Market Update

January 2022

An Important Note: Interest Rates

There is much talk of rising interest rates. It appears that the Bank of Canada and the US Federal Reserve will increase short term interest rates a few times during 2022.

At this point, whether rates are increased is not the discussion but how far will they go? The major Canadian banks are calling for an increase of 1.0% – 1.5% in 2022 with the likelihood of further increases in 2023.

An increase of 1.5% would bring the Prime rate to 3.95%.

We question these predictions. In addition, to always questioning predictions since the only thing we know about them is that they will most likely be incorrect, as there are several forces working against increasing rates that quickly and that far.

Increasing rates when European and other countries are still facing negative interest rates, may result in further investment in North America, its bonds and its currencies. The additional buying of Canadian and US government debt, and their currencies, will put downward pressure on interest rates. For each action there is a reaction – even in the markets.

Additionally, both governments are not looking to increase short term rates above medium and long term rates and these both remain near historically low levels. Unless the ten year rates, and the thirty year rates rise (and this depends on market views not the Bank of Canada or the Federal Reserve) it is hard to see rates increase that far. If a year from now the supply chain issues are resolved (they are getting better not worse) and spending fall back to historical norms, we could see this discussion turn completely around.

Lastly, both the Government and individuals would need to pay the higher rates, and neither is interested in doing so (pun intended).

It appears more likely that rates will increase but more slowly and may even pause for extended periods of time.

Fortunately, we do not believe any of these issues will have a material impact on your financial plan in the long term. It was built to withstand such events.

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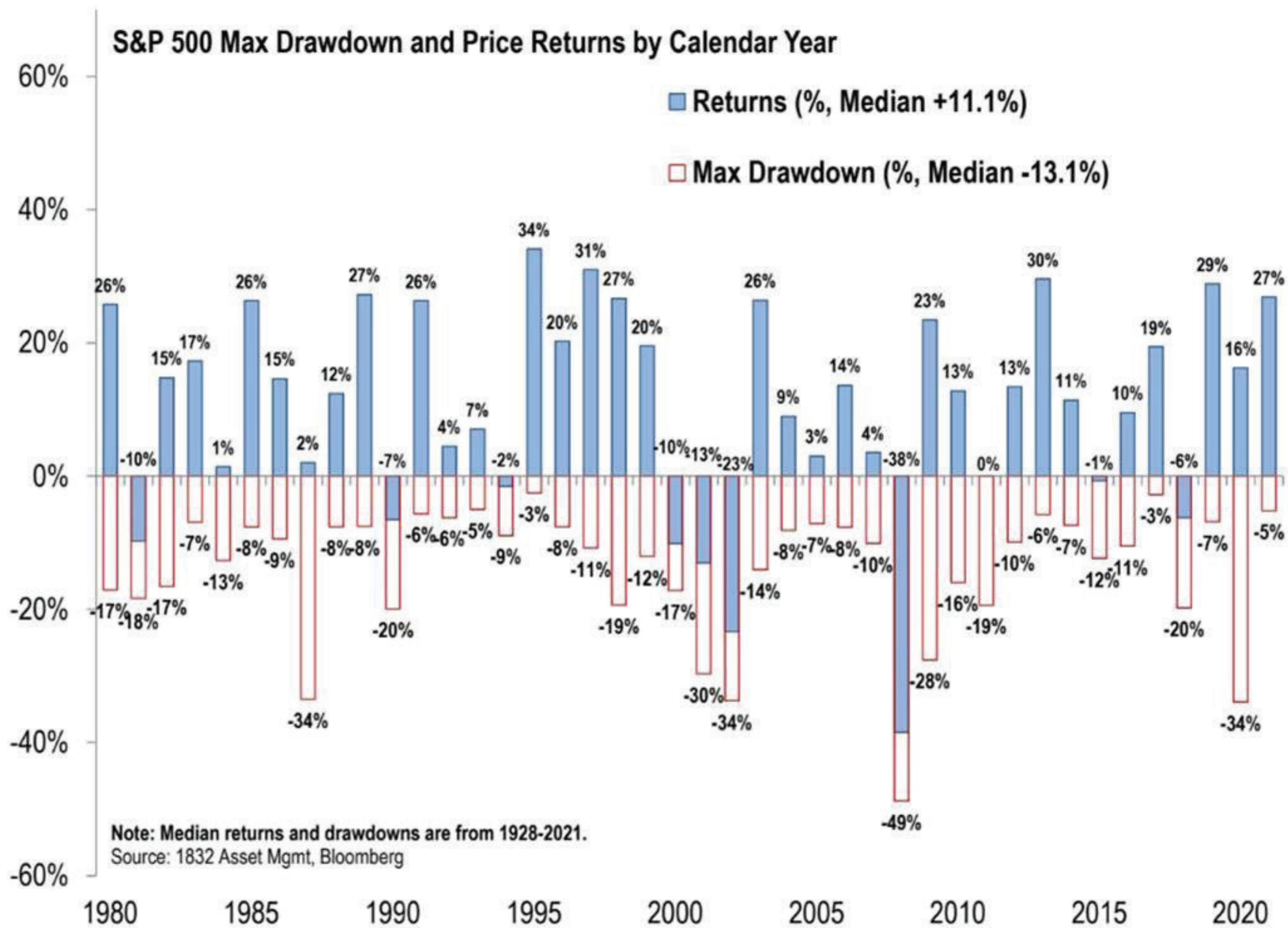
January was a difficult month with most markets declining. However, we believe that while this is disappointing, it is par for the course when investing. Allow me to explain.

