CIBC

WOOD GUNDY

CIBC PRIVATE WEALTH

November 2021 Market Update

Are We There Yet?

The ever-persistent question from our days of youth stuck on the eternal road trip with family. This same question can be a regular staple in current-day discussions. Are we at the end of the pandemic? Are we at the end of absurdly low interest rates? Are we at the end of the bull market? Are we at the beginning of the bull market? Are we in for sharply rising rates of inflation? The answer to these questions depend very much on where you want to be, and go, and where you are in your personal road-trip.

Regarding the pandemic - are you comfortable going to the theatre, sporting events, or travelling? Or not yet? Regarding interest rates - are you a borrower or a saver? Regarding the equities bull market - are you an optimist, a pessimist, or a cautious middle of the road person?

The outlook for the investment markets and the global economy are facing many unanswered “are we there yet?” questions. The economic recovery and growth of the economy coming out from the pandemic has been overall quite strong, but that recovery is showing signs of slowing down. One factor in this period of slowing growth is the ongoing supply chain problems. In times of steady economic activity, ‘just-in-time’ supply/inventory management works well. As we see today however, delivering supplies, goods, services, commodities from the stagnant starting line is not at all simple or easy. Connected to these supply issues, is the current energy shortage. With society’s desire to rid ourselves of fossil fuels and power our economy using only renewables, oil and natural gas production sees minimal to no growth. This has resulted in the price of oil increasing over 70% in the past year, and natural gas prices have doubled. In Europe, the speed to which they worked to switch from fossil fuels to renewables was so great, that Europe’s ability to meet its electricity requirements has been strained.

Every action or decision we make can result in unintended consequences. The move towards electric cars will require more copper and lithium mining and steel production. The increase in building wind turbines will require more copper mining and more rock quarries and cement manufacturing.

Supply chain issues combined with higher energy prices, and a shortage of many commodities used in our move to renewables, brings us to another hot topic issue – Inflation. All of us have seen (and paid for) higher prices in almost everything we consume or use on a daily basis. An often asked question is whether the spike in inflation is short term (I hate the word ‘transitory’) or more permanent. I will suggest that the current spike in inflation we are experiencing is some of both. As the global economy, manufacturers and shippers rebuild back up to a level viewed as more normal, some of the higher costs due to supply constraints should ease. This may take until Spring/Summer of 2022. I would also suggest that the current higher energy prices will remain for a longer period, though some regions of the world may have to increase their use of fossil fuels for longer periods simply to heat homes, and run businesses. Still, some of these cost increases will remain more permanent. The higher cost of labour will remain more permanent. We haven’t even started to discuss increasing costs and taxes brought on by our governments. CPP

premiums, property-taxes, costs to use a number of government services are all increasing and not covered in the official rate of inflation.

There has been some discussion with financial media around stagflation. Quite simply, this is defined as higher inflation, higher unemployment, and low GDP growth. Comparisons have been to the 1970s. To be blunt, our current situation is nothing like the 1970s. That period of economic debacle is not coming back.

This then leads us to the investment markets. We have seen tremendous capital appreciation since May 2020. The recovery in our portfolios from the pandemic collapse in March 2020 needs to always be remembered. It is important to never panic. The recovery and strength in our investments of the past 19 months are valuable and will provide more financial benefits for our future plans. Most of the 'easy' money in the equities markets has been made. Positive market returns will require more work heading in to 2022 and 2023. No worries – there is no recession on the horizon. It will, however, be more difficult to see portfolios grow at rates 10% or higher. We will need to scale back our portfolio growth expectations to more realistic, or 'normal' numbers.

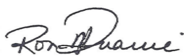
Current expectations are that the Bank of Canada and the US Federal Reserve may begin to raise interest rates come the Summer of 2022. The start of rising rates should not be too painful as the starting point (where bank rates are right now) is basically 0.25%

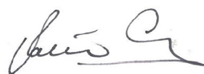
Still, rising interest rates can bring challenges to both the stock and bond markets. Investors must be aware of heightened risks sometime next year. Balance our risks and rewards expectations. A wise person once said "making predictions is difficult – especially about the future."

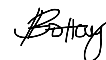
We have about six weeks remaining in 2021 (wow!). We will be reviewing with each of you, any realized capital gains or losses taken during the year.

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

Best Regards,
CIBC Wood Gundy







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