Family Wealth Counsel Advisory Group | RAYMOND JAMES®

Fourth Quarter Commentary – January 2023

It has been a whirlwind year for most clients who have had to navigate through a challenging period full of elevated levels of volatility and high uncertainty. The "wall of worries" for investors has continued to evolve, from persistent COVID-19 concerns and the war in Ukraine to highly persistent inflation. This has resulted in considerable economic/market fears of an impending recession.

The inflationary pressures turned out to be very "real" in 2022. While initially viewed by the majority as only a transitory issue and primarily fuelled by the pandemic, inflationary pressures have since broadened out this year to all components in the consumer price index (CPI) basket, including both goods and services. Central bankers around most developed markets significantly increased interest rates in an attempt to rein in soaring inflation. In 2022, the Bank of Canada increased rates from 0.25 per cent to 4.25 per cent, and in the U.S., the Fed increased rates from 0.1 per cent to 4.4 per cent. This has caused both the Canadian and U.S. markets to experience a negative one-year return for 2022 with the TSX/S&P composite index returning -8.7 per cent and S&P composite index returning -19.4 per cent.

This is a difficult environment as interest rate hikes take time to work through the economy. In addition, due to the fact that measurement of inflation is provided in arrears, the present economic condition is not necessarily reflected in the published inflation number. This may cause governments to increase rates at a time when the economy is dramatically slowing or, in fact, is in a recession.

We are starting to see some signs that peak inflation may be behind us. However, the consensus, and our belief, is that we will end up in a recession. This may not necessarily be bad news as markets move on expectation. Once a recession is formally confirmed, the market could move on the expectation of a recovery and positive returns could ensue before the recession is over.

After nearly a decade of ultra-low interest rates, during which the only game in town was equities, the recent move in global interest rates across the yield curve—which move inversely to bond prices—has created an opportunity where the risk/reward for bonds remain quite attractive. In fact, they have been the most compelling since the 2007-2008 Global Financial Crisis. We have taken the opportunity to increase our fixed income exposure where it's appropriate to lock in attractive yields. The other benefit is that short-term liquid cash yields are approaching four per cent—a much higher contribution to portfolios vs. the 0.30 per cent cash yields experienced in 2021. The

majority of our equity positons have a quality basis, which includes companies that have durable business models, a sustainable competitive advantage, and high profitability. Given the uncertainty of the economic backdrop and our expectation that a recession is on the horizon, we believe companies that meet this definition represent the best opportunity, since these companies have historically outperformed during periods of economic contraction.

We expect continued volatility for the first half of the year and possible further market erosion, but we believe the second half of the year may rebound and that we may experience a positive 12-month performance. Despite the short-term gloomy predictions, it is worth pointing out that anyone who has been invested for the past 3-5 years has not lost **any** of their invested capital. The markets last year came off a huge peak in 2021. Although it can be difficult to tolerate periods of negative market performance and the volatility can cause anxiety, negative markets have to be experienced in order to resume a positive performance in the future.

We will be reaching out in the next few weeks to review your portfolio and goals as well as to discuss any of your anxieties and concerns. In the interim, please do not hesitate to reach out to us.

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