MARKET & ECONOMIC SUMMARY

Volume 10, Issue 4 – October 2022

MARKET SUMMARY

Third Quarter 2022

S&P/TSX Composite TR

Q2	YTD	1 year
↓1.4%	↓11.1%	↓5.4%

S&P 500 TR (USD)

Q2	YTD	1 year
↓4.9%	↓23.9%	↓15.5%

MSCI EAFE GR (C$)

Q2	YTD	1 year
↓3.4%	↓20.3%	↓18.4%

ICE Bof AML Canada Brd Mkt TR

Q2	YTD	1 year
↑0.5%	↓11.5%	↓10.0%

THIRD QUARTER HIGHLIGHTS

- S&P/TSX Composite hits 19 month low of 18,169.90 on July 14th
- S&P 500 hits 22-month low of 3,584.13 on September 30th
- Canadian dollar hits 28-month low of $0.7230 USD on Sept 27th
- WTI Oil drops 38.1% from June high hitting $76.25 USD on Sept 26th
- Bank of Canada increased overnight rate by 1.75% to 3.25% in Q3

SUMMARY

Despite a bright start to Q3, U.S., Canadian and global equities gradually lost momentum as the Fed reiterated it would continue its monetary tightening path. In bond markets, U.S. and Canadian yields rose on the outlook for interest rates, inflation and the pound falling to a record low after the U.K. government announced huge tax cuts funded by increased borrowing which were subsequently rejected by the market and reversed.

There were several positive U.S. and Canadian economic indicators during the quarter. U.S. job creation remained solid and wage growth increased. Retail sales and consumer spending rose, and the federal deficit shrank 50% compared to the same period last year. In Canada, the unemployment rate remained at a record low, job vacancies grew, retail sales increased, house prices continued cooling and the trade surplus widened to its largest in 14 years. The CEOs of two major grocery chains also said food prices have started stabilizing.

U.S. inflation eased during the quarter, to 8.3%, although this was considered disappointing by investors as expectations were for a drop to 8.1%. Food and housing costs continued to be the main inflationary drivers. As a result, the Fed hiked rates 0.75% twice in Q3. Fed chair Powell said they would continue hiking rates until inflation was fully under control. He added restoring inflation to the Fed's 2% target was its "overarching focus right now."

In Canada, inflation moderated, to 7%, which was much lower than expected. This largely stemmed from falling gasoline prices which mitigated the cost of groceries remaining high. Aligning with the Fed, the Bank of Canada increased its benchmark rate twice during Q3, 1% in July and 0.75% in September. Its official statement also made clear more hikes are still required.

The S&P/TSX Composite Index ended the quarter down 1.4%. The S&P 500 Index posted a loss of 4.9%, but with the Canadian dollar weakening sharply relative to the US dollar, this translated into a gain of 1.3% for Canadian investors. Despite its weakening, the loonie remains the best performing G10 currency relative to the greenback.

In bond markets, U.S. treasuries and Canadian bond yields, which move in the opposite direction to bond prices, continued to rise through Q3. The yield curve, particularly the difference between 10-year interest rate and 2-year U.S. treasury interest rate, became inverted, highlighting tighter Fed rate policy at the short end and forecasts for slower growth at the longer end. This also resulted in a positive quarter for bonds with the Canada Broad Market Index showing an increase of 0.5%

Even though there are promising signs inflation may have peaked, a clearer indication will be once we achieve a few more months of declining inflation. Markets will likely stay choppy until then. For active fund managers and investors the current environment does offer select buying opportunities. In time, a sustained recovery will occur and history has proven investors are rewarded over the long-term.

> *"It might take time, but a rebound will occur, and history has proven investors are rewarded over the long-run."* – *Matthew Jenkinson*

STRATEGIC NOTES

A frequently quoted but very apt piece of commentary by Warren Buffett, says "Be fearful when others are greedy and greedy when others are fearful". I think we can all agree things were a little out of whack in June of 2021 when the S&P500 and TSX were reaching new highs and investor portfolios were sitting with bulky returns, two or three times the long-term average, which stood in stark contrast to the gloomy back-drop of COVID lock-downs and travel restrictions, ballooning government debt, escalating geopolitical tensions, and the world economies far behind where they once were in 2019 across most all metrics. Greed and confidence abounded, and this was about the time Eastport started implementing our defensive portfolio and rebalancing for our clients.

Fast forward to the fourth quarter of 2022 and global markets are down 20%+, inflation is high and persistent, federal reserve banks are raising interest rates with no end in sight, nuclear rhetoric is escalating, energy prices are causing a global energy crisis and in short most everybody is fearful we will never see prosperous times again and the stock market will never recover. The aforementioned seems unreasonable.

The best strategy we can recommend is the inverse of being conservative and taking profits when the investment markets are running strong and very few want to sit out in fear of missing out with the euphoric feeling of getting richer, daily. That is be aggressive in purchasing when the market is declining, very few want to remain in, and people have that sinking feeling in their belly of getting poorer, daily. We don't get to buy on discount in the market often. Few will look back when the S&P500 reaches above its December 2021 high of ~4,800 and regret buying at 3,600, 3,200, or 2,800 if it comes to that.

The information in this letter is derived from various sources, including CI Investments, Signature Global Asset Management, Cambridge Global Asset Management, Globe and Mail, RBC GAM, National Post, Bank of Montreal Economics, Yahoo Canada Finance, OilPrice.Com and Trading Economics. Index information was provided by Morningstar, TD Newcrest and Bloomberg. Eastport portfolio returns are net of all investment management fees but do not include an advisory fee. This material is provided for general information and is subject to change without notice. Every effort has been made to compile this material from reliable sources; however, no warranty can be made as to its accuracy or completeness.

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