


Patient Capital Quarterly Commentary

During the fourth quarter of 2022 global markets bounced back from their third quarter declines. The MSCI (USD) World Index rose 9.89%¹ while the S&P 500 (USD) posted a positive return of 7.56%². The S&P/TSX Composite Index rose 5.96%³. For all of 2022, the MSCI (USD) World Index, S&P 500 (USD) and S&P/TSX Composite Index declined 18.11%, 23.87% and 5.84% respectively. The TSX performed better on a relative basis due to its heavier weighting in the oil and gas sector. The Canadian market's energy subsector was up 24.42% during 2022 providing some support to the overall index. The portfolio of Lysander-Patient Capital Equity Fund (the "Fund") added to several of its "interest sensitive" holdings as the rise in interest rates drove their share values to attractive valuations. As well, the Fund added a new position, Meta Platforms (formerly known as Facebook), when the shares were driven to historically low valuations on concerns of slower growth and increased capital spending.

While equity markets were positive in the fourth quarter there was a high degree of volatility. Markets rose sharply on several days but also fell by equal amounts on occasion. This volatility was the result of alternating views on how high and for how long interest rates would rise. Sentiment was impacted by data indicating recent inflation rates and economic growth.

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Some investors concluded that inflation had peaked and that the pace of interest rate increases would slow down in the coming quarters. They also pointed to reports of improving supply chains and an inverted yield curve as evidence that interest rates would not go much higher. On the other hand, employment and overall economic data continued to be strong. In addition, central bankers continued to indicate that as long as the rate of inflation was above their two per cent target interest rates would continue to increase.

Investors are worried that central bank's resolve to curb inflation will cause a recession. The continued inversion of the yield curve suggests a recession is possible in 2023. The sharp spike in borrowing costs has started to filter through the economy. The real estate sector is starting to feel the effects of these interest rate increases. Demand has dropped and residential real estate prices are starting to decline. In addition, some homeowners are starting to feel the impact of higher rates and are starting to cut back on discretionary expenditures to meet increased mortgage payments.

While higher interest rates have had a negative impact on overall markets, they have put significant pressure on higher growth companies. Many of these companies are not profitable and/or generate relatively small cash flows. As a result, higher interest rates reduce the net present value of distant cash flows and are less attractive to investors. In this higher rate and more normalized environment, some investors are shifting back to value based investment philosophies.

Lysander-Patient Capital Equity Fund continues to be well positioned for current market conditions. As of December 31st, 2022, the Fund's dividend yield on equities was 5.11%. The total portfolio yield was 4.86% at year end.

1. Source: MSCI.
2. Source: S&P.
3. Source: S&P/TSX.

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