DON'T LOOK BACK

FEBRUARY 2023

By Brahm Satov

Quite some years ago, my wife surprised me and got us tickets to see Boston, an American rock band formed by Tom Scholz. I really enjoy their popular hit, "More than a Feeling", and I must admit when I hear it, most often I sing along. I digress, but they also perform a song entitled, "Don't Look Back". I believe this song's title is apropos when thinking about the last year, 2022. History is important and we should strive to learn from it. Some may not want to look back, given the performance of many investors' portfolios for last year, with the NASDAQ down about 33%, the S&P 500 down almost 20% and the TSX lower by just under 9%. In addition, most mutual funds had a dismal performance and even the top 5 Canadian banks finished down, on average down more than 15%, with only one down just over 5% and two down over 25%!

Since I do like to look back, in the 2007/08 financial crises, I remember using Bed, Bath & Beyond (BBBY) as a gauge, to see how things were going at the consumer level and to provide some insight into the economy. I am less certain we will be able to use BBBY for that this time around, as the WSJ on 1/5/2023 reported that they face a potential bankruptcy filing. In the Great Financial Crises, BBBY stock fell by about 50%. It may be important to note that as I write this, BBBY stock is down over 80%. If we do use this as a harbinger of what is to come, better to be prepared for a serious downturn.

Jan Hatzius, head of Goldman Sachs Research and the firm's chief economist, (and I should add, well-regarded for many of his past forecasts), said in a webcast on January 11. 2023, he expects a V-shaped recovery and that he sees only a low probability of recession.

(Source: https://www.goldmansachs.com/insights/podcasts/episodes/01-11-2023-hatzius-wilson.html)

I am not so certain and I would contend that we are currently in a period of stagflation, higher than normal inflation, and slow or slowing growth. If you are feeling poorer over the last while, you are not alone. During periods of stagflation, it is normal to see earnings not keeping up with standard of living costs. Moreover, as central banks raise rates, they slow the economy, and this could tip it into recession and historically, it often does. Of the last 14 rate hike cycles, 3 concluded in a soft landing, or about 21%, that means 11 of the last 14 rate hike cycles landed in a recession or just about 80%! So, if you are betting on a soft landing, the odds are not in your favor.

THERE HAVE BEEN 14 FED HIKING CYCLES, 11 LANDED IN RECESSION!

First Hike	Last Hike	Result
October 1950	May 1953	**Recession**
October 1955	August 1957	**Recession**
September 1958	September 1959	**Recession**
December 1965	September 1966	Soft Landing
November 1967	June 1969	**Recession**
April 1972	September 1973	**Recession**
May 1977	March 1980	**Recession**
August 1980	December 1980	**Recession**
March 1983	August 1984	Soft Landing
January 1987	May 1989	**Recession**
February 1994	February 1995	Soft Landing
June 1999	May 2000	**Recession**
June 2004	June 2006	**Recession**
December 2015	December 2018	**Recession**

Source: Rosenberg Research

I am not saying with 100% certainty that we are heading into a serious downturn; I am saying that the probability of one is higher than normal and therefore I believe you should be positioned with that possibility in mind. Furthermore, most of those who are calling for a recession, and that number is growing, are saying it should be short and shallow. However, given that inflation is still above target, I would suggest that the many tools used to fight recessions are presently less available, so that if a recession does take hold, it could be longer and deeper than many expect.

Given the pull-back last year and rise in rates, we are seeing pockets of value. Moreover, we still have about a 20% chance that the economy does not suffer through a recession. Keep in mind that recessions are a normal part of the economic cycle. I expect investors will be encouraged and perhaps even emboldened by the end of the rate hike cycle and markets could rally on this. However, this exuberance may end badly given the lagged effects of this tightening cycle, as the economy may slow more than expected especially given the aggressive hikes coupled with quantitative tightening.

Since the beginning of the year, we have seen yet another considerable rally, it looks like many are expecting a very soft landing, for those who choose to look back, given the shape of the yield curve, the direction of many leading economic indicators and the probability of recession, I continue to believe that it makes sense to remain cautious at this time.

Thank you for taking the time to read this, please feel free to e-mail me any feedback or comments.

Sincerely,

CIBC Wood Gundy

Brahm Satov

Investment Advisor

Portfolio Manager

905 762-2249