What portfolio managers are looking at heading into 2022

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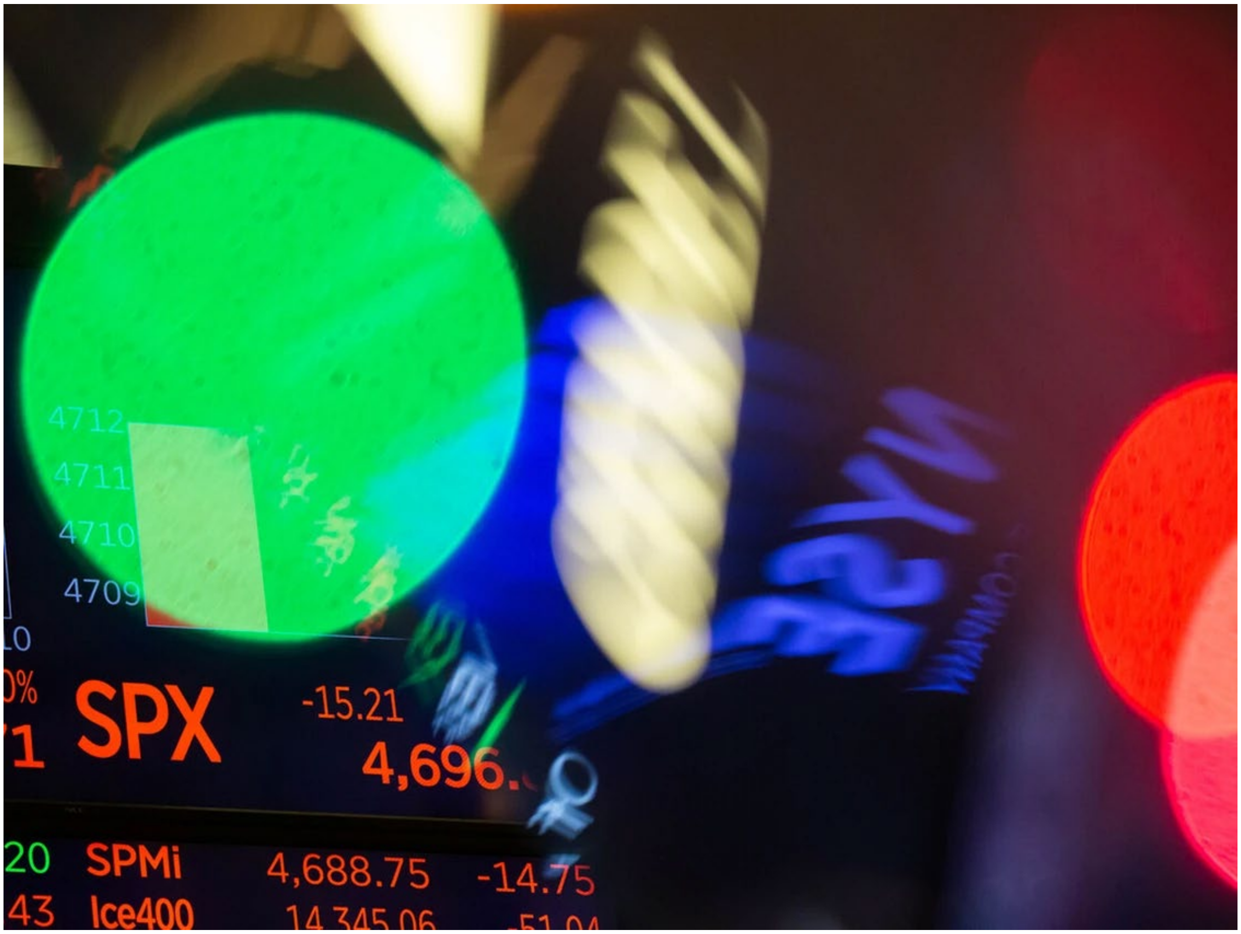
More COVID-19 uncertainty, inflation, interest rate hikes, shifting economic backdrop could make it an interesting year



A monitor displays stock market information on the floor of the New York Stock Exchange.
PHOTO BY MICHAEL NAGLE/BLOOMBERG

