October 2023 Market Update

Say good-bye, thankfully, to the end of September. One of the many seasonal market timing theories appears to be holding true this year. This seasonal theory is that market weakness begins in August and shows September as the worst month of the year. After a positive start to July, equities and bonds experienced turbulence and more volatility over the past 2+ months. September showed itself to be the weakest month of the year. If this seasonal theory continues to be accurate, a market bottom should be found in October and a strong rally into the end of the year.

Investing can be a humbling experience in the short term. You can have the proper investment thesis, but being right does not always hold in the short term. The long term, however, should result in the proper fundamental investment thesis prevailing. Things should play out as you would expect them to. What is the primary factor to allow equities and bonds to prevail? Interest rates. Both equities and bonds should see better returns once the Bank of Canada and US Federal Reserve are showing signs of easing rates.

We are at the top of the interest rate cycle. There is still some thought that either, or both, the Bank of Canada or US Fed will need to raise interest rates a further 0.25% to offset excessive government spending and rich labor contract awards. In the US, the UAW demands have re-built the labour inflation wall of worry. The other side of the argument is that the interest rate hikes made to date are sufficient to slow down the economic excesses enough. The interest rate and economic debate concludes with the topic of when interest rate cuts will begin. The camp that calls for a further 0.25% rate hike argues rate declines will start at the end of 2024. The camp that argues for no further rate hikes, thinks rate declines will begin in the Spring of 2024. In very simple terms, this debate comes down to another 0.25% interest rate hike, or no hike. Then a 6 to 9 month disagreement on when interest rate declines will begin. Not really a huge difference, but wow, does this ever create market volatility. Volatility is here to stay for the foreseeable future. If we continue to focus our investing with a long-term horizon, volatility is smoothed out.

As we mentioned in the August update, there are several political elections in the coming 18 months. Though political noise should have limited influence on our investment decision making, this noise can (and will) increase market volatility. Both the Bank of Canada and US Fed may need to integrate political dysfunction into their interest rate decision making process. Politics that instills fear into an individual's financial confidence and future economic outlook will result in a decline in economic growth, and may result in interest rates coming down sooner. Governments that unnecessarily spend/waste taxpayer/borrowed monies can be inflationary and result in interest rate cuts starting later.

An often recited phrase over the years directed at politicians has been "It's the economy, stupid." This refers to the need to have a strong economy in order to pay for the necessities of health care, public safety, welfare, infrastructure, etc. Without a solid economy, there is less money to pay these bills. In the past number of years, we are starting to see governments (both left and right on the political spectrum) attempt to re-shape the economy based on their own strategic ideas and beliefs. In these attempts to re-shape, there appears to be minimal to no concern for balancing revenues vs. expenses. Nor any consideration of potential economic consequences of the politically based intervention. Thirty years ago, these political interventions into the economy were rare, today they are becoming more common. Understanding and recognizing the importance of the economy must return to all political discussions (okay – there was my political rant).

Back to the topic of investing. Both inflation and interest rates are at their peak and turning the corner to eventual declines. This is a positive for both equities and bonds (and the economy). Investors will be rewarded for patience and a focus on the long term investment horizon.

In preparation for year-end, we will be reviewing with you your realized capital gains and losses to see if there is anything that could be done to reduce tax liabilities before the end of the year. Also, please be aware of any CRA deadlines for tax benefits such as RRSP contributions, RESP contributions, etc.

As always, remain optimistic yet cautious.

Best Regards,
CIBC Wood Gundy

Ron A. McQuarrie
Senior Wealth Advisor
250 361-2267
ron.mcquarrie@cibc.ca
linkedin.com/in/ron-mcquarrie

Valerie Charron, FMA
Financial Associate
250 361-2266
valerie.charron@cibc.ca
linkedin.com/in/valeriecharron

Isabella Bottay
Administrative Assistant
250 361-2268
isabella.bottay@cibc.com