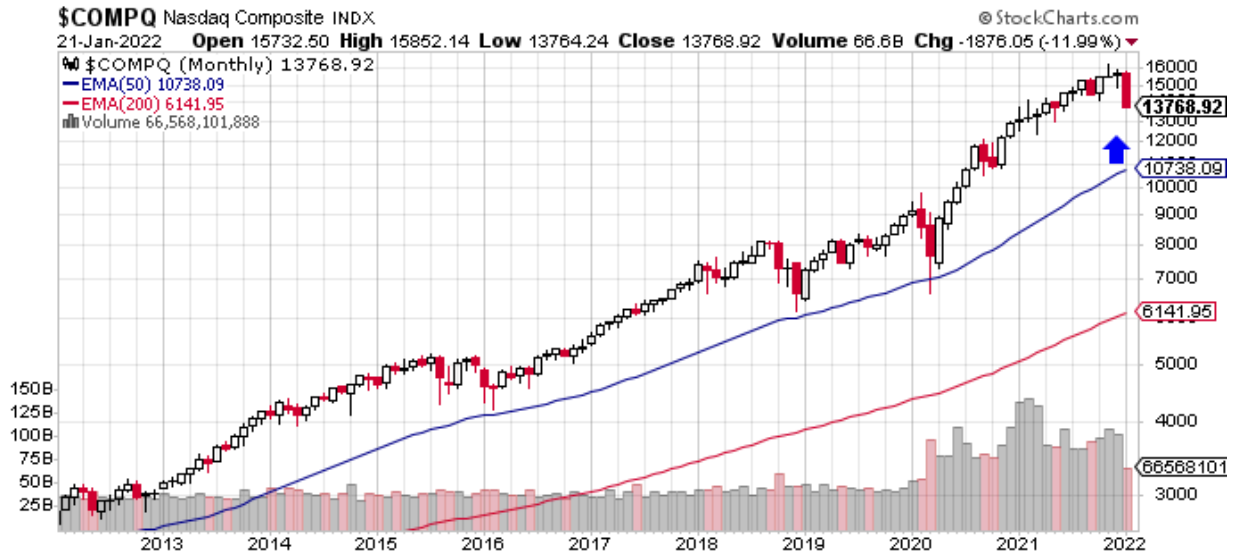


## Market Update

Jan 24/22



### Growth stumbles?

While the TSX (Canada) and SPX (U.S) indices have pulled back single digits from Nov highs, the Nasdaq (Tech heavy index) has corrected <14.48> from November highs.

Growth stocks typically grow based on the story of their potential. Then they consolidate (pull back in value).

The impetus for that pull back could be anything. Today, it is concern about rising interest rates from a spike in inflation not seen in four decades somewhat tied to covid inspired supply chain disruptions.

As potential becomes earnings reality, the story of further potential usually takes over, typically pushing stock values higher yet again. You can see this in the chart above following the Covid correction of March 2020.

If it were not rising interest rates, it might be war in the Ukraine. Something happens that causes markets to pullback. Thus, the phrase, “the stock market is built on bad news”.

## What to do?

Time in the market versus trying to 'time the market'.

Stay the course.

## Investor confidence?

Confidence is challenged with market consolidations (pull backs) after long runs of appreciation. As a reminder, historically markets can pull back at least ten percent annually and just two years ago, in March 2020, they pulled back -36%.

When you look at the chart above, it serves as a good visual in that despite the bumps and grinds the stock market has been historically, a great investment.

(My hand holding 😊)

Watch the Fed this week as they may start tightening monetary policy which is not only expected but such a move will likely be the first of several – so they say.

## What are the implications?

Rising interest rates can slow the economy. That is why stocks are being repriced at the moment. Companies with lots of debt or lack of real current earnings despite a future potential, become for the moment, more vulnerable.

Of course, central bankers have been talking about rising interest rates for a long time with no action. A slight move in interest rates may prove immaterial to an emerging economy.

In a rising interest rate environment, your real estate values will potentially decline in value because real estate is only worth what someone else can afford to pay for it. Rising interest rates make your home more expensive to buy.

Bonds, preferred shares, and any fixed income becomes vulnerable as rates rise.

**The banks are your friend.** Rising interest rates augment bank spreads so typically they thrive in a rising interest rate environment.

Most technology stocks, the sector taking the current correction on the chin, don't pay dividends so that can add to volatility. However, volatility works both ways and you have tasted the upside in profitable technology stocks for years now (see chart above).

Not all technology companies are trading on *potential* though. Apple for instance may have potential, but it is also the most profitable company on earth. **Watch for earnings this week from Apple and Microsoft.**

On the other hand, Tesla reports this week as well. That stock could drop 80% and still have a higher capitalization than Ford and GM put together. As the market shifts from the stories of potential to fundamentals, names like this will be more vulnerable.

**Good news?** When the current direction changes, there will be another great entry point into some great companies. Perhaps good news for TFSA and RSP contribution season.

If you need me, I am a phone call away.

I have prepared this commentary to give you my thoughts on various investment alternatives and considerations which may be relevant to your portfolio. This commentary reflects my opinions alone, and may not reflect the views of National Bank Financial Group. In expressing these opinions, I bring my best judgment and professional experience from the perspective of someone who surveys a broad range of investments. Therefore, this report should be viewed as a reflection of my informed opinions rather than analyses produced by the Research Department of National Bank Financial.

Best,

National Bank Financial

Rob Hunter  
Senior Wealth Advisor

Sources: Stockcharts.com, Globe & Mail, Reuters, Prof G Scott Galloway

National Bank Financial is an indirect wholly-owned subsidiary of National Bank of Canada. The National Bank of Canada is a public company listed on the Toronto Stock Exchange (NA: TSX).

This information was prepared by Rob Hunter, an Investment Advisor with National Bank Financial. The particulars contained herein were obtained from sources that we believe reliable but are not guaranteed by us and may be incomplete.

The opinions expressed are based on our analysis and interpretation of these particulars and are not to be construed as solicitation or offer to buy or sell the securities mentioned herein. National Bank Financial may act as financial advisor, fiscal agent or underwriter for certain of the companies mentioned herein and may receive remuneration for its services. Rob Hunter, National Bank Financial and/or its officers, directors, representatives, and associates may have a position in the securities mentioned herein and may make purchases and / or sales of these securities from time to time in the open market or otherwise.

The opinions expressed herein do not necessarily reflect those of National Bank Financial.

Several of the securities mentioned in this article may not be followed by National Bank Financial's Research department. The investment advice given only applies to residents of the provinces of British Columbia, Alberta, Manitoba, Ontario and Quebec. National Bank Financial is a member of the Canadian Investor Protection Fund.

