Q3 2022 Commentary

"The big money is not in the buying and selling ... but in the waiting."
- Charlie Munger

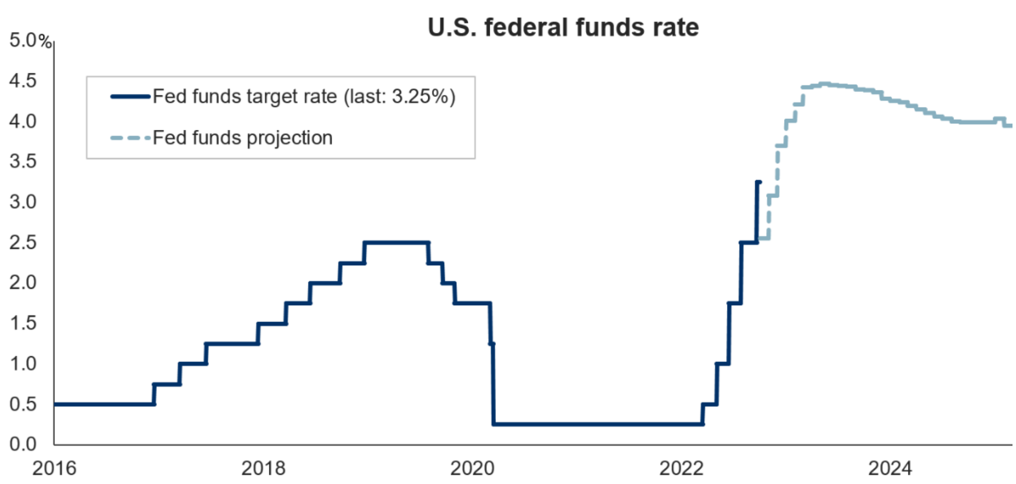
What Happened this Quarter?

The end of the third quarter was a volatile one, seeing a sharp rally through August and even sharper reversal in September, bringing equites back to their June lows. This was triggered by the same themes that have plagued 2022 thus far:

- High and persistent inflation
- The Russian-Ukraine conflict showing no signs of easing
- The Canadian and US central banks continuing to tighten monetary policy by raising interest rates
- The odds of a recession in Canada and the US increasing

In an attempt to suppress the highest inflation seen in North America since the 1980's, the Bank if Canada responded by raising rates twice in the third quarter (1.0% and 0.75%) bringing the overnight lending rate to 3.25%.

In the US, the Federal Reserve took similarly hawkish measures by announcing two rate hikes (0.75% and 0.75%) also bringing the fed fund rate to 3.25%.



Source: Bloomberg, RBC GAM As of September 30, 2022

US Recession Odds Increasing

Odds now favor that the US economy is slipping into a recession within the next year, as a casualty of the Federal Reserve's battle against inflation.

The probability of a downturn over the next 12 months has increased to 60%, up from 50%, according to the latest Bloomberg monthly survey of economists[1]. The latest poll was conducted Oct. 7-12, with 42 economists responding about the chance of a recession.

RBC Global Asset Management is also expecting a recession in the US with many of their key indicators (below) suggesting a likely or very likely probability of a pending recession.

As a result, it is no surprise equity markets are reacting they way they are.

Signal	Indicating US Recession[2]
2 year- 10 year Curve Inverts	Yes
Inflation Spike	Yes
Oil Shock	Yes
Google "Recession" News Trend	Yes
Jobless Claims Jump	Yes
Monetary Tightening Cycle	Likely
Duncan Leaning Indicator Falls	Maybe
NY Fed 3 month-10 year Curve Inverts	No, but getting very close
Fed Short-Term Curve Inverts	No, but getting very close
Unemployment Increases	No, but may Be turning

1. https://www.bloomberg.com/news/articles/2022-10-14/odds-of-us-recession-within-next-year-climb-to-60-survey-shows
2. Source: RBC GAM Analysis of US Economy – 9/16/2022

What Happened in the Bond Markets?

As of the end of the 3rd quarter both the Canadian and US central banks have raised interest rates with a swiftness not seen in over 40 years.

The aggressive movement in rates has resulted in drawdowns not seen in decades in the bond market (illustrated below by the Bloomberg US Aggregate Bond Index). Although this level of volatility is standard in equity markets, it is much rarer in bond markets.

