



Quarterly Market Commentary

October 2023

Performance Returns YTD

S&P 500 Index:	11.68%
S&P/TSX Composite Index	0.81%
Dow Jones Industrial Average:	1.09%

As of September 29, 2023

The third quarter came to a close last week as economic tailwinds from the first half of the year seemed to shift into headwinds. Although economic growth has been better than expected coming into the year, the recent rise in rates, consumer pressures (via higher energy prices and student loan repayments), and union strikes have weighed in on consumer sentiment during the third quarter.

US Federal Reserve Policy developments also dominated the headlines. Earlier in the year, many investors expected the US Federal Reserve to not only stop raising interest rates, but to also open the door for cuts in 2024. The messaging from Chairman Jerome Powell in late September could not have been further from the truth. Instead of cuts, the message was “higher for longer.” Although inflation is starting to moderate, I think we must keep a couple of points in mind:

- 1. No one wants to be the Arthur Burns of this decade** – Arthur Burns was the Chairman of the Federal Reserve during the tumultuous period of the 70s. During this time, inflation rose quickly, and the central banks acted by raising rates. As soon as inflation started to moderate, they cut interest rates. The result - a return of inflation, even higher than it was before. This exercise of raising rates to fight inflation and then cutting them when inflation declined went on for a decade and culminated in 18% inflation in the late 70s.

It wasn't until the new Chairman, Paul Volker, took over in 1979 and raised rates to over 20% and kept them elevated for almost two years that the cycle was broken. Like Chairman Powell, many leaders of central banks around the world are familiar with this story, and they don't want to repeat it.



2. Interest rate cuts may be off the table for now - Although we are seeing some moderation in inflation, strikes and wage increases are not abating. Combine that with higher energy prices and there is a good chance that inflation will continue to edge up even if the economy starts to slow. The rate hikes may be close to an end, but unless something drastic occurs, interest rate cuts likely are not on the horizon.

The sentiment going into this quarter was that the economy will slow (not to the point of recession) and declining interest rates will provide a stimulus for equity markets. Now, it has shifted, and not only will rates be higher, making it more expensive for companies to borrow, but the odds of a recession have also increased. This narrative of “higher for longer” has sent the equity markets reeling.

When we are thinking about the current environment, we must remember that this is different than what happened in 2008 and in 2020. In both those times, equity markets fell because growth completely collapsed, and a deflationary environment was created. The tool that was used to stimulate demand and revive equity prices was to reduce interest rates and keep them low as long as they had to.

Today it’s the opposite problem. The central bankers are trying to bring down inflation by curbing demand for goods. The tool they have is to raise interest rates. They will keep rates higher until they have their desired outcome, even if it means job losses and a recession.

For now, bonds offer a compelling risk/reward opportunity over stocks. We are ready to pivot if stock prices drop and offer the better opportunity.

Ashit Dattani
Portfolio Manager and
Investment Advisor
Tel: 604 482 8336
ashit.dattani@td.com

Borzo Salehi, CFA
Associate Investment Advisor
Tel: 604 659 8136
borzo.salehi@td.com

Dugan Batten
CPA, CA, FEA, TEP, CFP
Associate Investment Advisor
Tel: 604 482 5110
dugan.batten@td.com

Kristen Vilbrunt, BA
Client Relationship Associate
Tel: 604 482 8446
kristen.vilbrunt@td.com

Kim Dadgar
Client Service Associate
Tel: 604 482 8488
kim.dadgar@td.com

Dattani Wealth Advisory Group
TD Wealth Private Investment Advice
700 West Georgia St 10th Flr. Pacific Centre, Vancouver, BC V7Y 1B6

Dattani
Wealth Advisory Group



Source: https://ycharts.com/indicators/sp_500_monthly_return.

The information contained herein has been provided by Dattani Wealth Advisory Group and is for information purposes only. The information has been drawn from sources believed to be reliable. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual's objectives and risk tolerance.

Certain statements in this document may contain forward-looking statements (“FLS”) that are predictive in nature and may include words such as “expects”, “anticipates”, “intends”, “believes”, “estimates” and similar forward-looking expressions or negative versions thereof. FLS are based on current expectations and projections about future general economic, political and relevant market factors, such as interest and foreign exchange rates, equity and capital markets, the general business environment, assuming no changes to tax or other laws or government regulation or catastrophic events. Expectations and projections about future events are inherently subject to risks and uncertainties, which may be unforeseeable. Such expectations and projections may be incorrect in the future. FLS are not guarantees of future performance. Actual events could differ materially from those expressed or implied in any FLS. A number of important factors including those factors set out above can contribute to these digressions. You should avoid placing any reliance on FLS. Index returns are shown for comparative purposes only. Indexes are unmanaged and their returns do not include any sales charges or fees as such costs would lower performance. It is not possible to invest directly in an index.

Dattani Wealth Advisory Group is a part of TD Wealth Private Investment Advice, a division of TD Waterhouse Canada Inc. which is a subsidiary of The Toronto-Dominion Bank. All trademarks are the property of their respective owners. © The TD logo and other TD trademarks are the property of The Toronto-Dominion Bank or its subsidiaries.