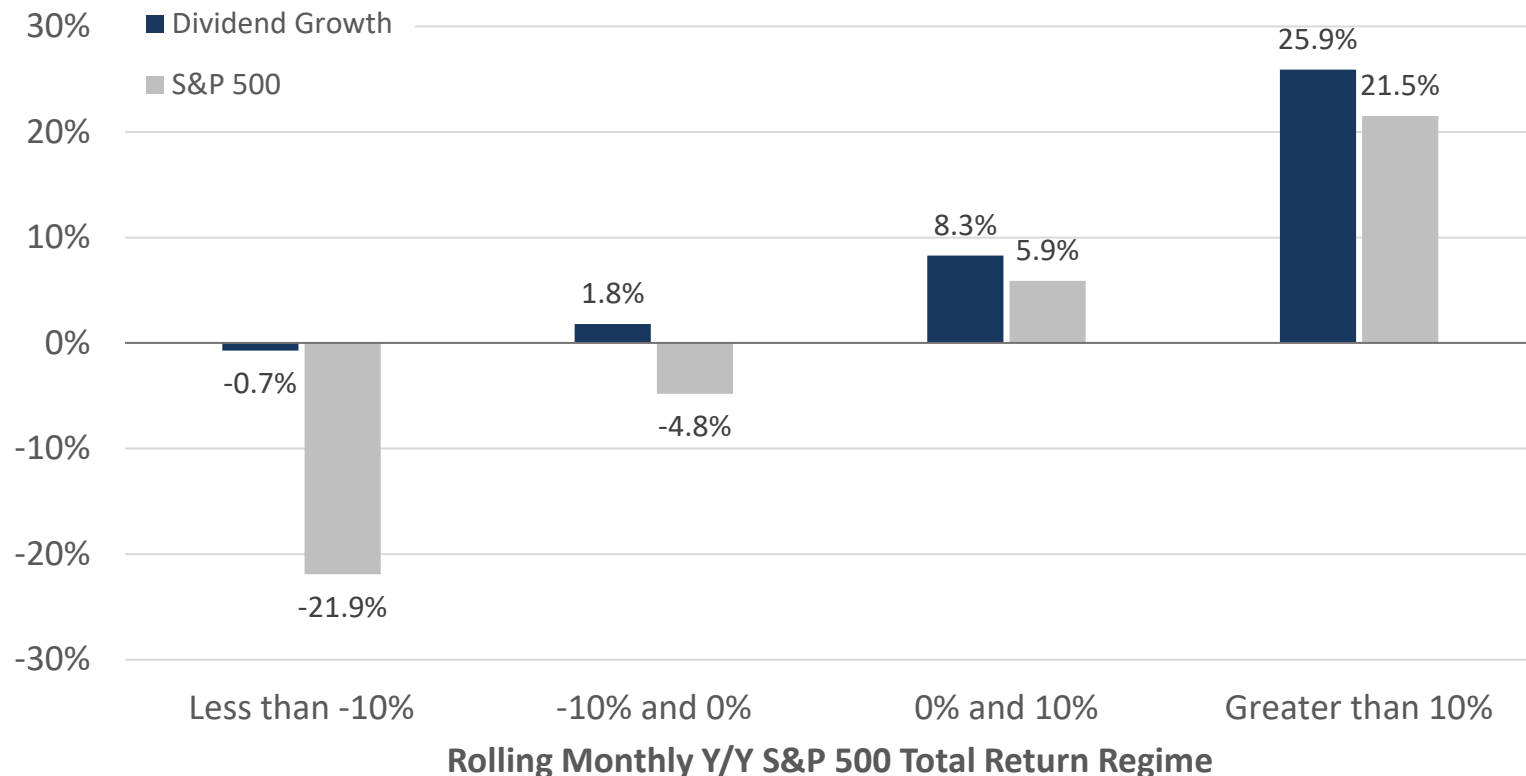
- S&P 500 Index has historically contracted 24% in the median recession
- The market has already declined 23% in 2022