Thus, while it has been nearly impossible to make money in fixed income this year, our two fixed income holdings; **RBC Core Bond Pool-Series F** (down 10.93%[1]) and **Lysander Canso Corporate Value Bond Fund-Series F** (down 7.74%[2]), have continued to hold up versus the three major fixed income indices listed to the right.

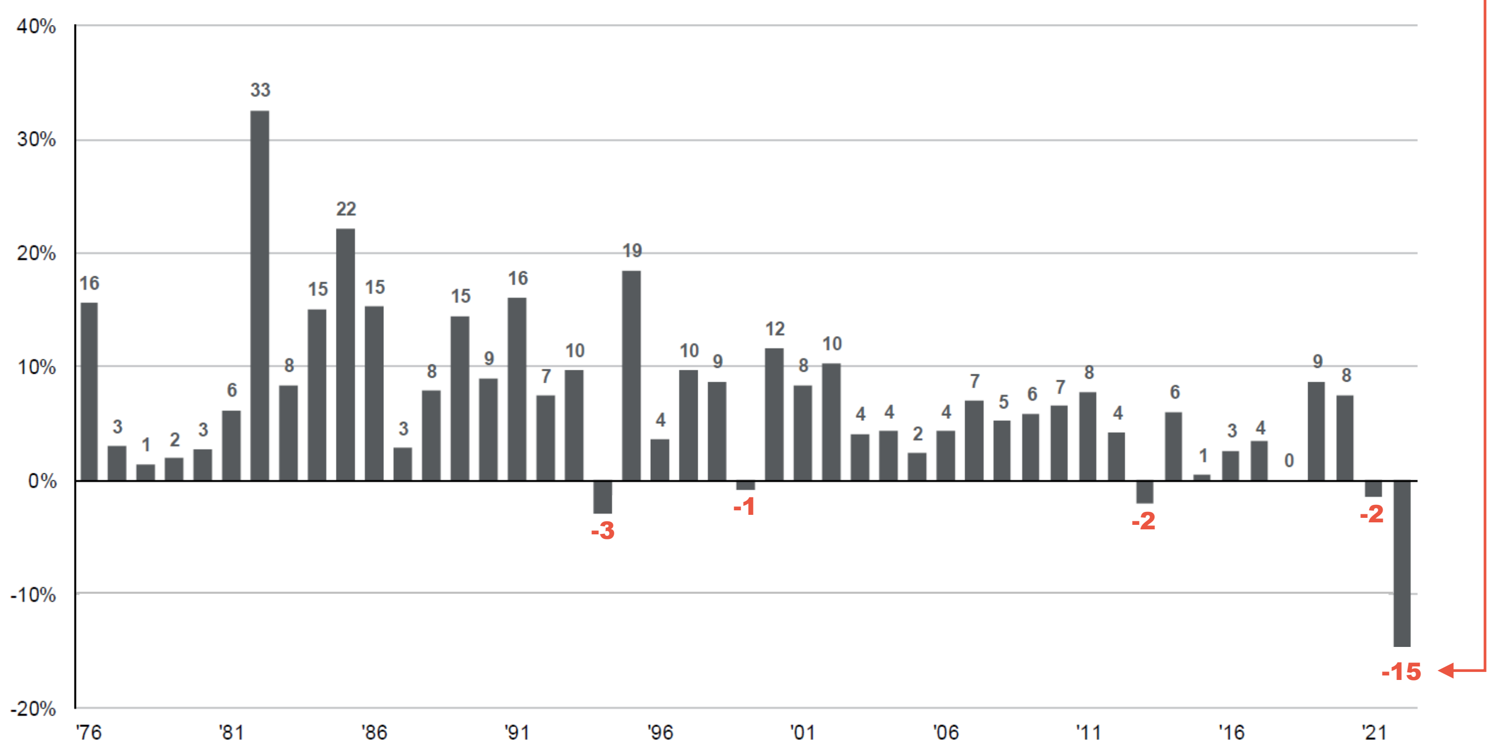
FTSE **Canada** Universe Bond Index — -11.78% YTD

Bloomberg **US** Aggregate Bond Index — -14.92%[3] YTD

Bloomberg **Global** Agg Corp Bond Index (CAD) — -17.06%[4] YTD

Bloomberg US Aggregate Bond Index Calendar Year Returns

Only 4 years of negative returns in the last 46 years prior to 2022[5]



1. Source: Morningstar – Lysander Corporate Value Bond Fund Series F as of Sept 30, 2022. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. The indicated rates of return are historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. 2. Source: Morningstar - RBC Core Bond Pool Series F TR as of Sept 30, 2022. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Except as otherwise noted, the indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. 3. Source: Bloomberg US Aggregate Bond Index in USD as of Sept 30, 2022. 4. Source: Bloomberg Global Agg Corp Bond Index in CAD as of Sept 30, 2022. 5. Source: Bloomberg, FactSet, J.P. Morgan Asset Management. Returns are based on total return. For illustrative purposes only. Returns shown are calendar year returns from 1976 to 2001, over which time period the average annual return was 7.1%. Returns from 1976 to 1989 are calculated on a monthly basis; daily data are used afterwards. Guide to the Markets – US Data is as of September 30, 2022

What Happened in the Stock Markets?

