Sionna Investment Managers®

SOUNDBITE

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A Few Things We Know For Sure As This Market Makes Daily New Highs

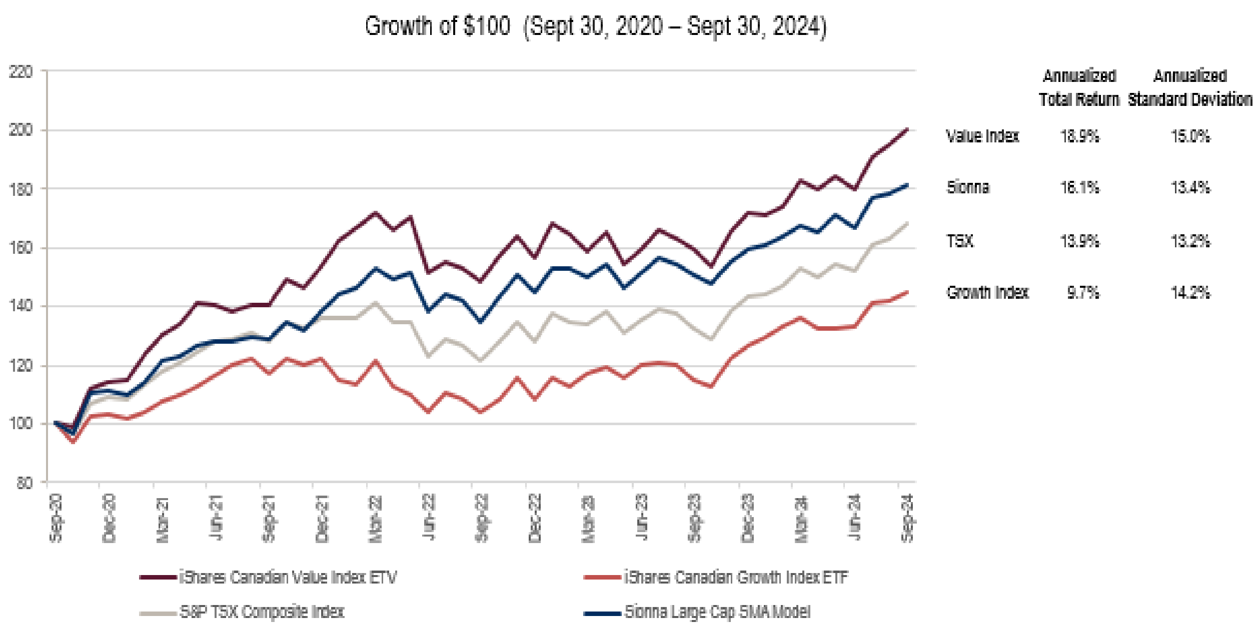
1. **The U.S. with a P/E multiple of 28x, is one of the top 10% most expensive markets since data was first recorded in 1871.** The "Schiller P/E" is widely considered one of the most predictive for future returns and **is forecasting a mere 1% expected nominal return per annum over the next decade** (including dividend yields). In plain words, this suggests a capital loss and a negative real return over the next decade. This will be especially painful in any inflationary environment. Suggesting the U.S. equity market should be trimmed and reinvested in cheaper markets to help future returns (and limit losses in a market decline).

2. **Canada's P/E multiple is 19.5x and International Equity (EAFE) P/E is 16.4x. They offer Schiller P/E expected returns of 5% and 6% annualized over the next decade respectively**. These markets with cheaper book values and higher dividend yields can reasonably be expected to be more defensive in market declines. Suggesting investors should increase these markets relative to the more expensive and vulnerable to correction market in the U.S.

3. Historically, inflation/disinflation cycles tend to last roughly 20 years or more. Disinflation lasted from 1981 to 2020, where markets set global historically low inflation and interest rates. Global governments spent freely during the COVID-19 pandemic, which lead to a regime change from disinflation to inflation. **We are now 4 years into what is likely to be a roughly 20-year inflation cycle.** This new inflationary cycle is likely to impact markets differently than we were used to in the prior (recent disinflationary) regime.

4. Inflation and disinflation move in waves. The recent ebb in the intensity of inflation is more likely due to the wave pattern than suggestive of a regime shift back to disinflation and the shortest recorded history of inflation.

5. Fama and French research on Value vs Growth returns over the last century demonstrate that **when inflation is above 2.4%, the value style outperforms the growth approach by 11%** annualized. (G.Athanassakos)



Source: FactSet and Sionna. Using Sionna's SMA Large Cap Model as a representative account.

6. Market timing is impossible to consistently and reliably do well and psychologically hard to achieve.
7. Equity markets rise over the long term.
8. Best response is to stay invested but reposition to areas with better risk reward trade offs.

Rational Conclusion: Trim U.S. equity exposure and Growth Style and invest proceeds into Canada, International (EAFE) and the Value style.

"Skate to where the puck is going to be, not where it has been." – Wayne Gretzky

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