# Dividend Growers Outperform in Difficult Markets

- In difficult markets, dividend growth stocks outperform

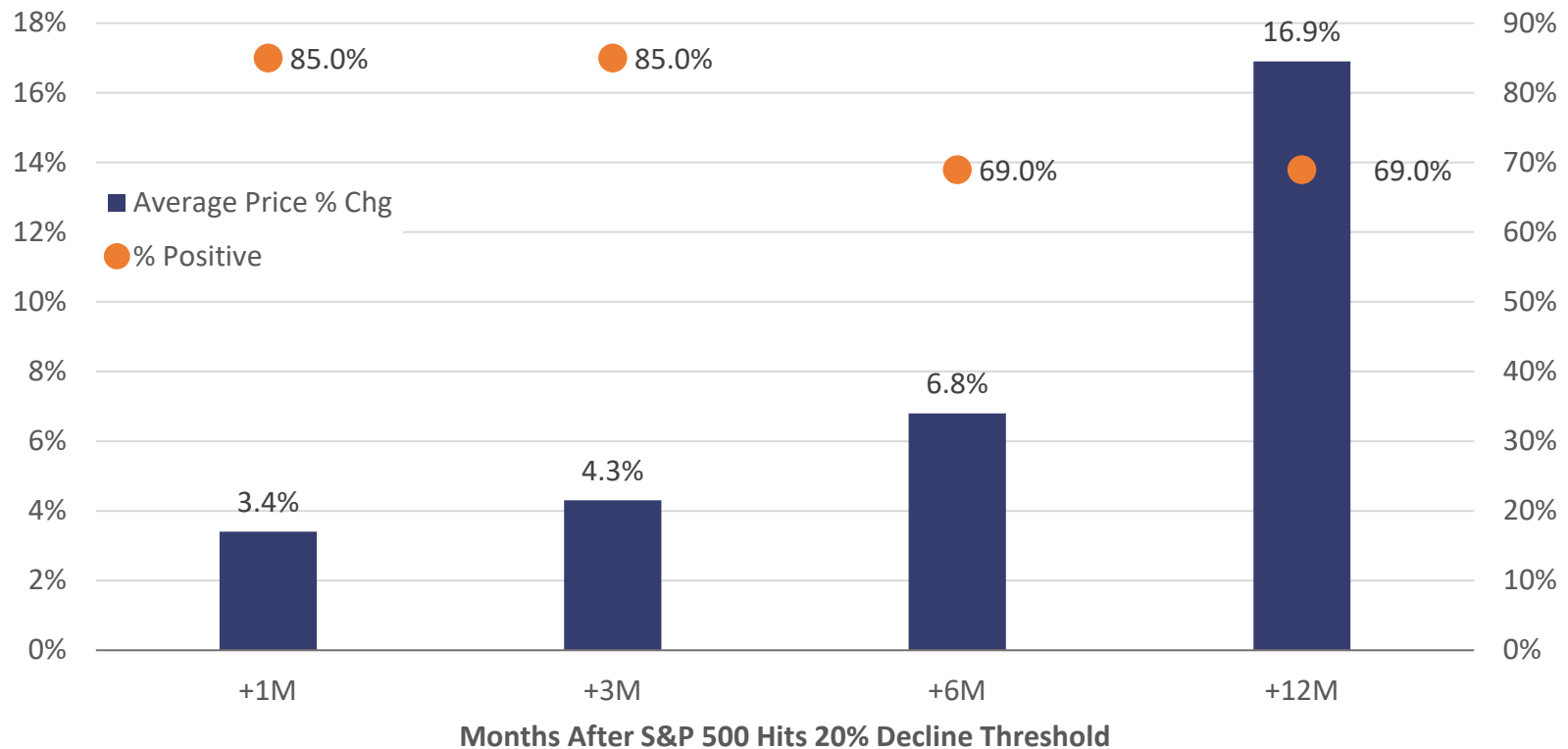
## Average Total Return in Various Market Scenarios: Dividend Growth vs. S&P 500 rolling monthly y/y periods since 1990



