QUARTERLY COMMENTARY

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When Good News Is Bad News and Vice Versa

Recently, I had the pleasure of travelling with some old university friends to visit one of our group at her lovely home in the picturesque Hudson Valley of New York State. We've been a close-knit group of seven for more than 40 years. While we had kept in touch via Zoom during the pandemic, it was wonderful to re-connect in person, drink some wine, and catch up with what our children, and in some cases grandchildren, are up to.

Having crossed the border, we Canadian residents bemoaned the current strength of the U.S. dollar and its effect on our loonie: $200 USD cost $272 CAD, (a bargain, the Canadian bank teller told me – earlier it had been $284). The extra expense of everything on both sides of the border was a recurring theme of our conversation, as was the time lag for services (home repairs, knee surgeries) and product shortages (baby formula and, weirdly, children's Tylenol – the grandmas in the group stocked up to take some home for their teething grandbabies).

We timed our get-together, in part, to coincide with the annual Sheep and Wool Festival, held in nearby Rhinebeck, N.Y. As a group of avid knitters, we find this enormous exhibition of yarn purveyors, sheep, goat, alpaca, and other fibre-bearing animals an irresistible event for us to take in (yes, I know, we live on the edge). Judging by the array of licence plates in the parking lot from all over the U.S. and Canada, not to mention the massive crowd, we weren't alone in our enthusiasm. High exchange rates and inflation were no match for our desire to add to our (wool) stash!

The high inflation/supply chain imbalances we experience at a local level are, of course, the result of supply and demand misalignment being felt all over the world. Central banks (like the U.S. Federal Reserve and Bank of Canada) attempt to fix the problem with the limited tools available to them, mainly by raising interest rates. Despite the unprecedented speed with which rates have increased this year, it cannot change things like the Chinese government zero-Covid policy, which shuts down factories and locks down entire cities, preventing Chinese manufacturers from making goods needed globally, and their consumers' ability to buy our products. Nor can central banks affect the fluctuating global energy and commodity prices resulting from the Russian war with Ukraine, nor OPEC's decision to reduce their oil production to boost the global price of oil.

All these issues continue to roil the stock markets around the world, and global levers that are constantly moving have created a strange paradox: good news is bad news and vice versa. Some examples:

- **Consumer spending** remains high 🙂: that means demand remains elevated, adding to continued supply shortages, pouring more fuel on the inflation fire 🙁

- **Manufacturing activity** falls ☹: this suggests that tightening money supply (interest rates rising) is working, and reduced inflation should follow ☺
- **Mortgage rates** are rising ☹: but this means that fewer people look for homes, and in turn, house prices (and even rent prices) may become more affordable for more people ☺
- **Bond yields** are increasing: good news if you're a saver ☺, bad news if you're a borrower ☹
- **Bond prices** are falling: if you've been holding them in your portfolio and hoping they will offset the falling price of stocks ☹, if you want to reduce risk in your portfolio you can buy bonds cheaper and get a higher yield than has been possible for at least a decade ☺
- **Unemployment** rates fall ☺: but a tight labour market means wages remain elevated, potentially keeping inflation remaining high ☹
- **Recession is coming!** ☹ Well, recession means a reduction in economic activity, higher unemployment, lower wages and lower costs. That's what we want, right? ☺ Well, not when you put it that way! ☹

With all the upheaval that these competing forces exert on the markets, it is no surprise that the trend continues to be negative since uncertainty prevails and that is difficult for the markets to price. I am looking forward to the day (in the not-too-distant-future, we hope) that good news ☺ will just be good news ☺ and that my report on the quarterly performance numbers will be back in the green.

Meanwhile, I present the performance numbers, as of September 30, 2022:

	3-mth. return	YTD ret.	1 yr. return	3 Yr. return	5 Yr. return
S&P/TSX composite:	-2.2%	-13.1%	-8.1%	3.5%	3.4%
Dow Jones Industrial Avg.:	-6.7%	-20.9%	-15.1%	2.2%	5.1%
S&P 500:	-5.3%	-24.8%	-16.8%	6.4%	7.3%
NASDAQ:	-4.1%	-32.4%	-26.8%	9.8%	10.2%

We recently sent out an email survey (my team, not Raymond James) asking for your input on a number of client service, financial education and other questions. Thank you to all who responded – we truly value your input and will use it to help us serve you better.

And now, for some good news that really is good news: I am pleased to announce that my daughter, **Emily Wood,** has now been officially licensed as **associate wealth advisor** with the Arnott-Wood Wealth Advisory Group and Raymond James. Emily has worked very hard over the past year as our business development coordinator, at the same time as she studied and passed all the rigorous courses required by our national regulators to begin her career as an advisor. We are excited to have Emily's enthusiasm, creativity and well-developed client service skills as part of our team. Emily, our administrative assistant, Laurie Smuk, and I look forward to our continued work with you and your families to strengthen your financial wellbeing and guide you confidently into the future.