

# September E-Letter

Dear Clients,

In this newsletter we will be covering recent developments in the financial markets, discussing key topics of interest, and bringing you engaging content and advice from the world of financial planning.



## Market Update

Over the last month, the S&P 500 was down 4.18% and the TSX was down 0.45%. We saw steady declines in stock prices through September, but in the first week of October the S&P 500 is up 4.96% and the TSX is up 4.02%.<sup>1</sup> The market improvement this week has sparked a debate if we are seeing a short term relief rally or a more sustainable change in direction to the upside. Part of the reason we have seen strength return to the markets this week is because the Bank of Australia increased interest rates by less than expected, while the Bank of England has suggested less interest rate hikes are on the horizon. This has given the market hope that US and Canadian central banks will follow suit and ease up on future interest rate hikes. However, we have not yet had any direct evidence from Canadian and US policymakers that this will be the case.

Morgan and Taylor Advisory  
Group- CIBC Wood Gundy  
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5 minutes

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#### WE HAVE BEEN HERE BEFORE

“But this time it is different”. We have heard this phrase many times in the world of investing.

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What's on the Horizon?

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Regular reminders of information throughout the year.

<sup>1</sup> Data from Thomson One  
Morgan and Taylor Advisory Group - CIBC Wood Gundy

## We Have Been Here Before

Dave Morgan

“But this time it is different”. We have heard this phrase many times in the world of investing. I will agree that it seems different this time but in the fullness of time we will look back and say the names are different, but the result wasn’t. Markets will recover over time.

Equity and fixed income markets around the world have spent the better part of 2022 in correction mode. This is something we have not experienced in decades. From a portfolio management point of view, it has been challenging. A portfolio manager utilizes fixed income in a portfolio to manage volatility. If the fixed income portion is declining along with the equities in the portfolio it will be and has been painful.

For better or for worse, the media goes a long way in shaping the discussion about current market conditions. A constant headline of “recession is coming”, tends to create an emotional response of fear and anxiety.

The various signals we look at do suggest, with central banks around the world raising interest rates to deal with rapidly growing inflation we will likely experience an economic slowdown. The depth and length of any slowdown cannot be predicted.

There are a number of signs we look at to see what might be unfolding in the markets. Corporations in North America report profits on a quarterly basis. Earnings season as it is known can provide an indication of the financial health of companies generally and provide a broader indication of market valuation. As we approach the latter part of October, we will see corporate earnings announced. In general, we are hoping to see an indication that corporations are handling the inflation situation without a negative impact on profitability. We believe investors will be looking very closely at this years third quarter results. <sup>2</sup>In 2009 according to Yardeni Research Inc. the earnings for the S&P 500 fell 7.3%. The following year S&P earnings jumped just over 40%. All eyes are on earnings this month.

“The four most dangerous words in investing are: ‘this time it’s different’”

Sir John M. Templeton

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<sup>2</sup> Yardeni Research Inc. YRI S&P 500 Earnings Forecast 12SP22

## Inflation and Interest Rates: What's on the Horizon?

Wes Taylor

On October 13<sup>th</sup> we will get new inflation data for the US, which will be closely watched. Expectations are for the inflation rate to come in at 8.1%, down slightly from last month's reading of 8.3%. If the inflation reading comes in below 8% we expect that to be quite positive for stock prices, as it would imply that the rate of inflation is moving in the right direction and therefore less aggressive rate hikes are required by the Federal Reserve. The next meeting of the Federal Reserve is on November 2<sup>nd</sup>, and currently the market is assigning a 30.6% probability of a 0.5% interest rate hike and a 69.4% probability of a 0.75% hike.<sup>3</sup> In Canada, the next interest rate policy decision is coming on October 26<sup>th</sup>. The BoC is widely expected to implement at least a 0.5% interest rate increase.

One of the key indicators of the future direction of inflation readings are commodity prices and shipping costs. The Baltic Container Index, which measures global shipping container freight rates, has fallen from a peak of \$10,996/container to \$4,060/container since September 2021, a decline of 63%.<sup>4</sup> Commodity prices have also been falling steadily and have now declined 11% from their highest point in March 2022. Both commodities and shipping costs are major input costs for companies and we watch these indicators to get a sense of inflationary pressures.

Many will remember the actions of Paul Volcker, the Federal Reserve Chairman in the 1980s who was responsible for increasing interest rates into the high teens to combat inflation levels. Lesser known is Volcker's predecessor Arthur Burns. It was during Burns' time as Fed Chair that inflation levels rose above 8% three separate times. Each time, Burns increased interest rates and then decreased them quickly to save the economy from a recession. And each time, inflation came back even stronger. It wasn't until Volcker committed to higher interest rates for a longer period of time that we saw inflation levels truly come out of the financial system. While it is certainly important to keep the economy in mind, the real concern ought to be keeping the rate of inflation under control. Ultimately, short term portfolio volatility is secondary to what we can actually do with our money.

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<sup>3</sup> <https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html>

<sup>4</sup> <https://fbx.freightos.com>

## Ongoing Reminders

- The TFSA (Tax-Free Savings Account) contribution room for 2022 is \$6,000.00
- For your RESP (Registered Education Savings Plan) you are able to contribute to qualify for the 2022 CESG (Canadian Education Savings Grant).
- Did you know that the cost of preparing your taxes increases every time your tax preparer contacts you or your advisor for information? To control the cost of tax preparation, make sure you have all your tax documents before you visit your tax preparer.

Hope you are enjoying the start of the fall weather!

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