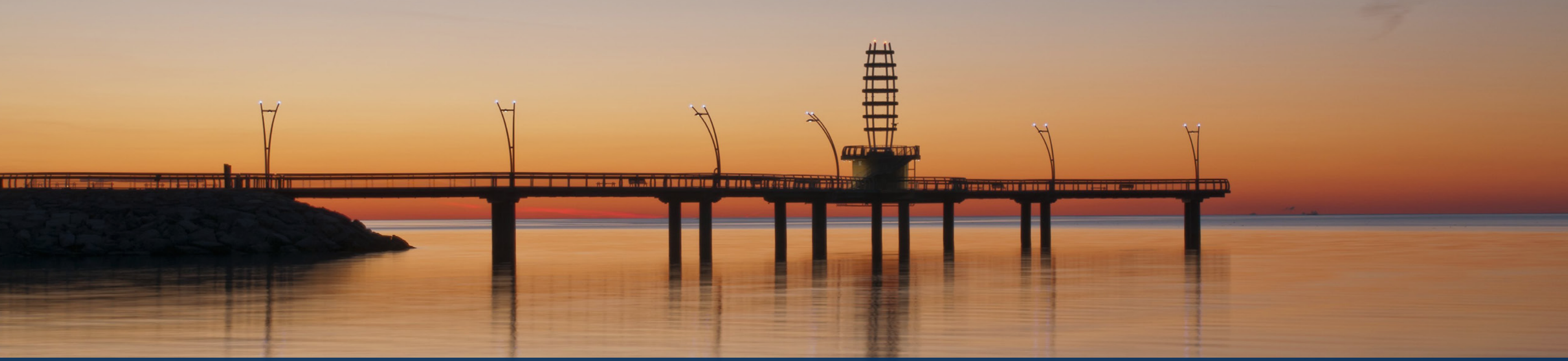

QUARTERLY COMMENTARY

SUMMER 2022

Ginny Arnott-Wood
BA, CFP, CIM
Wealth Advisor &
Associate Portfolio Manager
905-333-1920
ginny.arnott-wood@raymondjames.ca

Laurie Smuk, B.Sc
Administrative Assistant
laurie.smuk@raymondjames.ca

Emily Wood, BA
Business Development Co-ordinator
emily.wood@raymondjames.ca

Arnott-Wood
Wealth Advisory of
Raymond James Ltd.
1455 Lakeshore Rd., Suite 204S,
Burlington, Ont. L7S 2J1
www.raymondjames.ca/ginnyarnottwood/

"What Fresh Hell Is This?"

This quote, though often thought to be from Shakespeare, was, in fact, uttered by the American wit and staff writer of The New Yorker magazine Dorothy Parker whenever she heard her doorbell ring. Technically she said, "What fresh hell can this be?", but the Shakespearean-style twist to the phrase that I sometimes come across seems to enhance a sense of impending doom.

I find myself muttering the phrase a lot lately, as I sit at my desk and glance at my stock market screens. When indices like the S&P/TSX Composite (broad Canadian market) and the S&P 500 (broad U.S.) as well as individual stocks flash red (that is, prices falling) I wonder, what is causing everything to go down, day after day, six months after posting record gains to the end of 2021?

Unfortunately, the four horsemen of the market apocalypse – rampant inflation, rising interest rates, the war in Ukraine, and pandemic lockdowns – are still wreaking havoc around the world. While the four are connected, they ebb and flow in various ways and at different rates, which makes trying to predict what comes next even more difficult than normal.

So, as I hold my nose, I present the performance numbers as of June 30, 2022:

	3-mth. return	YTD ret.	1-yr. return	3-Yr. return	5-Yr. return
S&P/TSX composite:	-13.8%	-11.1%	-6.5%	4.8%	4.4%
Dow Jones Industrial Avg.:	-11.3%	-15.3%	-10.8%	5.0%	7.6%
S&P 500:	-16.4%	-20.6%	-11.9%	8.8%	9.3%
NASDAQ:	-22.4%	-29.5%	-24.0%	11.3%	12.4%

As you can see, the major North American markets gave up all the gains they earned over the past year. I admit to how discouraging this looks, but it does help to put into perspective the performance of individual portfolios, which are not mirrors of any one index, but made up of constituents of some or all the above.

Having a portion of your portfolio in bonds (as most people do) over the past year has also been problematic. Many times, when there is a "risk off" sentiment, money comes out of stocks and goes into bonds, which usually causes bond values to increase (and yields to fall). However, since the prices of bonds fall as interest rates rise, bonds have not provided the ballast in a portfolio that they traditionally offer. The corollary is that, since the prices of bonds have fallen, new money invested today in fixed income can result in much better yields. For example, a year ago, a one-year GIC issued by an Ontario-based credit union offered a yield of 0.85 per cent. Recently, the same institution offered one-year GICs paying 3.5 per cent!

Despite the gloom, I have learned, over many years in this business, that there are better days ahead. Inevitably a point is reached whereby market participants begin to buy again, especially when great companies have been sold off and become irresistibly cheap. The reversal can happen pretty quickly too, which is why it is important to remain invested. Trying to time when to get out of the market and then when to get back in means you risk losing much of your return.

In 2019, JP Morgan published a report to quantify this concept. Between January 4, 1999, and December 31, 2018, if you were fully invested in the S&P 500 index your annualized performance was 5.62 per cent. If, however, you missed just the 10 best days over the same period, your annualized return shrank to 2.01 per cent. If you missed the 30 best days over the same 20-year period, your return would have been minus 2.35 per cent annually. Since it is impossible to know until after the fact what those best (and worst) days are, having the fortitude to hang on and ride the market in both directions ultimately pays off.

Having said that, keeping some cash on hand to buy when markets have fallen is a good strategy. Also, it makes sense to trim some profits and re-invest when times are good (or hold cash for later opportunities). This is the essence of the "buy low, sell high" strategy. But since we cannot do this perfectly, having a discipline surrounding managing a portfolio, which includes picking a high quality, diversified basket and having a long-term view, has proven to be the best approach.

Because we live in a global market, events and influences from far away can have unexpected influence over all our lives. Supply-chain disruptions and the war in Ukraine are two macro scenarios causing governments and companies worldwide to re-evaluate the future of trade for both commercial and national security reasons. Political alliances and global partnerships are in flux, causing market volatility as participants try to grasp what it all means at any moment during the trading day.

Some glimmers of hope are appearing on the horizon: rising inflation on freight costs, which seem to be easing as ships are unloaded and ports are unsnarled; though still elevated, oil and gas prices are receding slightly, which, if they hold or slide further, will help reduce prices for almost everything; and housing prices in Canada have flipped the real estate market from favouring sellers to buyers thanks to rising interest rates. In North America, at least, consumers continue to buy, corporate earnings remain steady, unemployment rates are at historic lows, and our financial system functions well despite complex and sometimes unexpected stressors.

At some point, the U.S. Federal Reserve and other central banks will decide that we have gotten past "peak inflation" and will slow down (or perhaps even reverse) their current raising of interest rates. For all sorts of reasons, we hope that the war in Ukraine ends soon and that Covid-19 lockdowns truly become a thing of the past. These welcome changes will help to reduce the "wall of worry" that currently feels so pervasive. Watch the markets fly into the green when any/all of those changes happen. By remaining invested, we make sure we're in a place to take advantage of the opportunities when they're presented.

So, stay the course – no matter what "fresh hell" may turn up.