CIBC PRIVATE WEALTH

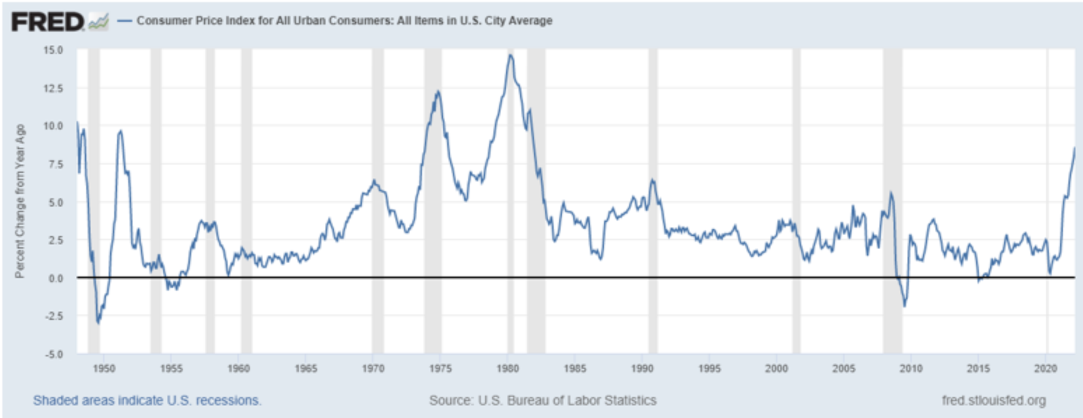
HEADWINDS

May 2022

By Brahm Satov

May is the month of my sisters birthday, so happy birthday to you. It is also the month where the days feel like they are getting longer, the sun shining brighter and I am thankful for this change. Change has been my theme of late, as the markets have gone through a considerable change over the past many months. My belief is that at least for now, the tailwinds that were pushing the markets higher are turning into headwinds, and that will likely make for choppy markets, to say the least.

Those headwinds, include a hawkish tilt at the central banks (as they have gone from ultra-low interest rates to a path of higher rates) as well as quantitative tightening (QT) as well as others. Keep in mind, that in response to the economic downturn associated with Covid and the near shut down of many economies, we saw unprecedented stimulus injected into our respective economies. As a result of these massive, unprecedented, economic stimuli, the economy accelerated, (some may say it got too hot), consumer spending picked-up, home sales and prices rose, and it should come as no surprise, inflationary pressure started to move higher. However, part of the inflationary pressure we are seeing today is because of supply constraints in China, Ukraine and Russia. As such, inflation is not only running very hot, but at least part of it, is unlikely to be subdued with higher interest rates or other available tools. (In other words, the supply constraints due to Ukraine's inability to supply the natural gas or wheat it normally exports will not be remedied by a change in fiscal nor monetary policy.) I expect this to make it much harder for central banks to implement the right mix of policy to calm inflation and create a soft landing. I am not saying it is impossible, just less likely. As such I continue to suggest a more defensive stance when it comes to stock markets.



It has been my opinion that central bank liquidity coupled with very low rates had been keeping stock markets higher than they otherwise would have been. So it would make sense that higher interest and the end of quantitative easing, should act as a catalyst for weaker stock markets. In other words, from tailwinds to headwinds. It continues to be my opinion that a more defensive posture should be considered.

Sincerely,

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