

February 2022 Financial Planning Email Update

Yesterday I was honoured to be on a WebEx call with Brian Levitt Global Market Strategist for North America with Invesco Ltd. Not only is Invesco one of the top recommended funds here in Canada but is the 23rd largest investment management firm in the world with over 1.5 trillion dollars in assets under management (measured in U.S. dollars). It is with these significant resources and global reach that gives us very valuable information, insights and perspective. Brian discussed the 2022 market outlook and the next stage of the business cycle with a focus on U.S. data. As a Canadian investor we are always tied to what is evolving in the U.S. With a 7.5% U.S. annualized inflation rate there is a very strong expectation of multiple interest rate hikes in the U.S. (and Canada) this year. Brian did suggest at this time that investors have become bearish but with the markets correcting only modestly in January, he then considers this to be very positive. Brian attempted to answer five questions.

First, where are we in the business cycle? Historically a business cycle lasts between 5 and 10 years. This cycle which began in 2020 is young as measured in years although the economy has recovered rapidly. This is a unique pandemic cycle which took us from a complete locked down to full recovery within 2 years. Cycles tend to end with excess such as business's being highly leveraged accumulating large amounts of debt as well as banks tightening lending standards. Neither of these are in evidence today. Cycles also tend to end with increased inflation and tightening monetary policy which are both occurring this year. So in some ways we are near the beginning of the business cycle and in other ways we are nearing the end.

Secondly, what's the direction of the economy? The economy in most areas is booming. As we have gone from pandemic to inflation to economic growth concerns very quickly, an economic slowdown is now in the offing. Much of the early pandemic pent up demand is completed. Consumer spending will now flatten. Government spending will level out or decline. The Federal Reserve intends to tighten financial conditions in a meaningful way this year by increasing interest rates multiple times and decreasing the money supply.

Thirdly, what are the policy implications? The Federal Reserve's two main goals are price stability and full employment. That is why they will move towards meaningful tightening of financial conditions. Today the unemployment rate is low which is good. The bond market is expecting inflation to moderate over time. The federal Reserve's primary worry is that consumers will rush to spend before prices go higher which will feed on itself and perpetuate even higher prices.

Fourth, what are the risks to the outlook? The number one risk of course is persistent inflation. At the beginning of the pandemic business inventories were drastically reduced. Very shortly after there was an unprecedented increase in consumer demand which was difficult to meet. This in conjunction with supply chain disruptions created a spike in prices. Today inventories are normalizing and there are many indications that

the supply chain is improving. Recent consumer surveys suggest that prices are expected to decline as consumers do not think now is the best time to purchase vehicles or furnishings.

Fifth, what are the asset class implications? Equities are the best asset class during an economic recovery, expansion and slow down phases with bonds being the best performers only in the contraction phase. Brian and Invesco's view currently is that we are entering a slow down phase in the economy.

As we hold a highly recommended, professionally managed, well diversified and balanced portfolio (between equities and bonds) we are in an excellent position to do well over the long term.

Amanda and I are both qualified CERTIFIED FINANCIAL PLANNER® professionals at your service to assist in all areas of comprehensive financial planning including financial goal discovery, cash flow/budget analysis, retirement income planning, tax savings, estate planning, insurance needs analysis, investment planning, education saving planning, special purpose or major purchase planning.

I wish to thank you for your continued confidence and for the opportunity to serve you in all aspects of Financial Planning. As always, I will continue to keep in touch with you but if you have any questions or concerns, that you would like to discuss or review, please do not hesitate to contact either Amanda or I by email or by calling us at 519-894-2661 or toll-free at 1-800-716-5538.

Have a great day!

Respectfully Yours,

Gary



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