



## February 2023 Market Update

A good start to the year.

The investment term “January Effect” implies simply that as goes January, so goes the rest of the year. January 2022 was a down month for most equity and fixed income markets, and as we all know by now, 2022 was a very poor year for markets and our investment portfolios. January 2023 brought us solid, positive equity and fixed income markets, and we remain confident that 2023 will bring us a better year for our portfolios.

The market strength in January can partly be attributed to increasing signs that inflation is declining. This leads to increasing confidence that central banks aggressive interest rate hike campaigns may be coming to an end. The Bank of Canada recently increased rates by 0.25% and importantly added that they expect to hold rates at this level for some time. The US Federal Reserve should be near the end of their rate increases. A concern still facing the Bank of Canada and US Fed is the still-too-high cost of labour. The supply of available workers is still lower than the current demand for labour. This allows workers to demand yet higher pay, and this results in inflation remaining too high. With many companies beginning to lay off some of their work force, we may slowly see this labour imbalance start to improve.

Despite the strong start to 2023, we are not out of the woods quite yet. The sharp rise in 2022 of inflation and interest rates is now starting to slow the economy down, and with it, the revenues and profits of businesses – both big and small. The risk of a mild recession in 2023 still exists, but so does the belief that the economy will experience very slow growth but avoid going into a recession. Either result brings with it the need for businesses, investors, and consumers to carefully watch their balance sheets and monitor expenses versus revenues.

As investors, it is important to look at corporate balance sheets. So much has changed in the world over the past year, and changed rapidly. Borrowing money a year ago at 1% to buy another business is quite different today at 5%. We are now seeing examples of well-run, good quality businesses that are dealing with challenges to their operations due to rising costs, or higher interest rates, or supply issues. These challenges did not exist or were easily manageable just one year ago.

Change happens fast. As investors, we need to be willing and able to adapt to any changes when they occur. As we wrote last month, the several negative surprises of last year should not be obstacles this year. Yes, we may still see market-disrupting surprises, and these could come from geo-political events, rather than economic.

2023 has gotten off to a good start. Expect continued volatility in both the equity and fixed income markets this year. We can expect sell-offs in the market, and use market weaknesses to add to good investments. A turn for the positive is happening. This positive turn will not be smooth or easy, and we will hit speed bumps along the way, but the positive turn is ongoing.

Spring is near and the daylight is getting longer.

A few other non-market points:

- 1) We are in the process of preparing the realized capital gain / loss reports for those that it applies. These reports will be mailed to you as they become available. Please ensure to keep this report for your income tax.
- 2) Please be reminded that tax slips issued by CIBC World Markets will begin to be mailed out near the end of this month. This includes your T5008 packages, if applicable. T3 slips are due to be mailed throughout March and April. Please note that these tax slips will also be made available through your online access. Please contact Isabella if you need assistance with your online access.
- 3) We are also looking to host a series of in-person technology workshops this year. A few topics we will plan to cover include Wood Gundy Online, Digital Signature and Microsoft Teams. We will be providing more information on this series in the coming weeks.

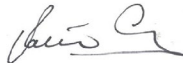
Please reach out to us at any time with questions, concerns, or topics for discussion.

As always, remain optimistic yet cautious.

**Best Regards,**  
CIBC Wood Gundy



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