# MARKET & ECONOMIC SUMMARY

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## MARKET SUMMARY

Fourth Quarter 2022

**S&P/TSX Composite TR**

| Q4 | YTD | 1 year |
|---|---|---|
| ↑6.0% | ↓5.8% | ↓5.8% |

**S&P 500 TR** (USD)

| Q4 | YTD | 1 year |
|---|---|---|
| ↑7.6% | ↓18.0% | ↓18.0% |

**MSCI EAFE GR** (C$)

| Q4 | YTD | 1 year |
|---|---|---|
| ↑15.8% | ↓7.8% | ↓7.8% |

**ICE Bof AML Canada Brd Mkt TR**

| Q4 | YTD | 1 year |
|---|---|---|
| 0.00% | ↓11.5% | ↓11.5% |

## FOURTH QUARTER HIGHLIGHTS

- S&P/TSX Composite hits 19 month low of 18,111.60 on October 12th
- S&P 500 hits 23-month low of 3,573.86 on October 12th
- Canadian dollar hits 29-month low of $0.7216 USD on Oct 16th
- WTI Oil drops 43.1% from June high hitting $70.08 USD on Dec 9th
- Bank of Canada increased overnight rate by 1.00% to 4.25% in Q4

## SUMMARY

Investors experienced a turbulent ride in 2022. Inflation, central bank rate hikes, oil prices, supply chain disruptions and the Russia-Ukraine conflict cast a long shadow on markets, causing extreme volatility and dominating financial headlines 24/7.

U.S., Canadian and global equities swung back and forth in 2022, one moment bullish and the next bearish. Equity markets posted back-to-back monthly gains in October and November with North American stocks up over 10%. Unfortunately, none of the rallies were sustained and Canadian, U.S. and global equities faded. The TSX Composite Index, the S&P500 Index and the MSCI EAFE finished the year down approximately 9%, 18% and 17% respectively in local currency terms.

In bond markets, U.S. and Canadian yields which move in the opposite direction to bond prices, rose during the first nine months of the year, before dipping slightly in Q4. Yields increased on expectations of more rate hikes by the Fed and Bank of Canada, the inflationary outlook and forecasts for slower growth. Yields then dipped on better inflation news in the second half of 2022 as well as on indications the market pullback now captures most of the re-pricing and downside.

Despite the market swings and uncertainty, there were positive North American economic indicators reflecting the U.S. and Canadian economies continue to be in relatively good shape. The unemployment rate in the U.S. and Canada remained low and job vacancies grew. Retail sales and consumer spending chugged along while house prices on both sides of the border cooled. As we headed into the second half of 2022, the CEOs of two major grocery chains said food prices had started stabilizing and a CEO of a large shipping company said supply chains are back to normal.

In foreign exchange markets, the Canadian loonie, dubbed a "petro-dollar" due to its close ties with the oil sector moved in tandem with oil prices. For the year, the loonie weakened against the US dollar but not as much as other major currencies. The Canadian dollar remains the best performing G10 currency relative to the US dollar, which has been seen as a buffer against rising interest rates. The U.S. greenback marked its best year since 2015.

U.S. inflation peaked at 9.1% during the summer, a 40-year high. Supply chain disruptions and rising energy, food and housing costs were the main contributors. Inflation then started to ease in the second half of 2022, cooling to 7.1% by year-end. This was driven by falling housing, healthcare and used car prices as well as less expensive gasoline, electricity and air travel. The Fed raised rates from 0% by 0.25% in March and then went on to make seven large hikes, including four straight 0.75% increases, its biggest since 1994.

In Canada, inflation headed north as well, hitting 7.7%, in Q2, its highest level since 1983, before cooling in the second half of 2022 and ending the year at 6.4%. The Bank of Canada also raised rates seven times, including a jumbo full percentage point hike in the summer. Bank governor Macklem noted it will take time for higher rates to bring inflation under control, but monetary policy is starting to have an effect.

> *"Inflation is moderating and employment strong but we may still face volatility as the economy wrestles with high debt levels and simultaneously high interest rates." – Matthew Jenkinson*

## STRATEGIC NOTES

A topic which is permeating the financial world is the elevated level of interest rates and the effect it is having on the lives of Canadian's. It seems appropriate to address some significant hurdles higher interest rates are creating and various ways to resolve the issue. Due to the systemically low interest rate environment we've enjoyed for most of the last two decades many people have taken on large amounts of debt. One particular area which affects most everybody is mortgages whether on a primary or a secondary residence.

Prior to COVID, according to the Bank of Canada, 19% of all mortgages in Canada were variable rate mortgages. Fast forward to July 2022 and that figure now stands at 30% as home purchasers chose the lowest possible interest rate to afford the monthly payment in a housing market with bubble-like characteristics. An additional factor in this equation is the Bank of Canada indicated numerous times during 2021 that interest rates would remain low for the foreseeable future with the first 0.25% increase coming in March 2023. Little did anybody know that in 2022 they'd raise interest rates by 4% over a 9-month period.

The problem is notably straightforward; mortgages are being issued at much higher new monthly payments, either from a variable rate mortgage hitting it's trigger rate or a mortgage coming up for renewal, in an interest rate environment that has mortgage rates above the stress test rate of 4.5% over the prior decade in a housing environment where buyers are waiting on the sidelines in anticipation of prices coming down all of which took place in an immensely short period of time giving little chance for mortgagees to prepare.

Our advice if you, a loved one, or friend is in this position is to lock in a mortgage for a shorter term while we wait for interest rates to come down from the central banks current restrictively high range. Pivot one's budget, pull all your levers, to be able to ride out the higher mortgage payment in the short term and for the housing market to at least stabilize and hopefully recover some from the panic the above factors have created. As always, we are eager to hear from you, please reach out for any help you need.

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