The 3rd quarter of 2022 witnessed a **bear market rally** where most major stock markets (including the four indexes listed to the right) saw strong gains from their June lows only to tumble to new lows by the end of September.

With equity and fixed income markets down double digits as of September 30th, it has been difficult for a balanced investor as defined in the chart below.

The current volatility is unlikely to abate in the short term due to the high uncertainty remaining regarding:

- the future extent of interest rate hikes,
- the outcome and length of the war in the Ukraine, and
- the likelihood and potential severity of a recession in both Canada and the US

Canadian Stocks
S&P/TSX Comp. Index — -11.07%[1] YTD

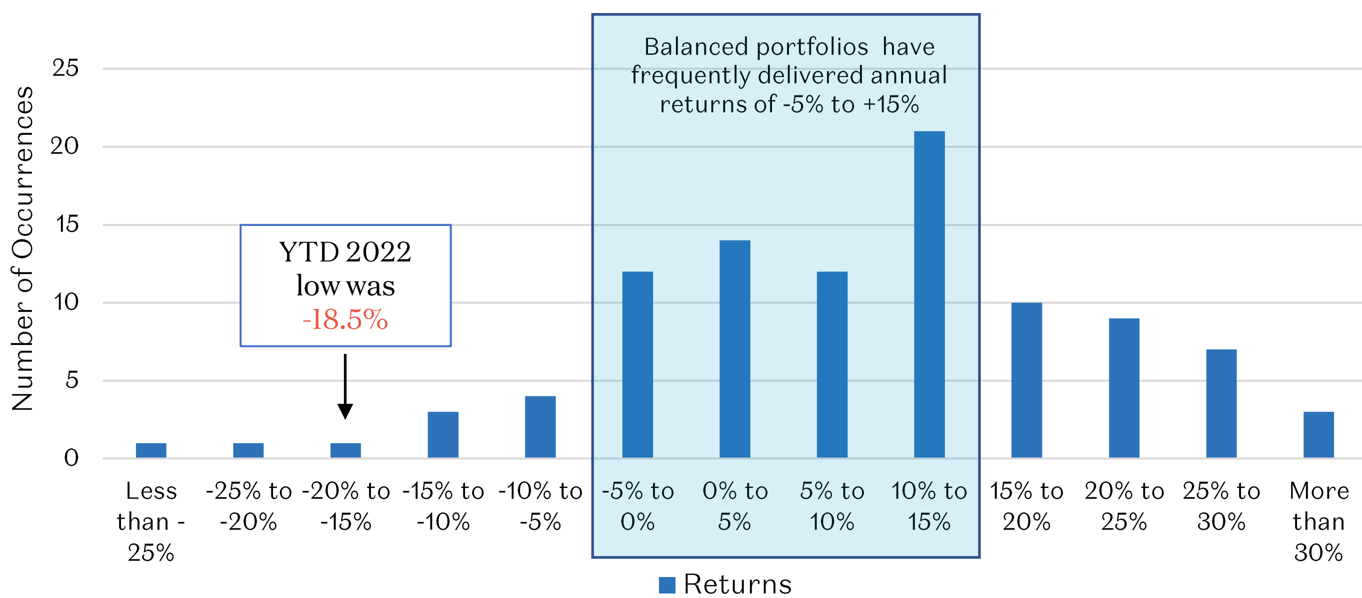
US Stocks
S&P 500 (CAD) Index — -17.05%[2] YTD

US Stocks
NASDAQ 100 (CAD) Index — -25.88%[3] YTD

International Stocks
MSCI EAFE (CAD) Index — -20.13%[4] YTD

It's Been a Tough Year for Balanced Investors

Range of Annual Returns for a Sample Balanced Portfolio[5]