# Good Returns After Entering Bear Market

- US stocks typically register good gains after entering bear market

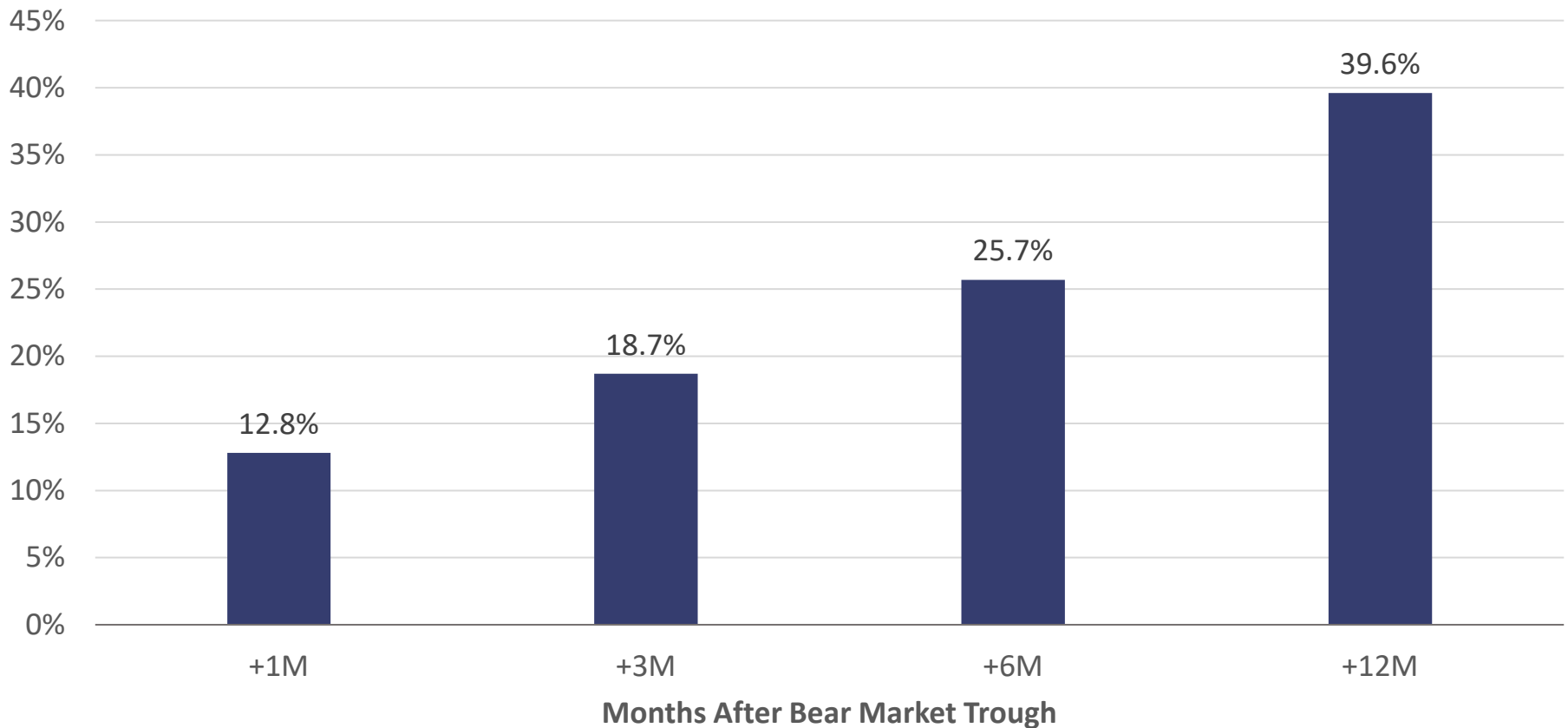
## Average S&P 500 Performance after US stocks Enter Bear Market Bear markets since 1945



