Investment Commentary Winter 2022

Groundhog Day (in addition to the February 2 festivity celebrating both marmots and weather) is a 1993 comedy film starring Bill Murray. In the film, Murray portrays a cynical television weatherman covering the Groundhog Day event in Pennsylvania, who becomes trapped in a time loop, forcing him to relive February 2 repeatedly. Since its original release the film has grown in esteem and has had a large impact on popular culture with the term Groundhog Day becoming synonymous with a monotonous, unpleasant and repetitive situation. Well, it sure feels like Groundhog Day to us right about now!

It has been almost two years since the onset of the pandemic, with COVID-19 as the primary driver of macroeconomic and financial performance across markets and asset classes globally. The path of the global economic recovery has remained uneven to date which has largely depended on access to and the administration of vaccines, which, until recently, have been concentrated mostly in advanced regions of the world.

US and Canadian equities are entering 2022 following a banner year with the S&P/TSX index up +21% and the S&P 500 up almost 27%. Despite some headlines that suggest a more down beat year in 2022, we believe there is substantial momentum in GDP growth for both countries, which continues to charge ahead above historical trend. That said, this above trend growth has been fueling record inflation levels, which are also ticking above historical levels. Given the robust backdrop, we expect monetary programs to wind down and normalize (e.g., BoC ended its QE program in October 2021), with rate increases and the eventual unwind of the balance sheet on the horizon. We expect yields to continue to push higher and likely to result in P/E multiple compression. As we move further into the business cycle, we expect multiples to compress towards the historical trend. We believe we are in the early innings of the mid-cycle, and if valuations are to converge towards historical valuations similar to past mid-cycle periods.

Investors and consumers have had to contend with several ongoing issues, including the rise in prices for everyday goods. While inflationary pressures have run hotter and persisted longer than most would have expected, we believe these pressures will probably remain above trend in the new year, with several inflationary impulses (e.g., supply chain bottlenecks, base effects, commodities prices, etc.) softening as we move further into 2022.

We believe the recent announcements by policy makers and central bankers to reduce/remove extreme policy measures from the economy/markets is the right call, especially as the global economy remains on a solid footing when compared to historical standards. While we expect to see higher policy rates and higher yields across fixed income markets, we do not expect these increases to derail the recovery in 2022. We expect the Canadian markets due to its valuation compared the US market to provide potentially better performance with the US market providing mediocre performance. That said we believe both markets will not be as constructive as last year and long-term average rates of return will revert to the norm.

In summary, we continue to see a good set up for increasing earnings in quality companies. Interest rates remain historically low, vaccination and spread of the Omicron variant continue to add to immunity in the population from COVID-19, two-years of sporadic tightening and loosening of restrictions have led to further pent up consumer demand. Further, personal savings rates in both the US and Canada are still trending above average, inventories in many parts of the economy are still being rebuilt to their previous levels, and supply chains continue to untangle as we progress toward a fully open global economy.

As always, we are appreciative of the confidence that you place in us as your wealth managers and we look forward to continuing to help you achieve your wealth goals this year.

All the best to you and your families for 2022!

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Helping families manage the complexities of life's transitions.

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