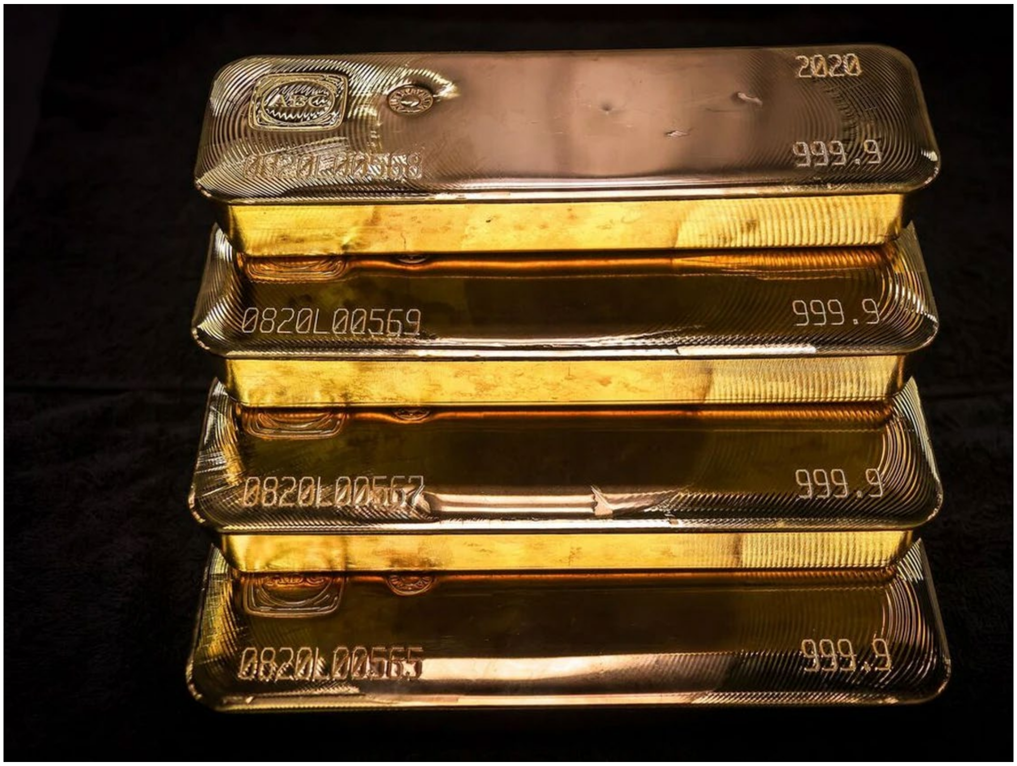
Volatility continues to whipsaw across the markets as COVID-19 uncertainty keeps investors on edge, something portfolio managers expect will carry over into the new year as the Omicron variant takes hold. Other factors, such as an inflationary environment, the prospect of interest rate hikes and a shifting economic backdrop could also make 2022 another interesting year for the financial markets.Here's how some portfolio managers are charting the year ahead and what stocks they have on their radar.

WHAT TO WATCH

David MacNicol, president and portfolio manager at MacNicol & Associates Asset Management Inc., has been eyeing the precious metals sector and names such as Barrick Gold Corp. as big players heading into 2022.

"When COVID-19 … was hitting our shores and the market was haywire, precious metals held in quite nicely after the first lift and we had some fantastic results at the end of 2020," he said, adding some of the money that would have gone to precious metals flocked to cryptocurrencies amid its rally in 2021.

"But I see that pendulum swinging back again, for people who realize that inflation is real … and I think it's here for a while yet, and so people will be looking for hard assets and the hardest of all assets is gold. I beat that drum again."



