CIBC PRIVATE WEALTH

"LIVIN' ON A PRAYER"

October 2023

By Brahm Satov

For those who still think we are going to get a soft landing, I do hope that you are right, but based on history that probability is low, very low. Moreover, for most who work in sectors that lead the economy, like real estate, (such as a realtor or a mortgage broker), you probably already realize that the economy has softened. However, for many watching BNN, listening to central bankers, or reading some economic literature they may not yet be in the loop. As it seems many have a false hope that central banks are going to pull off something that they rarely do, a soft landing. When we were young, we went through some tough times, times when my mom would be embarrassed but still have to remove things from the check-out counter at the grocery because we could not afford it. I recall these difficult economic times and am reminded that the economy is a cycle, it is normal to go through phases. Look my parents did not save in the good times and prepare for the more difficult periods. Many people have become house rich and cash poor, many are living paycheck to paycheck, many have become dependent on two incomes to get by and others have too much debt. I would respectfully suggest that if possible try to make changes to be as prepared as possible as I believe that the probability of a downturn is high. Thank you to Bon Jovi for the title, "livin' on a prayer".

I realize that it is not popular to continue to forecast a recession, but thankfully this is not a popularity contest. I remember when I was forecasting the 2007 recession, that also was not popular. Look I see it as my job to protect capital or lower exposure to risk when risk of correction is high. Some have experienced 40 or 50% corrections in their portfolios, this can be devastating. I am thankful that I never have. We know that when central banks are raising interest rates, based on history since 1950 the probability of recession is better than 78%, however when the yield curve inverts and the inversion is both persistent and pervasive, like it has been, to my knowledge we have never had a soft landing, ever.

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

Many have asked recently so where is the recession? I looked at recent recessions (post 1950), and concluded that it takes on <u>average</u> 26 months for a recession to arrive once the yield curve inverts, we have not even hit month 20 yet. Also, the stock markets usually start to correct before the recession formally arrives.

I was reading David Rosenberg's daily research not long ago, and he reminded his readers that if the 10 year bond yield closes higher this year, that would mark three years in a row whereby the 10 year bond had a negative return and that this has not happened since 1928. (As I write this, the 10 year yield is higher than at the start of the year, so it does look like we can have 3 years in a row, of the 10 year bond with negative returns). Following 1928, the S&P had four years in a row of negative performance (1929-1932).

The stock markets are a market of stocks, when we invest in the stock markets, we are investing in those companies, those businesses. Everyone knows this, but I am not sure everyone gives it real thought. Most of these businesses have debt so when interest rates rise, this cost for them does as well and companies with more debt, really feel the pinch when we see the cost of capital rising like it has. It should be expected to see earnings fall. Similarly, disposable income for the average family also falls as they are paying more for their mortgage. Although it takes a while to filter through the system, consumer spending eventually slows and this is like a one two punch to companies as they see their costs rise as their sales slow, and earnings impacted. When corporate earnings are falling, it should be expected to see markets also go lower. I believe the economy is slowing down, and in this phase, I expect real estate volume to decline meaningfully and for us to start hearing about hiring freezes. That is companies saying we are not adding to our employment base. It is only once in the recession that I expect employers to really start divesting of employees. So if you are listening to the unemployment rates and looking for signs of recession, I believe it is akin to looking in the rear view mirror. We have been through an extended period of a bull market, but bear markets are a reality and they can be challenging, dare I say, tough, so tough. Most of the time, it makes sense to have considerable exposure to the equity markets, but sometimes that is not the case. I continue to believe that the probability of a recession is high, and as such we should be prepared.

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

Sincerely,

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