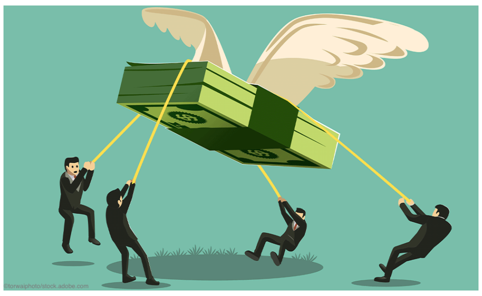
IN THE LOOP

Inflation, Interest & Investments



Unfortunately, 2022 has been categorized by heightened market volatility, spurred by a spike in inflation, persistent supply chain challenges, and Russia's invasion of Ukraine.

Inflation decreased slightly in September to 6.90% but is still well above the Bank of Canada's target rate of 2%, signaling that we likely won't see a break from high interest rates soon. However, some lenders have recently decreased their 5 year fixed rates. Hopefully this is a sign that we are near the peak, at least for now. All this volatility and uncertainty has made for a difficult year on the equity markets.

Below are market returns as of October 28, 2022

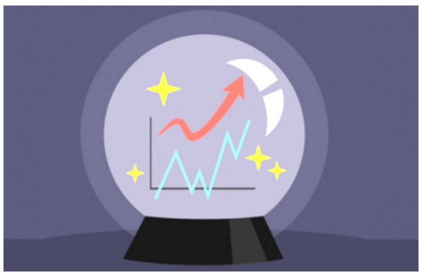
October 28 2022	Index	MTD	YTD	2021	2020
S&P/TSX	19,471.19	5.57%	-8.25%	21.74%	2.17%
S&P 500	3,901.06	8.80%	-18.15%	26.89%	16.26%
NASDAQ	11,102.45	4.98%	-29.04%	20.36%	41.12%
MSCI EAFE	1,748.92	5.26%	-25.13%	8.78%	5.43%
MSCI World	2,561.04	7.67%	-20.75%	20.14%	14.06%

Source: Morningstar

Although we won't know where the market bottom is until well after it has passed, it is reassuring to review how markets have historically performed after taking a significant drop. Please take a look at the following articles for a more in depth look: Stock Gains after Big Declines | Bulls, Bears, and Long-Term Investing

Predictions

Making economic and market predictions are easy. Being correct is hard. We try not to put much weight on predictions as they often don't pan out. We revisited some 2022 predictions that were made in an investment newspaper in December 2021 (article link). Some of the experts consulted included: Beata Caranci, (*Senior Vice-President of chief economist with Toronto-Dominion Bank)* and Avery Shenfeld, (*Chief economist with CIBC).*



Some of the notable forecasts were:

- Equity returns expected to be in the positive single digits (0.10% to 9.90%)
- North America's economies will probably grow by about 4%
- Inflation in Canada: 2.70% expected in 2022 and 2.00% in 2023
- Interest Rates: Bank of Canada expected to increase to 1.00% by end of 2022 and 1.75% by end of 2023

"Rates aren't expected to rise much, if at all, about 2% - a far cry from the 4% plus that used to be needed to slow an economy. That will keep mortgage rates down and make a big housing correction across the country unlikely..."

Looking at the predictions above from 11 months ago, you can see how far off they were. One of the problems with economic forecasting is that a small change in a few variables can make predictions almost impossibly complex. We are not saying that we should never pay attention to forecasts (as they can still provide some guidance), but that we shouldn't equate forecasts to expected outcomes.