1. Source: Bloomberg S&P TSX Composite TR YTD as at 30 Sept 2022
2. Source: Bloomberg S&P500 TR in CAD YTD as at 30 Sept 2022
3. Source: Bloomberg Nasdaq 100 TR in CAD YTD as at 30 Sept 2022
4. Source: Bloomberg MSCI EAFE TR in CAD YTD as at 30 Sept 2022
5. Source: Compound Capital Advisors, RBC GAM. Based on 60/40 portfolio of S&P 500 and US 10-Year treasuries for annual periods between 1928 and 2021. 2022 YTD data is based on low as of June 30, 2022. This graph does not reflect transaction costs, investment management fees or taxes. If such cost and fees were reflected, returns would be lower. An investment cannot be made directly into an index.

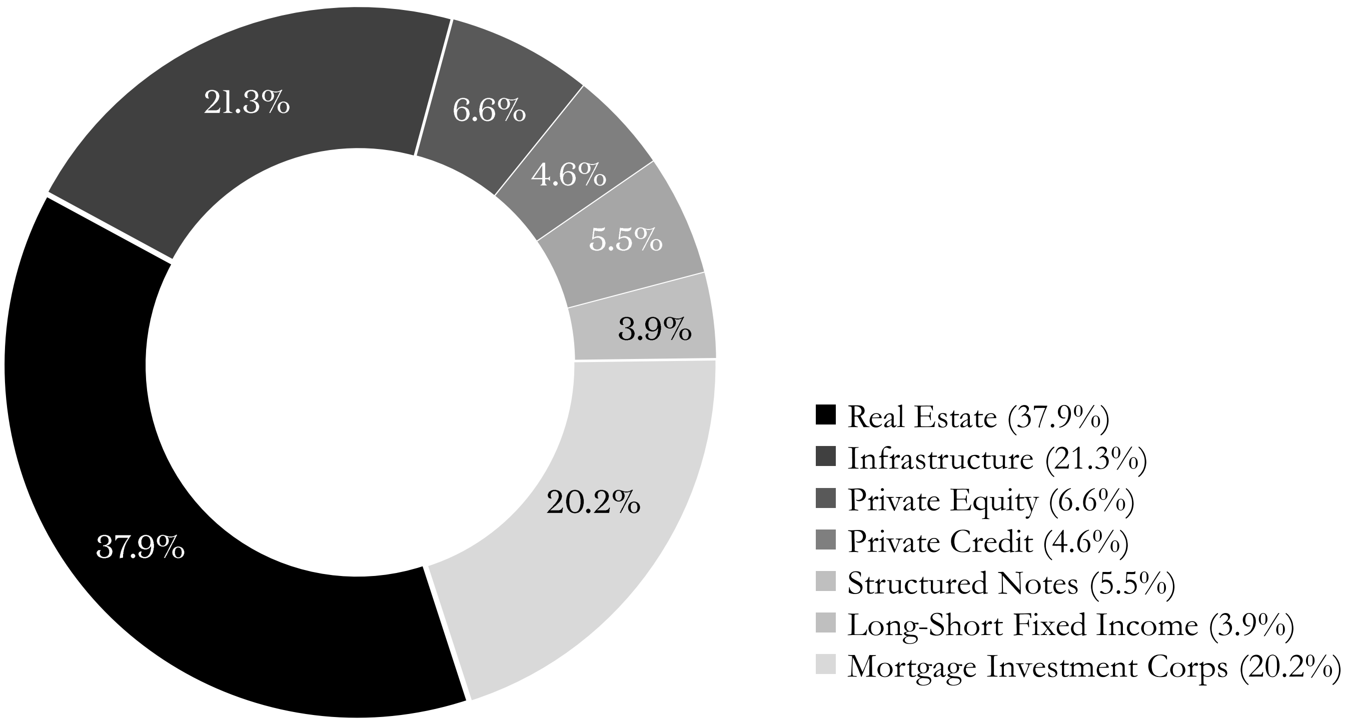
Alternative Investments

At Westmount Wealth, our goal is to help our clients improve their diversification into asset classes beyond traditional stocks and bonds. We accomplish this primarily through our private/alternative[1] holdings in the **Westmount Alternative Income Fund** and the **Westmount Real Asset Fund**.

Many alternative investments require a substantial minimum investment and most investors do not have the millions necessary to properly diversify across several alternative asset classes. Our funds provide access and diversification while providing reasonable liquidity. Please note, alternative investments are also generally less liquid than more traditional asset classes and are not appropriate for all investors.