# Strong Gains following Bear Market Troughs

- Markets typically bottom 4-6 months before earnings trough

Average S&P 500 Index Performance Following Bear Market Troughs

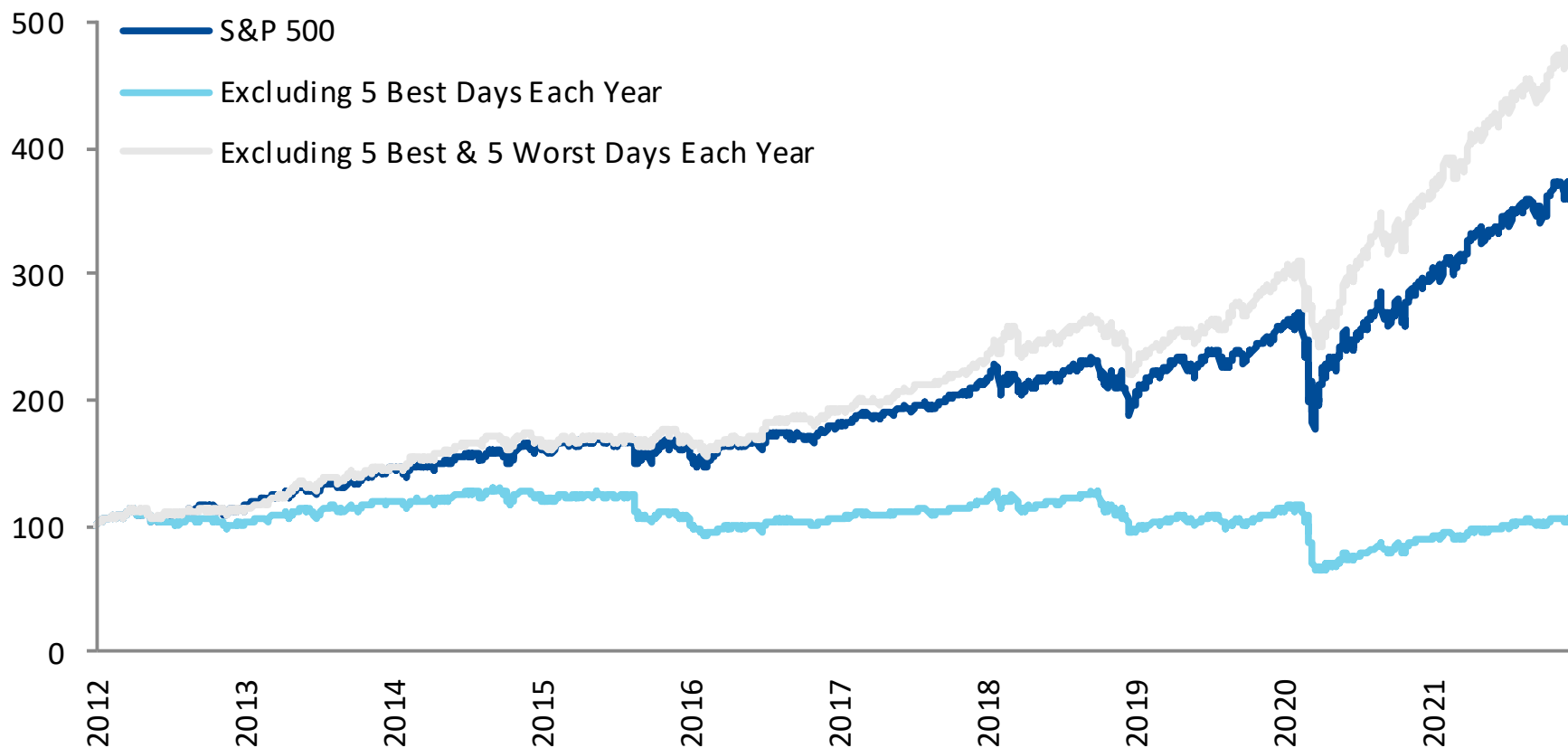




# Difficult to Time Market

- Many of the best days occur after some of the worst days

**S&P 500 Price Performance Comparison**  
Based on daily prices starting in 2012, through 2021

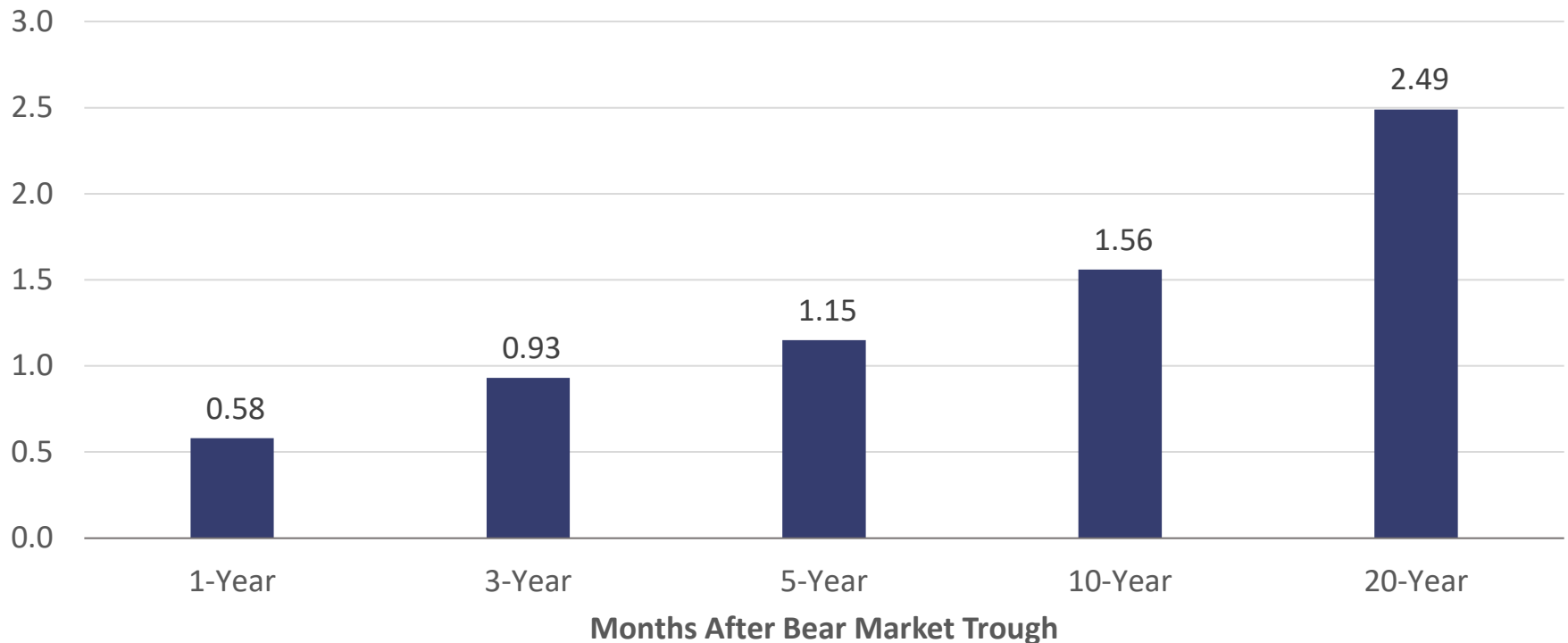


# Better Risk-Adjusted Returns Over Time

- Stay invested, risk-adjusted returns improve with time

## S&P 500 Sharpe Ratios Based on Annualized Holding Period Price Returns

monthly prices since 1950



- Market is already pricing in a median recession
- Inflation is likely to remain higher for longer
  - Buy inflation hedges e.g. Real Assets
- Elevated volatility generates increased income through covered calls
- Stay invested, risk-adjusted returns improve with time
- Strong returns are experienced off market bottoms
  - It is hard to time market - scale in
  - Get paid to wait – buy dividend growers

