CIBC

ONLY JUST BEGUN

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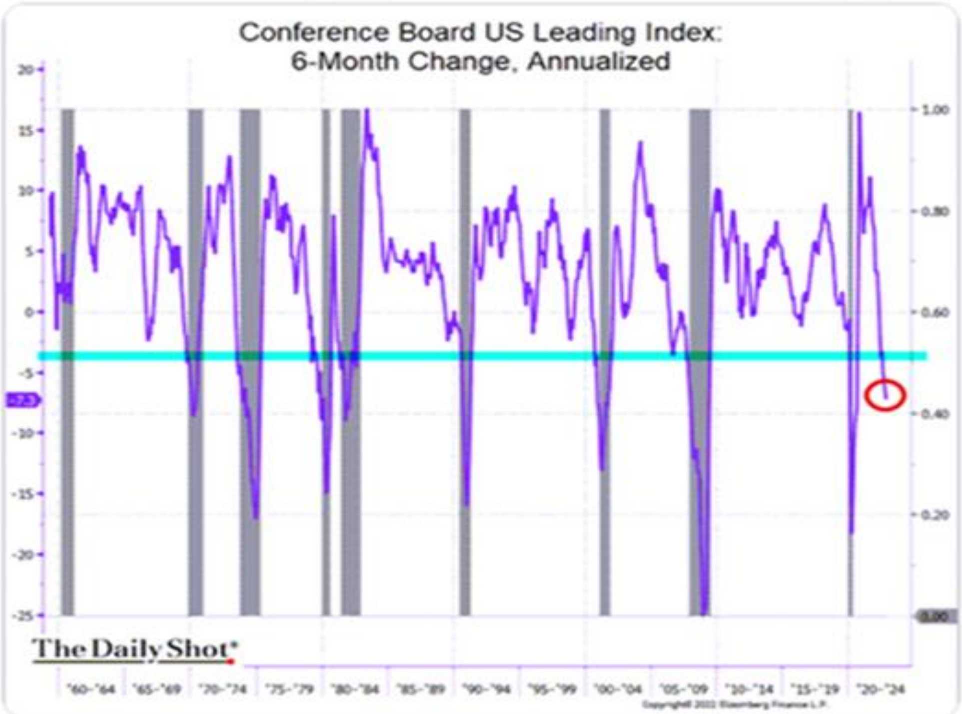
My family moved quite a bit in my younger years, and I recall that I had just started at a new elementary school and my entire grade was practicing a song for one of the school events that year. The song was entitled, "Top of the World", by the Carpenters. The music teacher had told us to sing as loud as we could, and I certainly felt like I was doing my part. That is until she told everyone to stop singing, pointing me and only me out, she asked me to sing quieter. Needless to say, I was extremely embarrassed, and if it was not clear before that, I knew I would never be a professional singer. It is a wonder that I still enjoy music from the Carpenter's. But with Karen's soft, magical voice, I still listen to their music, albeit that song, is not one of my favorites. In any event, the title of this newsletter is from one of my favorites of their songs and also my belief in terms of the correction in regards to the stock markets, "Only Just Begun".

In terms of this economic and stock market correction, I believe we have only just begun. And I think it is unlikely that we see a V-shaped recovery to new highs in short order. Unlike the 2007/08 crises, inflation is now an issue and therefore it is less likely that rates can be lowered as soon as things get a little difficult economically. Moreover, once central banks do start to lower rates, it takes about 10 months for the economy to feel its affects. So, I expect that at least for most of 2024, it has a good chance of being a difficult year for the economy and equity markets. Having said that, I do expect it to be a good year for other markets, such as high-grade bonds, gold, and safe haven currencies, and again, for those holding GIC's, some with a 5%+ yield, they are probably feeling pretty good right about now as they wait for those to mature.

Since 1928, the S&P 500 Index has only fallen for two consecutive years four times, only four. That means over the past nearly hundred years, the S&P rarely had two years in a row of negative performance, however every time it did, the downturn in the second year was always worst that the first. (Source: Bloomberg, S&P 500 Facing Historical Warning, Patrick Barnert). Some may surmise that I am too pessimistic, too bearish, and they may be right. However, presently the 6-month decline in the US Conference Board Leading Index has never been this large without a recession.



Something else to consider, is the yield curve, it could be argued that it is the best leading indicator, and presently it is flashing more than just a danger sign, given the depth of inversion (the most in more than 4 decades), across the curve and its pervasiveness, it is lending support to the likeliness of recession. Furthermore, if memory serves me, over the past 50 years every time the 3-month and 10-year inverted, a recession ensued, and it is currently inverted. Moreover, the yield on the 10-year bond recently fell below the rate paid by the Fed on bank reserves. Presently, there is not merely an inversion between the 2-year and the 10-year bonds, nor even the 3-month and 10-year. Now the overnight and 10-year bonds are inverted. That means you get a higher rate to lend for a day than the 10-year rate! Some could construe this as the bond market, which is much, much larger than the stock market, and I should add, in my opinion more sophisticated, telling us that the economy is not in good shape.

Some may recall that I wrote in April 2022, before the markets really started to tumble, "Better too Early than too late" when it came to preparing for difficult stock markets. So, for those who have not started preparing for a recession, they may want to give it some thought. One more thing, as I feel like I am on a roll, although North American markets have so far, always bounced back, other global markets have not, and even if domestic markets eventually do come back, it could take years. Although I have heard some say that the downturn is already behind us, I do think it unlikely given that the economy will likely feel the aftermath of higher rates in the months ahead. We are already starting to see layoffs and weakness in the housing sector, not good signs for the economy nor the markets. I hope that I am wrong, but I do believe that in terms of this correction, it is not over yet, in fact, we have only just begun.

Happy New Year to you and your families. Thank you for taking the time to read this, please feel free to e-mail me any feedback or comments.