Market Update

March 2022

An Important Note: Three very strong economic tailwinds

Undoubtably the economy faces a handful of headwinds. Inflation is high threatening consumer purchasing power and corporate profit margins. Our Governments are saying that they will fight inflation by raising interest rates, but higher rates means things are going to be more expensive. We still have supply issues that resulted from the pandemic. And Russia's war with Ukraine threatens to send negative shockwaves through the global economy, sending commodity prices higher, and further disrupting the supply chain.

And while the headlines are continuously focus on bad news, making each headwind sound like the end of days, there are also several significant tailwinds. Some incredibly powerful and persistent bullish forces are out there and they are fueling stronger economic data, such as the jobs reports and record consumer spending reports. Allow me to touch upon three of them.

1. Excess savings – Trillions of dollars

It is estimated that extra cash, to the tune of over $2 trillion USD, has been saved by consumers since February 2020. This is mainly due to the combination of government financial support and limited spending during the pandemic.

So far these excess savings have helped consumers more than cover the incremental costs that have come with inflation. Looking forward these savings are expected to help blunt the possible effect of even more inflation down the road.

"Households in the aggregate have accumulated about $2.6 trillion USD of 'excess saving' in recent years relative to the pre-pandemic trend, which all else equal could be enough to cover even a sustained 50% surge in oil and natural gas prices for many years to come," Daniel Silver, an economist at JPMorgan, wrote in a February 25 research (JP Morgan, Feb 25, 2022)

Bank of America economists estimate that consumers and corporations combined are sitting on about $19 trillion USD worth of cash, up 35% from 2019 (Bank of America, Jan 2022).

This helps explain why consumer and business spending has been so resilient. And this continues.

2. US Jobs openings - 10.9 million

There were 10.9 million job openings in the U.S. as of December 31, 2021, according to the BLS's Job Openings & Labor Turnover Survey (JOLTS). That means there are 1.7 job openings per unemployed person.

Most employers don't post jobs haphazardly. Especially with wages on the rise, most employers have first done all they can to extract more productivity out of their existing workforce. Importantly new employees are expensive to hire, train, and retain.

But as many business executives will tell you, there's just not enough labor to meet the booming demand.

So even if economic growth slows to the point where some businesses are forced to lay off employees, it's not hard to see these laid-off workers quickly fill some of these 10.9 million open jobs.

In case you're wondering, layoffs and firings were at record-low rates as of the BLS's December report. So, so far, there is no indication that companies are even looking to cut back.

More recently job postings as of February 18 were holding at sky-high levels.

3. Core capital expenditures - $80.1 billion

Orders for nondefense capital goods excluding aircraft climbed to a record $80.1 billion in January. (St. Louis Fed, Jan 31, 2022).

Capital expenditures are for the equipment businesses need to operate. This includes large orders for everything: "...farm machinery and equipment; construction machinery; mining, oil, and gas field machinery; industrial machinery; vending, laundry, and other machinery; photographic equipment; metalworking machinery; turbines and generators; other power transmission equipment; pumps and compressors; material handling equipment; all other machinery; electronic computers; computer storage devices; other computer peripheral equipment; communications equipment..."

Like the hiring and employment process, capital expenditures are expensive and are one only approved after considerable thought. And to be clear, these are orders. This stuff hasn't even shipped yet. This activity is the sign of a strong economy.

At the same time the supply of these items faces shortages and disruptions. The resulting back orders should keep economic activity going for quite some time.

The big picture

There are a lot of reasons to be concerned about the outlook for the economy. But any economic headwind is up against some very strong tailwinds.

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March was a positive month – the first of the year. The markets reached a 2022 low near the end of February, rose and fell back mid-March and then moved up swiftly, providing the gains seen in March.

I do not believe there is much to be learnt from these movements.

Companies continue to perform well and if this continues world events will continue to take a back seat.

Canada has done well as a provider of commodities and this should continue until such time as the war in the Ukraine ends or if economic activity slows demand (which I do not see this year). This success and more importantly, anticipated success, is the reason the Canadian market is positive while the US markets are still negative.

Given all of the turmoil and the repricing (reconsideration of the cost) of risk, portfolios are still down, overall, for the year, but we have only completed one quarter.

And so, as always, the focus remains, and must remain, on the long term. One should invest in strong companies that can weather the inevitable storms and prove profitable. One should invest for the long term and ignore short term fluctuations. One should focus on one's own life, plan, and 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 closely.

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	-3.00%	-7.00%
Canadian Equity - S&P/TSX 60 Index - CAD	4.20%	3.70%
US Equity – S&P 500 - USD	2.80%	-4.20%
International – MSCI EAFE Index - USD	0.70%	-6.20%
Emerging Markets - MSCI Emerging Markets Index - CAD	-4.60%	-7.60%
Real Estate - Dow Jones® Global Real Estate Index - USD	7.30%	-2.10%
S&P/TSX Preferred Share Index - CAD	0.00%	-2.40%

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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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