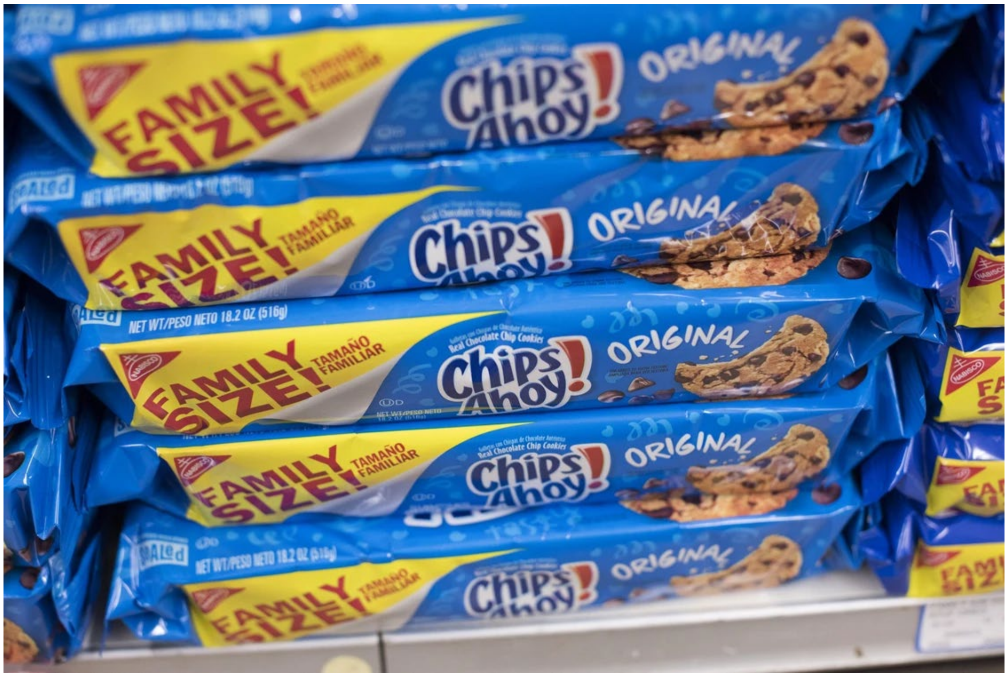
David MacNicol is looking to gold in 2022.
PHOTO BY DAVID GRAY/AFP VIA GETTY IMAGES

Christine Poole, chief executive and managing director at GlobeInvest Capital Management Inc., said her firm remains constructive on equities, eyeing sectors such as therapeutics and Canadian banks, as well as names like snack food company Mondelez International Inc. and elevator engineer Otis Worldwide Corp.

"(Mondelez is) a global leader there, they've got nine global brands, and there tends to be less private-label competition," she said. "They did well (in 2021) and the company is actually investing in marketing and product innovation to maintain and increase the market share that they gained, and they're actually broadening their offerings."

Poole added she sees a big play for Otis Worldwide since elevator servicing is part of their business model and it will be tending to aging buildings and modernizing elevators over the next few years.

She also expects the interest rate hikes on the horizon to benefit the banks, which will likely boost dividends over the next few earnings seasons.



Mondelez International Inc. Nabisco Chips Ahoy brand cookies
PHOTO BY DANIEL ACKER/BLOOMBERG FILES

Paul Shelestowsky, a senior wealth adviser at Meridian Credit Union, said he expects the markets to perform differently next year and that some of the winners of the past year may not continue their winning streak in an inflationary environment.

“The sectors that tend to do the best during inflation are the energy sectors … materials, utilities, things that have real assets behind them,” he said. “Also, global real estate investment trusts (REITs) will probably be a good place to be.”

Jennifer Radman, head of investing and senior portfolio manager at Caldwell Investment Management Ltd., said construction names such as Martin Marietta Inc. and Tricon Residential Inc. will be supported by infrastructure projects and the strength of the housing market. Real estate’s rally could also fuel Watsco Inc. and other heating and air conditioning companies.

“On the infrastructure side, you’re seeing a lot of spending and then also (they’re) tied to continued strength in housing, so something like a Martin Marietta that supplies heavy building materials … if you’re building a community, we have to put the roads, everything that goes into supporting that community, there’s a lot of money behind that,” she said.

