

WOOD GUNDY

PREPARE FOR THE WORST, HOPE FOR THE BEST

March 2022

By Brahm Satov

We, in North America have become accustomed to stock markets going forever higher as this has been the case for quite some time. However, it appears that something has changed recently as stock markets have not only been more turbulent, but also trending lower. I do not believe that war, or the threat of it, was the reason for this. Everyone prefers when stock markets are trending higher, including me. However, in periods when the stock markets go down, and the portfolios I manage do well, those are the times I am most proud of in terms of the work that I do.

It continues to be my opinion that over the last many years, central bank intervention has helped markets perform far better than they otherwise would have. Now that the central banks are slowly removing some of the stimulus, I do expect this to be difficult for equity markets to digest. I would compare it to giving a runner steroids for years and then start to take them away, as you take them away, you would expect him to slow and the same would be true for the economy. Furthermore, when the economy is moving quickly, growing if you will, then companies tend to do better, and in this environment the value of these companies generally appreciate, stock markets do well. With all of these years of stimulus and as a result North American stock markets going higher, they have become expensive, overvalued. And overvalued stock markets generally do not perform well in an environment where growth is likely to slow. Remember that adage, buy low, sell...

I wish my grandmother was here to read these newsletters, if not just for the titles or the times that I refer to her. The title, a well-known adage, she would repeat from time to time, not quite a mantra, but certainly something she believed in. Keep in mind she lived through the great depression, she would have been considered a hoarder, keeping newspapers, fake jewelry and everything else, but she was the person who gave out sandwich bags to those who looked hungry through that difficult period. Perhaps those stories need to be remembered. My dad, Malcolm Satov, would remind me that it is not what you say you are going to do, it is what you do, let your actions speak.

It is early morning as I write this and I heard once again on BNN that investors should be using this sell-off in the equity markets to buy on weakness. I would like to be clear, that I do not share this view. It is not that the markets will not experience a bounce, they will, but to buy something that is already overvalued, in a slowing economy, hoping it rises and then to sell it at a particular moment in time, is much more difficult in my opinion than buying assets when they are cheap and selling them when they are not.

Please keep in mind, that in addition to this pivot to a hawkish bias by central banks, which alone would be suffice to become more defensive, the markets also have to contend with political uncertainty and the fear of war which could put even more pressure on stock markets. Generally stock markets do not perform well as uncertainty rises. I do not know if this war will be prolonged, but I would expect higher oil prices coupled with higher mortgage rates, to impede on consumer disposable income and this could be expected to put downward pressure on the economy and subsequently, stock markets. I believe we are in a phase of the market of heightened volatility, and in this market it is probably prudent to hold more cash, in that same regard I would reiterate that if you have not already, then it may be time to consider getting defensive.

For all of you who provide feedback on my monthly newsletters and take the time to read them, thank you.

Sincerely,
CIBC Wood Gundy

Brahm Satov
Investment Advisor
Portfolio Manager
905 762-2249

This information, including any opinion, is based on various sources believed to be reliable, but its accuracy cannot be guaranteed and is subject to change. CIBC and CIBC World Markets Inc., their affiliates, directors, officers and employees may buy, sell, or hold a position in securities of a company mentioned herein, its affiliates or subsidiaries, and may also perform financial advisory services, investment banking or other services for, or have lending or other credit relationships with the same. CIBC World Markets Inc. and its representatives will receive sales commissions and/or a spread between bid and ask prices if you purchase, sell or hold the securities referred to above. © CIBC World Markets Inc. 2022.

CIBC Wood Gundy is a division of CIBC World Markets Inc., a subsidiary of CIBC and a Member of the Canadian Investor Protection Fund and Investment Industry Regulatory Organization of Canada.

The enclosed research report is not prepared subject to the disclosure requirements under the IROC Rule 3400.

If you are currently a CIBC Wood Gundy client, please contact your Investment Advisor.

These calculations and projections are for demonstration purposes only. They are based on several assumptions and consequently actual results may differ, possibly to a material degree.