First, these market fluctuations are well within normal historical ranges. Historically we have seen volatility translate into at about a 10% decline each year, a 20% decline every 3-4 years and a 30-40% decline every 10-20. The industry likes to refer to a 10% decline as a “correction”, and while this is a source of some humour, there is some truth to it. As human beings we have a tendency to take things too far. On an individual, communal and national level we tend to move in one direction a bit too far (sometimes very) and then, like a pendulum, swing back (again, typically, too far). The markets are no different.

Alas, while markets have moved upwards over the past 200 years, it has also always done so with the declines mentioned above. This is the nature of markets.

As you can see from the chart below. This happens more often than you may remember.



Second, while the volatility is not unusual, it may feel that way. We have had only about 5 negative months over the past 22, and one quickly gets used to (and enjoys) the continuous upward movement. Thus it feels worse.

Third, after three years of attractive returns some may wonder therefore, whether this was 'obviously' going to happen. I would say yes but quickly point out that we had no idea when. Market pundits have been calling for a correction for as long as the market have risen. Had we listened to them, or acted on our own feelings, we would have missed 2021's strong markets. We must admit that such a correction could have come in 2023 or later. There is simply no way to time the markets regardless of how it looks and feels after the fact.

Fourth, an important market truth: When the stock market declines 5%, our preference for fundamentally strong investments makes a difference. But when the overall stock market corrects 10% or more, nothing works … but we do expect our investments to rebound faster and further over time. In other words, the bad news is that markets represent an emotional crowd, and crowds tend to "react" first and “think” later when anxious – and that’s certainly what we’ve seen play out in January. The good news is that “Earnings” are working. Those companies that remain profitable are holding up better and are better positioned for future success.

In summary, everything that has happened is well within normal parameters. Prices get adjusted and so we take a step or two backwards on a multi-year journey forward.

In the short term we do expect market volatility to continue and perhaps even increase. The main concerns - supply chain disruptions, inflation, increases in interest rates - all still remain. Given Covid and the Cold weather we could see inflation be even higher in the coming months, in which case we could see increased volatility.

And so, as always, the focus remains on the long term. Invest for the long term. Ignore short term fluctuations. Focus on your life, your plan, your goals. At the end of the day that is all that truly matters.

Looking forward we are concerned but neutral in the short term, and positive in the medium and long term. We continue to invest new funds and monitor our positions.

Have a great month and let us know if there is anything we can do for you,

- Meir

Index	Month	Year to Date
Bonds FTSE Canada Universe Bond Index - CAD	-3.50%	-3.50%
Canadian Equity - S&P/TSX 60 Index - CAD	0.00%	0.00%
US Equity – S&P 500 - USD	-5.20%	-5.20%
International – MSCI EAFE Index - USD	-3.60%	-3.60%
Emerging Markets - MSCI Emerging Markets Index - CAD	-0.50%	-0.50%
Real Estate - Dow Jones® Global Real Estate Index - USD	-6.30%	-6.30%
S&P/TSX Preferred Share Index - CAD	0.00%	0.00%

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TD Wealth

[1] Bonds FTSE Canada Universe Bond Index - CAD
Canadian Equity - S&P/TSX 60 Index - CAD
US Equity – S&P 500 - USD
International – MSCI EAFE Index - USD
Emerging Markets - MSCI Emerging Markets Index - CAD
Real Estate - Dow Jones® Global Real Estate Index - USD
S&P/TSX Preferred Share Index - CAD

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