
A Good Start to the New Year

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After a tough 2022, it's been nice to be able to report back that we have had a good start to the New Year with some nice gains on the market. Last year was a very tough year. Although we started out with a lot of promise going into 2022, we witnessed a full Russian invasion into Ukraine and worry about a Recession for much of the year. While we never did get the recession that so many were expecting, we did get Inflation, and a lot of it. There was fear of Rising Costs during the Pandemic and by 2022, we definitely got it. After 30 years of costs rising around 2.0% per year, we went all the way to 8.1%¹ here in Canada. Many of our neighbours hit 10% or more and some countries in the developed world went into the high teens². It was an ugly situation and one that I'm sure all of you have felt. When Inflation rises, it's followed by higher Interest Rates. We dealt with multiple Rate Hikes from the Bank of Canada last year which left our borrowing rates dramatically higher by the end of the year. While we are still dealing with much higher prices here in 2023, they have come down from their peaks. Canada ended the year with an Inflation Rate of 6.3%. As an exporter of so many Resources, our country was able to have a better year than many of our global counterparts. We ended up with enormous production of Canadian Oil. This led to fairly good trade balances throughout the year³ and of course, record profits for Energy Companies⁴.

Many of the challenges that I outlined above aren't behind us. What is likely driving positive returns on the market to start this year, is that we have seen Inflation come down. With the Bank of Canada and the Federal Reserve in the USA minimizing their latest hikes and some indication that there will be smaller adjustments going forward, both the Bond and Stock Markets have got excited. We also have a robust labour market in North America. Unemployment is about as low as it has ever been. In many cases, we are dealing with labour shortages. That

strong labour market kept the US out of recession in 2022 and they had a massive addition of over 500,000 in January⁵. Canada has seen a similar phenomenon; We added 104,000 jobs in December when expectations called for an increase of only 5,000⁶. The market doesn't necessarily like the job growth (which I know, sounds strange). It's just that if we stay at such low unemployment, we may not see the Cost of Living come down as quickly as we would like to see. The market does not like Inflation. We've literally seen days where the Stock Market sells off because of good job numbers. What a time to be alive!! Honestly though, that has made the last twelve months very hard to navigate through. And that's after dealing with the two years before when the Covid-19 pandemic was raging. All we want to see is some stability!

My last email mentioned that I was still waiting on some more data to come in before providing a summary of last year. Now that we are well into February, I've got plenty of information to share. First off, the Toronto Stock Market was down a disappointing 8.5%⁷. The Energy Sector did well so there was some good news in our home country. The Dow Jones Industrial Average in the USA also had a negative return of 8.88 per cent last year. Things were much worse for other US Exchanges. The S&P 500 Index posted a negative return of 19.24% and the tech-heavy Nasdaq Composite was by far the worst at negative 33.63%⁷. The Nasdaq was one of the top performers in the two years prior but they definitely gave some of those gains back in 2022. This wasn't a 2008-like crash, but it was significant. We had not seen carnage like this in a long time and really hadn't even seen a losing market in the USA like this since 2018.

The hardest thing to see last year (at least as far as investments are concerned) was the negativity in the Bond Market⁸. We have only seen Stocks and Bonds both go down in four years since 1928 and 2022 just happened to be one of them. That meant that you didn't get security in the Bond Market. This is something that can happen when Interest Rates are going up and we certainly witnessed that. There is a lot more optimism about Fixed Income here in 2023. We might see more rate hikes this year but with Inflation coming down, they should be smaller. There has even been some talk that the Bank of Canada may pause for a bit now. That would be good for Bonds so we are hopeful that your Fixed Income Funds will have a much, much better year.

We are getting near the end of RRSP Season and like last year, you will have until March 1st to get your contributions in. After that, we'll go into Tax Season and you'll be getting plenty of tax slips and statements in the mail over the coming days and weeks. Please remember that companies don't have to prepare tax slips until later on. We know that many of you would like to round up these documents right away but in many cases, you just can't do that yet. We will do our best to track down anything you are missing before your Income Tax Return needs to be submitted. As a reminder though, don't expect them before we are well into March! This is especially important to consider if you bought into a Flow-Through Share Limited Partnership in 2022. We won't get Tax Forms for those LPs for a number of weeks yet. We did get B2B Bank Statements in so for any of you that have Investment Loans, make sure you set those aside. The Interest Payments on an Investment Loan can be Tax Deductible.

With Interest Rates so much higher over the last twelve months, that will mean much larger deductions. Hang onto those and let me know if you have any questions at all!

Bryce A. Borden

¹Statistics Canada: - <https://www150.statcan.gc.ca/n1/daily-quotidien/230117/dq230117b-eng.htm> [1]

²Statista: - <https://www.statista.com/statistics/225698/monthly-inflation-rate-in-eu-countries/> [2]

³Trading Economics: - <https://tradingeconomics.com/canada/balance-of-trade> [3]

⁴Energy Now: - <https://energynow.ca/2023/01/big-oils-good-times-set-to-roll-on-after-record-2022-profits/> [4]

⁵CNBC: - <https://www.cnbc.com/2023/02/03/jobs-report-january-2023-.html> [5]

⁶Reuters: - <https://www.reuters.com/markets/canada-posts-huge-job-gain-december-surprise-drop-jobless-rate-2023-01-06/> [6]

⁷BNN Bloomberg: - <https://www.bnnbloomberg.ca/tsx-in-2022-a-look-back-at-how-it-performed-1.1864456#:~:text=The%20S%26P%20Composite%20Index,technology%2C%20and%20real%20estate%20sectors> [7]

⁸CNBC: - <https://www.cnbc.com/2023/01/07/2022-was-the-worst-ever-year-for-us-bonds-how-to-position->

[for-2023.html#:~:text=2022%20was%20the%20worst%20year,those%20for%20long%2Dterm%20bonds](#) [8]

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