



January 2023 Market Update

Good riddance to 2022 and welcome 2023!

Most investors are happy to say good-bye to 2022. Almost all areas of financial markets had a poor year. Equities, bonds, preferred shares, and commodities all struggled through 2022 and closed the year in negative territory. It was a rare year where both equities and bonds declined. The bond market had its worst year since 1975. For equities, the TSX300 finished the year down 8.7%, the S&P500 down 19.4% and the NASDAQ was down 33.1%.¹

For Canadian financial markets, particular weakness came from the traditionally lower risk bond and preferred share markets, as well as renewable energy companies, banks and REITs. The few areas of strength came from oil and natural gas companies. The energy infrastructure sector (power, utilities, pipelines) started the year well and pulled back late in the year. Some surprise to the sharp weakness in the renewable energy sector, but following Russia's attack of Ukraine, the focus of ESG issues has become a bit more secondary to that of energy security concerns.

We have regularly discussed the issues contributing to the weak year, which include inflation, rising interest rates, Russia/Ukraine, and China's Covid policies. 2022 began with high expectations from most investment firms; however, as 2022 unfolded it was clear that early forecasts were inaccurate. Inflation was not mild and short term. Interest rates expected to increase 1% went up 4%. Change happens fast. 2022 was full of change and surprises.

So, what do we do heading into 2023? The issues that brought surprises and change in 2022 still exist, but the surprise element does not exist. Inflation is certainly still with us, but most measurements of inflation are improving. Labor costs have yet to show any marked improvements, and these costs are usually one of the last to improve. Still, inflation should not bring about any surprises in 2023. Interest rates are near the end of their tightening cycle. Even if we get rates going up some more in 2023, the surprises should be minimal. If we do have an economic recession in 2023, this will not come as a surprise to the investment markets. Corporate earnings outlooks for 2023, like the stock prices, have come down. We go in to 2023 with a much more cautious outlook from analysts. If, in hindsight, the view a year ago was that equity prices were overvalued, then with the market decline, these equities may be undervalued (or at least less overvalued).

At the end of each of these market updates, we finish with "remain optimistic yet cautious". This phrase is very important heading in to the new year. For 2023, patience is a life skill that will be useful and necessary. We can expect investment markets, both equities and fixed income, to remain volatile to start the year. Though not impossible, it is very rare to see investment markets have two negative years in a row. As long term investors, we want to stay invested in good quality companies. With the current economic environment (inflation and possible recession), it becomes that much more important to focus on companies with solid balance sheets, solid revenues, low debt levels, and solid returns to shareholders (dividends and share buyback).

¹ Credit Suisse (<https://www.credit-suisse.com/ca/en.html>)

The past year was not fun or enjoyable for investors. It is important for us to remain focused on what we are wanting from our portfolios. Our net worth may have come down in 2022, but if investment income is what is important, and this has remained stable or gone up, then we are well positioned for what will come. No one knows when the next bull market will begin, but we will want to be invested appropriately when that time arrives.

Finally, and most important, is that one year – no matter how good or bad – does not derail or seriously alter your long term goals and plans.

A couple of other items:

- 1) Tax-Free Savings Account (TFSA) contribution limit for 2023 is \$6,500 or lifetime limit of \$88,000*. Please reach out to us to make your 2023 TFSA contribution.
- 2) Registered Retirement Savings Plan (RRSP) contribution deadline for your contribution to apply to the 2022 tax year is March 1, 2023. Please consider making your RRSP contribution.
- 3) Please ensure to wait until you have all of your tax slips before you file your income tax return. Issuers have until March 31, 2023 to provide their tax information to CIBC Wood Gundy. 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.
- 4) You should receive your 2023 RRIF payment schedules in the mail soon. Please ensure to review your 2023 RRIF payment details and contact us if you have any questions.

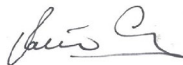
Please reach out to us at any time with questions, concerns, or topics for discussion.

As always, remain optimistic yet cautious.

Best Regards,
CIBC Wood Gundy



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*The annual dollar limit was \$5,000 between 2009 and 2012, \$5,500 in 2013 and 2014, \$10,000 in 2015, \$5,500 between 2016 and 2018, and as of January 1, 2019 the annual contribution increased to \$6,000 and for January 1, 2023, the annual contribution increased to \$6,500.