Appraisal-based investments in alternative asset classes (real estate, infrastructure, private credit, etc) may help reduce swings in valuation as well as improve risk-adjusted returns during volatile periods.

The breakdown below shows Westmount Wealth's holdings in alternative assets as of September 30th, 2022.



Westmount Alternative Income Fund Spotlight

The Westmount Alternative Income Fund provides diversified sources of income from various sources including (but not limited to) structured notes, private credit and mortgage investments. Some of this debt is variable allowing income received from the investments to adjust in a rising rate environment.

This quarter we would like to highlight the Neighbourhood Holdings LP investment held in the Westmount Alternative Income Fund. This is a diversified portfolio of residential mortgages located in urban and suburban areas across Canada.

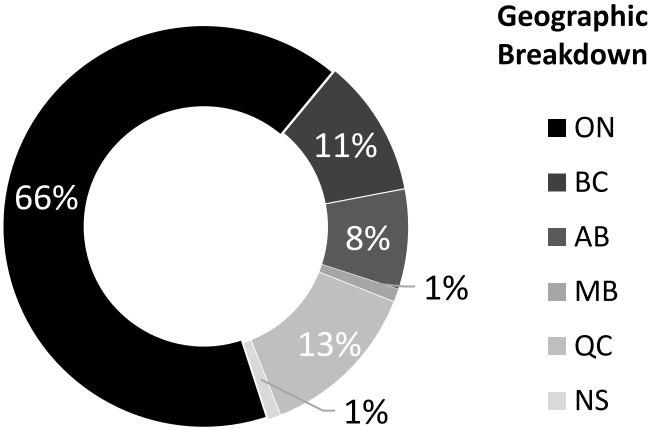
Private mortgage investments in real estate can help provide additional income, collateralized by residential homes across key urban markets. The Neighbourhood Holdings fund is primarily variable rate and therefore as investors we have benefited as rates have moved higher.

NEIGHBOURHOOD HOLDINGS

Neighbourhood Holdings LP - Series F

Aggregate LTV[1]	58.0%
Underlying Loans	930
% of First Mortgages	99%
Delinquencies (>90 days)	0.7%
Avg Borrower Credit Score	695

Geographic Breakdown



F Class Performance[1]	**YTD**	**1YR**	**3YR**	**5YR**	**Since Inception**
Fund Total Return	9.07%	8.91%	8.37%	8.52%	8.20%

1. All holdings and performance data as of September 30, 2022 from Neighbourhood Holdings Fund Fact Sheet. There is no liquid market for trading these units, and redemptions are subject to restrictions and conditions Monthly returns float based upon profitability. Net returns will differ by Class and Series. Returns assume reinvestment of monthly income and are calculated using a time-weighted method.

Westmount Real Asset Fund Spotlight

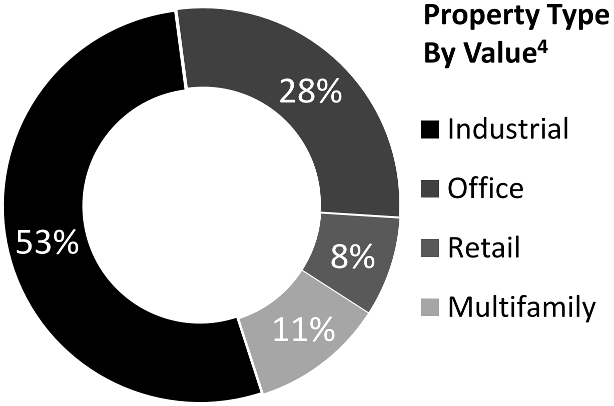
The Westmount Real Asset Fund helps our clients diversify into private investments in (but not limited to) real estate (student housing, rental apartment buildings, industrial warehouses, etc.) and infrastructure assets (cell phone towers, wind farms, solar farms, etc.).

This quarter we would like to highlight, one of our holdings, **Manulife Canadian Real Estate Investment Fund.** This fund focuses on high quality Canadian Real Estate (including industrial, office, retail and multifamily assets) in major markets.

With interest rates putting pressure on real estate prices, this fund has bucked the trend, finishing up +13.46%[14] as of the end of the 3rd quarter. The strong performance was mainly driven by continued valuation growth in the portfolio's industrial warehouse assets. This is a sector of real estate that has become very difficult to obtain exposure to in the public markets.

