CIBC CIBC PRIVATE WEALTH

MAY THE FORCE BE WITH YOU

May 2023

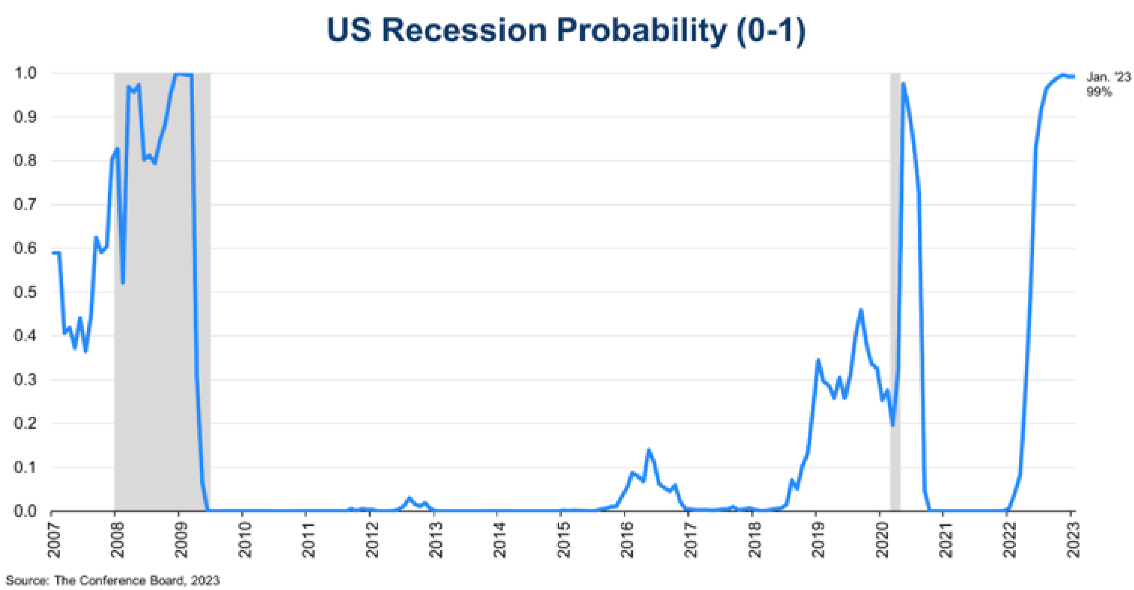
By Brahm Satov

May is known as the month of transition. For those of us in the Northern hemisphere, we get to feel the warmth of the sun once again, and the return of the birds and flowers as nature starts to bloom. Those who read my newsletters, last May, I shared that May is the month of my sisters' birthday. It is also on a special day, which I believe they call it "Star Wars Day" (or "May the Forth be with you" for the George Lucas fans). For the many who either don't remember last May, or perhaps chose not to, it was a very difficult month for the markets with the S&P falling by about 3.5%. Many are familiar with the saying, "sell in May and go away." So far this year, stock markets have rallied. Although, it would be very nice to think that the economy is improving, the irony is that the equity markets have rallied as we have seen bank failures, higher interest rates as well as lower earnings. I hope that I am wrong, but to me, it sounds like we are once again in a situation where hope and perhaps irrational exuberance are playing a role in this market upswing.

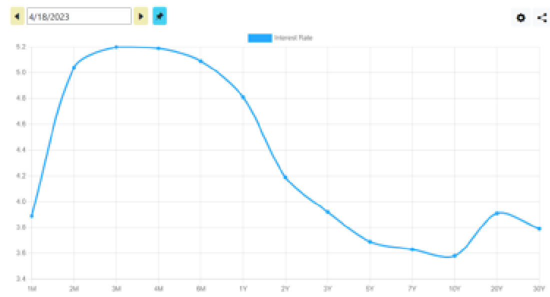
Let me be clear, the probability of recession has been rising. Stock markets do not do well in a recession. When the yield curve's inversion is pervasive and persistent, the probability of recession is said to be high. According to Rosie, aka David Rosenberg, a very well-respected economist, the spread model is showing a 99.2% chance of recession (BWD 4/19/2023). In terms of the fixed income market, it is unusual to see a 3 month yield at about 5% (annualized), when 10 year maturity yields are about 3.6% annualized. That is not normal, usually the longer you lock in your investment, the greater the yield. The inverted yield curve is often a harbinger of a recession. Even the conference board, which has an over 60-year history of correctly predicting recessions, is saying the probability is near 100%. In addition, for those who think defensive stocks do well in recession, I would suggest that they double-check to see how those stocks fared in the past. I would surmise, poorly.

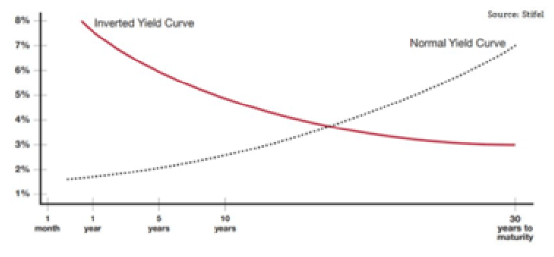
It is far easier to invest when the economy is healthy and improving and central banks are dovish, but that is no longer the case. They call it an economic cycle for a reason, it is indeed a cycle. I would suggest that it is important to realize where we are in that cycle. It seems to me that the markets gets this wrong, time and time again. In other words, we get many of these large bear market rallies or what some call 'Fool's Rally's', in an economic environment that I think most would agree would be weaker than normal with many leading indicators pointing to weaker times ahead. It seems to me like we have more and more less sophisticated investors buying things like Bitcoin and stocks with poor fundamentals, and this helps create these rallies for a while. But like all bear market rallies, they tend to end with a correction, the timing of which is difficult to forecast. I want everyone to do well in the markets and history has shown us that buying great businesses can create phenomenal returns over time. Nonetheless, given the risk of recession, I continue to recommend a cautious approach, but no matter which approach you employ, May the Force be with you.

Conference Board Probability of Recession



US Treasuries Yield Curve





Source: https://www.ustreasuryyieldcurve.com/

Inversion of Yield Curve (3-month vs 10 year)

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