CIBC PRIVATE WEALTH

HOLD YOUR HORSES

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By Brahm Satov

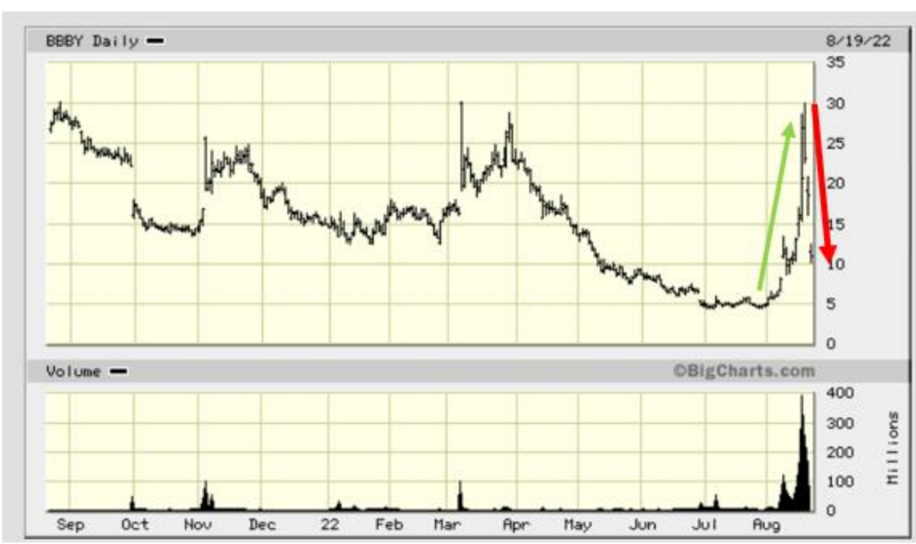
The stock markets of late have certainly been volatile, so for those who like rollercoasters when it comes to their finances, hope that you are enjoying the ride. I don't like rollercoasters; my preference would be to relax and hold more cash and be patient. In essence wait for a better entry point and not ride the markets lower or as some have put it, put on your hardhat and hope for better days.

Source: https://tradingeconomics.com/canada/stock-market

As you can see by the chart above, the TSX index has been volatile for the past year or so. It is negative both year-to-date and year over year and the US markets have fared even worse. This has been a tough equity market for most. The green arrows above, I would consider reflexive rallies, and although some have been quite strong, in my opinion this is part of a bear market, a stock market that is trending lower. So I continue to suggest caution.   Many would agree that most of the time stock markets trend higher, (as companies grow and profit over time), however occasionally the opposite happens. I believe that we have a very high probability of recession and if this turns out to be true, the stock markets could be in for further downside, perhaps more than most anticipate. So for those investors that have become accustomed to buying on weakness, you may want to hold your horses.

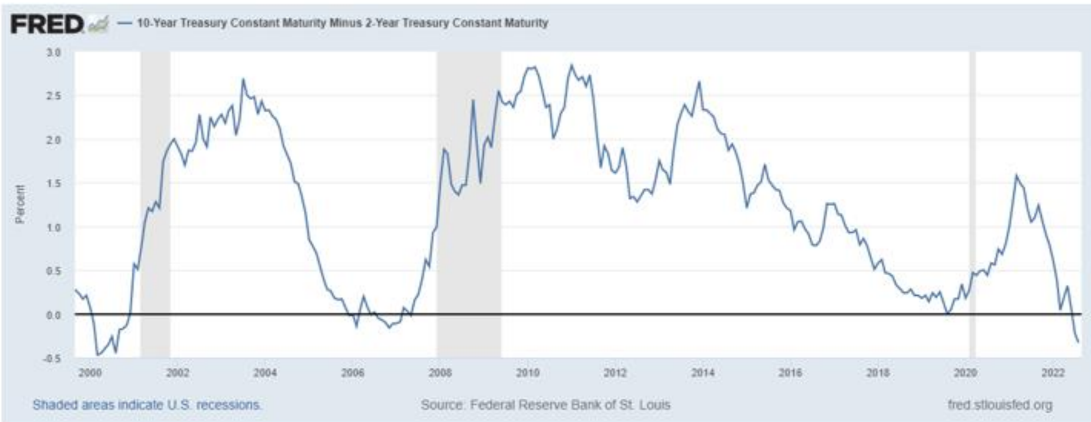
Given the massive amount of stimulus that was injected, stronger reflexive rallies should not be surprising. And reflexive or bear market rallies are normal. Moreover, it is my contention that over the past few years the equity markets, the stock markets, have become less efficient if you will, as more novice investors have entered. We have seen Bed, Bath and Beyond (BBBY) stock explode higher and fall back to earth, yet the company has not made a profit in years. In less than a month, the stock price rose from $5 to $30 and is now back to about $10! By the same token, we have seen cryptocurrencies, NFT's, SPAC's and meme stocks follow similar patterns of rise and fall. This, in my opinion, is not a coincidence. Now that central banks are removing stimulus and raising rates, I expect less liquidity in the markets and for investments such as these to have difficulty as long as rates remain elevated and money supply more constrictive.