# Brompton ETFs

## Active Management & High Distributions

### EQUITY INCOME ETFs

Fund	Ticker	USD Unit	Holdings	Covered Call	Risk Rating	Investment Approach	Distrb. Freq.	Mgmt. Fee
Brompton Tech Leaders Income ETF	TLF	TLF.U	Large Cap Tech	✓	Medium	Active	Monthly	0.75%
Brompton Global Healthcare Income & Growth ETF	HIG	HIG.U	Large Cap Healthcare	✓	Medium	Active	Monthly	0.75%
Brompton European Dividend Growth ETF	EDGF	-	Large Cap Dividend Growth	✓	Medium	Active	Monthly	0.75%
Brompton Global Dividend Growth ETF	BDIV	-	Large Cap Dividend Growth	✓	Medium	Active	Monthly	0.75%
Brompton North American Financials Dividend ETF	BFIN	BFIN.U	Large Cap Financial Services	✓	Medium	Active	Monthly	0.75%
Brompton North American Low Volatility Dividend ETF	BLOV	-	Large Cap Low Volatility	✓	Low to Medium	Quant./Active	Monthly	0.55%
Brompton Sustainable Real Assets Dividend ETF	BREA	-	Large Cap Infr/REITs/Utilities	✓	Medium	Active	Monthly	0.75%

### PREFERRED SHARE ETFs

Fund	Ticker	USD Unit	Holdings	Leveraged	Risk Rating	Investment Approach	Distrb. Freq.	Mgmt. Fee
Brompton Flaherty & Crumrine Investment Grade Preferred ETF	BPRF	BPRF.U	USD Denom N.A. Prefs, >75% I.G.	-	Low to Medium	Active	Monthly	0.75%
Brompton Flaherty & Crumrine Enhanced Investment Grade Preferred ETF	BEPR	BEPR.U	USD Denom N.A. Prefs, >75% I.G.	✓	Medium	Active	Monthly	1.00%

Source: Brompton Funds as at June 30, 2022.

# Brompton Split Share Corps. Active Management & High Distributions

**BROMPTON**  
FUNDS



Ticker	Class A Preferred	<b>SBC</b> <b>SBC.PR.A</b>	<b>LBS</b> <b>LBS.PP.A</b>	<b>LCS</b> <b>LCS.PR.A</b>	<b>GDV</b> <b>GDV.PR.A</b>	<b>DGS</b> <b>DGS.PR.A</b>	<b>PWI</b> <b>PWI.PR.A</b>	<b>OSP</b> <b>OSP.PR.A</b>
<b>Portfolio</b>		Primarily invested in Canada's "big six" banks	Big 4 Canadian Lifecos & Big 6 Banks	Canada's four largest Lifecos	Large cap global dividend growth companies	Large cap portfolio of primarily Canadian dividend growth companies	Sustainable power & infrastructure companies	Large-cap North American Oil & Gas companies
<b>Features</b>		High Distributions Call Writing	High Distributions Call Writing	High Distributions Call Writing	Active Management High Distributions Call Writing	Active Management High Distributions Call Writing	Active Management High Distributions Call Writing	Active Management High Distributions Call Writing
<b>NAV<sup>1</sup></b>	<b>Class A Preferred</b>	\$9.64 \$10.00	\$7.10 \$10.00	\$3.56 \$10.10	\$8.02 \$10.00	\$5.00 \$10.04	\$6.44 \$10.00	\$2.84 \$10.00
<b>Mgmt Fee</b>		0.55%	0.60%	0.60%	0.85%	0.60%	0.75%	0.75%
<b>Inception</b>		November 2005	October 2006	April 2007	June 2018	December 2007	May 2021	February 2015

Source: Brompton Funds as at June 30, 2022.



# Brompton Portfolio Managers



**Laura Lau - CFA, DMS**  
Chief Investment Officer

Over 25+ years of experience. Currently leads Brompton's Portfolio Management team that oversees approximately \$2.5b AUM.



**Mike Clare - CFA, CPA, CA**  
Senior Vice President &  
Senior Portfolio Manager

Over 18 years of experience, co-manager of Brompton's covered call writing program. Specializes in portfolio construction with a focus on technology, healthcare, and low volatility strategies.



**Varun Choyah - Msc, MBA**  
AVP & Associate Portfolio Manager



**Maggie Meng - CFA, CPA, CGA**  
Senior Investment Analyst



**Billy Huang - CFA**  
Investment Analyst





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