WHAT TO BE WARY OF

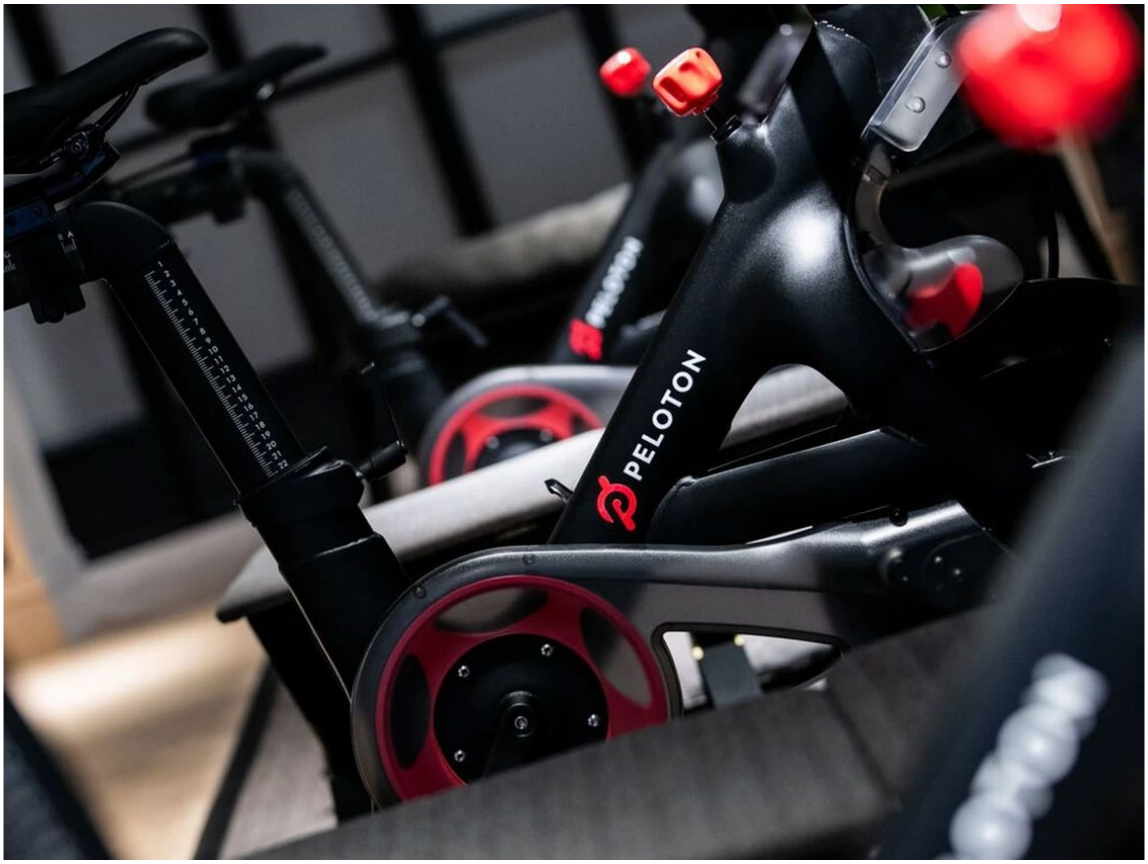
MacNicol points to bonds, some of the electric-vehicle names that lack revenue, and stay-at-home companies such as Zoom Video Communications Inc. and Peloton Interactive Inc. as investments that have little runway left in the new year, as well as residential real estate in markets like Toronto and Haliburton cottage country in Ontario, among others.

“Typical bond portfolios … they’ve already had a wake-up call in 2021,” he said. “That’s going to continue to wake up as rates continue to move higher, and so traditional bond investors are going to have to do something different.”

MacNicol added “certain parts of the stock market are crazy, like electric vehicles with little or no revenue,” such as Rivian Automotive Inc., which is partially owned by Ford Motor Co., and Tesla Inc.

“The market cap is a little bit out there, but (Rivian) has no sales,” he said. “So it’s got a lot of catching up to do.”

Shelestowsky also sees bonds as a struggling area next year, as well as discretionary retail names.



Peloton Interactive Inc. stationary bicycles sit on display at the company’s showroom on Madison Avenue in New York. PHOTO BY JEENAH MOON/BLOOMBERG

"If you're really bond heavy, you're probably going to get hurt next year … because these rate hikes and inflation are so telegraphed that most of the bond indexes are down three or four per cent this year already in anticipation of the rates coming next year," he said,

On the discretionary retail side, Shelestowsky said car manufacturers and consumer electronics could see some strain.

"Interest rates are going up and it costs more to borrow … when (people) have less discretionary income or less disposable income, they don't necessarily buy a new car," he said.

Shelestowsky added the drop in discretionary spending could also hit some tech companies beyond consumer electronic names such as Best Buy Co. Inc., and the whole sector is running out of room left to grow.

"The shine is really starting to come off of tech," he said, noting the sector is at maximum profitability. "I'm not necessarily saying that they're going to tank, but don't expect them to provide the type of returns they got in 2020 and even 2021."

WHAT TO PUT IN YOUR PORTFOLIO

To buttress continued inflation and uncertainty, MacNicol said investors should look at alternative investments such as private real estate (like industrial properties), private equity and third-party hedge funds.

"We've been doing this for a dozen years now. I think as you see the markets — both stock and bond market — going into challenges, people will look for alternatives," MacNicol said.

Poole said some underperforming stocks could stage either a reopening play or benefit from e-commerce strategies in 2022 such as Visa Inc. and Mastercard Inc. She added Walt Disney Co. may be a good stock to keep in the portfolio heading into the new year.

"They initially did quite well with the streaming and robust subscriber growth … because they have all this content," Poole said. "And now the growth rates (have had) kind of an uneven quarter and the stock's being punished."