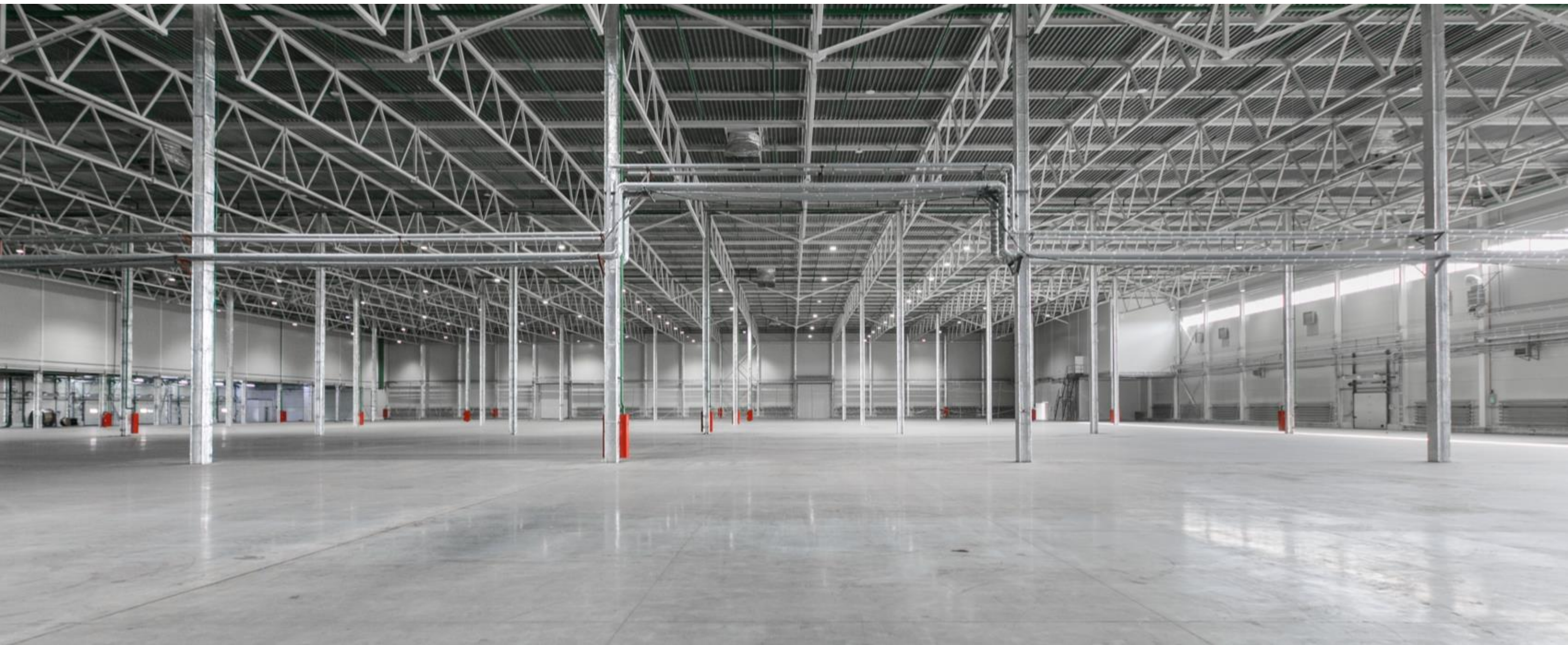
Manulife Investment Management

Manulife Canadian Real Estate Fund



Performance [1]	**YTD**	**1YR**	**3YR**[2]	**5YR**[2]	**10YR**[2]	**Since Inception**[2,3]
Fund Total Return	13.46%	20.52%	13.31%	12.34%	9.36%	10.48%

1. Gross of management fees and net of fund expenses. If such fees were deducted the performance shown would be lower.
2 Returns greater than one year are annualized. 3 Returns are since February 16, 2011 4. Data as of September 30, 2022



The Bottom Line

We are now almost one year into a bear market. Negative sentiment prevails and from our perspective the North American equity markets feel oversold with valuations becoming increasingly attractive. Still, inflation remains problematic, and there is no shortage of recession talk.

Bear markets have bear market rallies, and no one can predict when the markets will hit their bottom. Unfortunately, this is known well after the fact.

Maintaining equity exposure can be nerve-racking during volatile markets however, a bounce off the bottom can be quite rewarding, therefore we maintain our current equity weight as we may be getting closer to a turnaround.

We are also comforted in the knowledge that our clients' alternative asset exposure has helped to dampen volatility in this difficult year.

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