DM MONTHLY REPORT
April 2022

PORTFOLIO ACTIVITY

During March, we trimmed several holdings and used resulting proceeds to open new positions in Wheaton Precious Metals in DM Canadian Equity and Netflix in DM Foreign Equity.

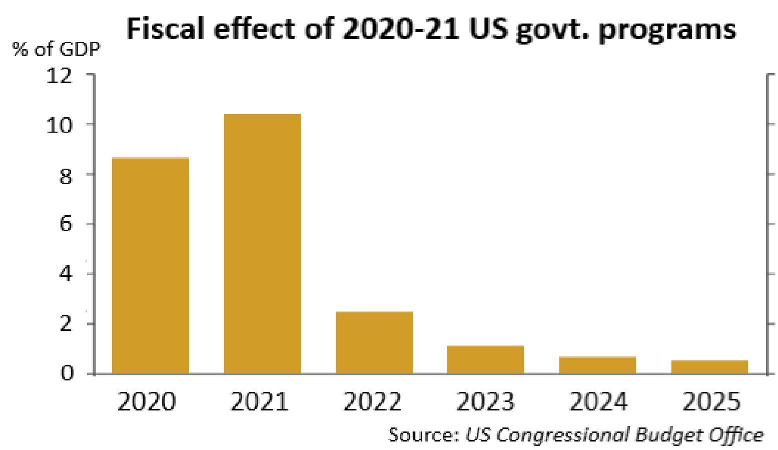
FEATURE STOCK
Cdn. Natural Resources (CNQ)

Though we own just one energy producer in the DM Canadian Equity Portfolio, we happened to hold the sector's best performing major over the past year. Shares of CNQ more than doubled through the 12 months to the end of March and the company became the first TSX-listed oil & gas producer to reach a $100bn market capitalization. With a forward price to free cash flow ratio of less than 10x alongside a triple-digit oil price, the stock seems well positioned for additional gains in the quarters to come. The favourable commodity backdrop has been driven by both industry-wide underinvestment in new productive capacity over the past several years and the destabilizing effect of Russia's invasion of Ukraine and accompanying sanctions. Interestingly, CNQ and several of its Canadian energy cohorts seem to be taking a measured approach to current conditions, keeping capital expenditure in check and allowing cash to accumulate. This stance allowed CNQ to recently boost its dividend by 28%, which extended its streak of increases to 22 years. During this period, shareholder payouts have grown at an impressive annualized average rate of 22%.

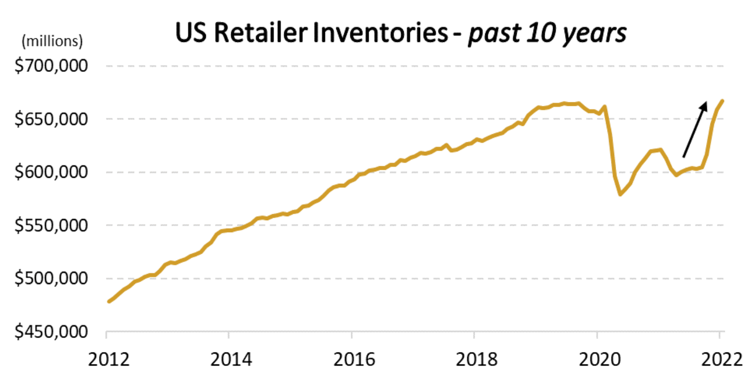
PUSH & PULL

Economists generally characterize inflation as emanating from either insufficient supply ("*cost push*") or from overheated consumption ("*demand pull*"). The inflationary backdrop in which we now find ourselves is the product of a rare moment in which both forces collided simultaneously: when covid and accompanying lockdowns hit, the economy's ability to produce and deliver goods plunged; at the same time, the generous income relief and other liquidity injections provided by governments meant that households had both the means and the idle time to consume well above prior trends. This confluence created a powder keg that, once lit, caused prices to explode at rates that hadn't been seen in a generation.

As prices jump, it's natural to extrapolate the present and worry that current conditions will prevail indefinitely. To be sure, elevated inflation could be with us for some time, but it's also possible that it's planting the seeds of its own demise. Higher fuel prices, costlier groceries, and rising mortgage payments will likely act as a tax on consumers and stem demand for non-essentials; at the same time, support programs are set to unwind (see first chart), providing another squeeze on consumption. On the supply side, inventories are rebuilding (second chart) and freight rates are starting to roll over, suggesting that businesses and supply chains may be regaining their footing. The next few months should tell us a great deal about the trajectory of inflation and whether the high water mark is already behind us or yet to come.



Source: *US Congressional Budget Office*



Source: *US Federal Reserve*