

March 2022 Market Update

Spring Approaches

The days are getting longer, and we look forward to warmer and sunnier times ahead.

As we discussed in the January update, inflation posed the biggest risk to the investment markets. The biggest tool a central bank has to deal with inflation is raising interest rates. Two months into the year, and we see continued rising inflation. The cost of almost everything continues to go up. Interest rates are about to start going up as well. The Bank of Canada has increased interest rates by 0.25% and the US Federal Reserve will do the same on March 16, 2022. Neither this interest rate increase nor the next, should have any impact on inflation, the cost of goods, nor most people's spending habits. What happens to rates late this spring and into summer is expected to start to dampen the increases in inflation. Economists are falling over each other with expectations around the number of interest rate increases. By the end of 2022, the guesses on interest rates increases range from 4 increases of 0.25% each (a 1% increase) to 7 increases of 0.25% each (a 1.75% increase). More increases to follow in 2023. My personal 'guess' on interest rate increases in 2022 is 4 increases of 0.25% each. Like everything else, my opinion can change at any time, and many times over. I also believe that central banks will be unable to raise rates to as high a level as they want.

Interest rate increases in Canada are expected to have a greater impact on the economy and personal spending habits than in the U.S. Since the 2007-2009 financial crisis, debt-to-income levels have increased substantially in Canada, while declining in the U.S. This difference has continued to widen during Covid. On top of that, workplace productivity is lower in Canada than in the U.S. Interest rate increases will hit the average wallet in Canada harder than in the U.S.

Though it is way too early to need to be concerned, one outcome often to occur at the end of interest rate increase periods is a recession. One of the goals of raising rates is to slow down growth. Raise rates enough times, and it turns into a recession. Not all periods of rising rates has resulted in a recession, but many have. When a recession has occurred, the average period of time after the first interest rate increase and the start of a recession has been 25 months. A topic for future discussions.

Top of mind to many people around the world is the horrendous invasion by Russia of Ukraine. It is mind-numbing to wonder what Putin is thinking right now, but certainly hope this Russia attack ends quickly and Ukraine casualties are minimal. The human impact is huge. In this writing we need to look at the possible economic impacts. An economic consequence of this invasion first and foremost is further increases in inflation. All commodities that Russia exports is at risk. Oil and gas certainly leads the way, but other commodities as well. Russia controls 46% of the global palladium. This is a needed commodity in catalytic converters in

automobiles. As of this writing, the ports in the Ukraine are closed. This will disrupt European supplies of wheat, corn, potash.

World sanctions against Russia started out very weak with some individuals and companies in Russia to be impacted, but minor deterrence. More impactful sanctions are slowly being introduced and we can always hope that these can cause enough economic pain to Russia to prompt them to step back. The more severe sanctions on Russia will also bring about more economic pain to Europe. Shutting down global banking access to Russia also prevents monies from Europe to go to Russia to pay for commodities, ie. oil and natural gas.

These economic issues at some point, must be a reminder for countries and their political leaders, to stop relying on other nations for their (cheaper) goods. Since 2004, European Union energy production has declined by one-half. The dependence on Russia oil and gas to support the EU has filled this gap. Russia now supplies the EU with roughly the same amount of oil and gas as the EU produces on their own.

Canada needs to learn some of these same lessons. Our reliance on the U.S. and Asia for many of our needs has increased over the past decades. All this, while Canada reduces exports of many goods to other countries which reduces our revenues.

As Ukraine is finding out, they receive emotional and financial support, but must fight this battle alone, against a bully out simply to increase its global power and dominance.

With domestic administrative issues, a few reminders for the current tax season:

- We are in the process of sending the realized capital gain / loss reports to those that it applies. Please ensure to keep this report for your income tax.
- You can retrieve your duplicate tax slips issued by CIBC World Markets once they are made available via your online access. If you need to be set up for online access, please let us know. Isabella will provide you with a USER ID and a temporary password.
- If you have recently changed accountants, please provide us with this information. We will need your permission to provide any details to your tax professional.
- Please ensure you have all your tax slips before filing. T3 slips can be issued up to March 31st, 2022.

Stay healthy and, as always, remain optimistic yet cautious.

Best Regards,
CIBC Wood Gundy



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