February 2023 Financial Planning Email Update

In the past few weeks Amanda and I have completed several webinars and received various research reports from our highly recommended portfolio managers. Each have discussed their interpretation of what has occurred in the past as well as what their thoughts and views are of where we are and where we are heading.

With reference to the past two years, the consensus is that the pandemic motivated all of the major countries of the world to increase spending. In order to achieve this they initiated what is known as “Quantitative Easing (QE)”. For example, in order for the Canadian government to increase spending, it needed to borrow. The Canadian government then issued a bond which the Bank of Canada would ’buy’. The Bank of Canada, along with all central banks in the world, have the ability to increase the money supply. In other words, the government has now borrowed money from the Bank of Canada who made up the money. QE operations took place around the globe, significantly increasing the money supply. This action was probably necessary to keep the economies of the world going during the pandemic but this, along with ultra low interest rates caused excess liquidity. This caused a real estate bubble. This continued until the end of 2021.

With the above increase in the money supply, ultra low interest rates, as well as supply chain issues and labour shortages this created unwanted inflation. At the beginning of 2022 we found ourselves with high levels of inflation as well as China unwilling to reduce COVID restrictions, a war in the Ukraine, and continued supply chain issues and labour shortages.

All central banks’ main goal is to keep inflation to a minimum with a target of 2-3%. Excess inflation reduces the purchasing power of money which is not good for anyone, especially those on a fixed income. To fight inflation the central banks, ie. The Bank of Canada and the Federal Reserve in the U.S., decided to simultaneously increase interest rates and stop Quantitative Easing reducing the liquidity in the market place significantly.

As a balanced portfolio investor we invest in both fixed income and equity (stock) investments. When the unwinding of accommodative to restrictive money policy occurs both the bond and stock markets decline which affected all risk level investors in 2022. The stock and bond market forecast future economic activity by 6 to 12 months.

With the advent of higher interest rates it is expected that the economy will slow down. To continue to fight against inflation it is not expected that interest rates will decline soon. What is unknown is how much will the economy slow down. A mild slowdown is known as a ‘soft landing’. A serious slowdown is known as a ‘hard landing’. Here you would see an increase in employment, a slowdown in manufacturing, a decrease in consumer spending, and a recession in housing.

Supply chain issues have mostly been resolved. There is still lingering labour shortages and China has released all COVID restrictions and is increasing productivity.

On January 30, 2023, Amanda and I attended the Fidelity Investments Vision 2023 one day conference. Here several Fidelity Portfolio Managers gave in-depth presentations of what 2023 will look like.

Andrew Marcheses, their Chief Investment Officer, thought there was opportunities in individual stock selection today with the rigors of research. Jeff Moore, their Bond Manager, thought right now is the best potential and a very positive set-up for the bond market in 2023 as inflation declines with the last two years being very poor.

Will Danoff feels that with the last year bringing so much carnage there is a significant opportunity for an uplift in the market. He is finding opportunities in defence spending, consumer, travel, and insurance companies. He stated that as the S+P 500 was down 18% in 2022, he is beaten up therefore he is bullish (positive).

Mark Schmehl feels the investment climate is getting better. He referred to it as a sneaky bull market. The market is saying the worst is over. All the negative news in the economy today ie. layoffs, was already priced into the market and is welcomed positively.

Hugo Lavallee discussed how this bear market has allowed him the opportunity to invest in high quality businesses he had previously missed. What he referred to as repairing the sins of the past. Worst sectors last year are the best opportunities this year.

Dan Dupont is patient while waiting for opportunities but once an opportunity is identified he buys aggressively. This has occurred recently.

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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