Bed Bath and Beyond Share price chart



Source: Big Charts

The bond market has remained steadfast in terms of what it is signaling for the future. Some may not know that the bond market is much bigger than the stock market and most bond investors tend to be well, shall I say, more sophisticated. Given the shape of the yield curve and its persistent inversion, it would be safe to say that the bond market is signaling difficult economic times ahead.



To be specific, usually an inverted yield curve means that the 2 year bond has a yield that is higher than the 10 year bond. Think about this for a moment, if you lock in your investment for 10 years, you get a lower interest rate than if you lock it in for 2 years. Obviously, this does not happen normally. In North America, it is common to see the yield curve invert before recessions, generally the deeper or longer the inversion, the more likely the recession. In the chart above the grey bars are recessions. Whenever the blue line pierces the 0, the yield curve is inverted. As can be seen, since 1999 we have seen a few inversions, and most often recessions followed soon afterwards. It is possible however, to have an inverted yield curve and not have a recession, often called a soft landing, but I would say the odds of that are low.

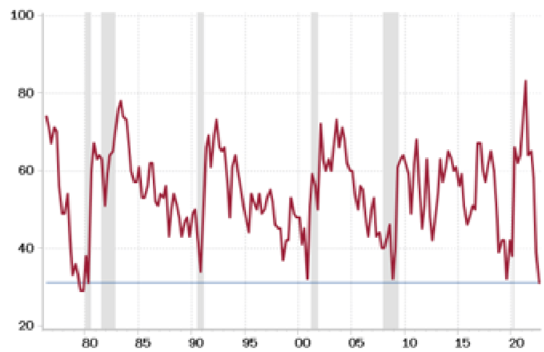
It is not just the bond market that is flashing a danger signal. Housing, a great leading indicator, is weakening and not just in Canada, where home prices have fallen and volume plummeted. In addition, the FIBER index is now at a level that historically has been 100% consistent with recessions. And although politicians may think a recession is not in the cards, it appears as if CEO's are concerned as that index is also consistent with recession.

FIBER Weekly Leading Index Growth Rate

Shading indicates recession
Source: Haver Analytics, Rosenberg Research

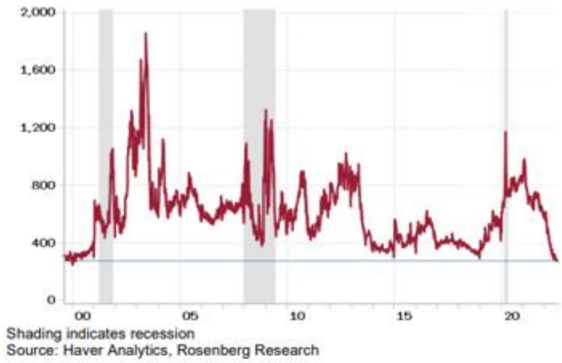
CEO Business Confidence: expectations for the Economy 6 Months Ahead

(over 50 is positive)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

MBA Mortgage Loan Applications Volume Index



I would like to thank David Rosenberg, my friend and well-known economist, for many of the charts. I would also like to thank the people I work with, I do appreciate your trust. Even though at this time for most, we hold far more cash/GIC's than usual, not very exciting, I do think at this time, it is prudent to be positioned in this manner. As it is my belief that we will have an opportunity to reinvest the cash into great stocks at far better value. Keep in mind, many have become accustomed to markets selling off, and central banks coming to the rescue with another stimulative policy, and then markets recovering to new highs. In a benign inflationary environment, this could be expected, but this is no longer the case, which is another reason why these sell-offs are likely part of a bear market. So no hurry to rush into a market that will likely see further downside, in other words, hold your horses.

Sincerely,

CIBC Wood Gundy

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