NATIONAL BANK FINANCIAL WEALTH MANAGEMENT

R HUNTER WEALTH MANAGEMENT GROUP

"Of freedom and of pleasure, Nothing ever lasts forever, Everybody wants to rule the world".

Tears for Fears (1985)

Market Update **March 2022**

	Year to date
Canada's TSX	+0.9%
U.S. S&P 500	<11.2%>
U.S. Nasdaq	<16.7%>

A very brief short-term history…

Global pandemic leads to shutdown. As variants weaken, the economy starts to open with pent up demand. Supply chains are stretched, partly impacted by workers being sick. Price inflation is the result and soon, the bond market starts to bid up interest rates. Bank of Canada eventually raises interest rates and says to expect more.

When interest rates rise, historically, the average return in the stock market is single digit – not the double digit returns we have witnessed during the last few years - *during a global pandemic*.

In the last decade, interest rates have tried to move up three times, but have not reached three percent before falling back.

What now?

Given interest rates have now started to move up in the market, a repricing of growth stocks (tech) has occurred, where those huge potentials for future earnings, get discounted back by the market. In addition, a sector rotation has taken place. Technology, which led the market over the last three years during the pandemic, is now a trailing sector, while Energy, which was a trailing sector during much of the last three years, is today's leader.

Energy prices initially rose with economic demand, as we opened-up from pandemic. More recently, Energy has spiked due to geopolitical risks, associated with the Russian invasion of Ukraine. Brent oil hit $130 recently as an international boycott will potentially remove Russian oil supply. Rising energy prices can serve to slow the economy. This, in part, is why you have a diversified portfolio, because not all sectors necessarily run at the same time. Markets currently, (see year to date results above), are reflecting what is happening, with strength in the Canadian commodity-based index (energy and materials) and weakness in broad S&P 500 index and more so, in the technology heavy Nasdaq index.

What next?

Wars come and go, though one involving a nuclear capable nation gets our attention. Historically, this weighs on markets in the short-term. You can look at previous global conflict events and the impact on markets **(here)**.

If you believe the depths of this pandemic are behind us, then that may mean workers will return to work and that the supply chain will eventually right itself. Price inflation might then recede as well as interest rates. I believe that the chest thumping by central bankers about raising interest rates to slow the economy, might get muted in the near-term as energy prices could do their work for them, in slowing growth.

What we would be left with is a consumer that has far more savings and less debt, when compared to the beginning of the pandemic. The consumer ultimately drives the stock market.

Recent good news.

All six Canadian banks beat analyst earnings expectations in the most recent quarter. As anticipated, we are seeing dividends rise and starting to see stock splits with CIBC first to announce a 2:1 split. I anticipate another quarter of covid loan loss provisions being reallocated to earnings.

Alphabet (Google) will split shares 20:1 on July 15th.

Historically, stock splits are good for a stock, as the shares are more attractive to retail investors and are often bid up.

We are growing. I would like to introduce a new member to my team. **Campbell Hunter,** who is my eldest son, has joined my practice as of March 1st, as a Wealth Advisor. More specifically, he will be working closely with myself and Leslie in portfolio management. He joins us from Scotia McLeod, where he worked in a comparable role, within a significant Toronto practice. His addition to my practice, will strengthen my team as I seek to provide and enhance our service offering to clients. **Welcome Campbell!**

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: Forbes, Technical Speculator, Hamilton ETFs, Stockcharts, Reuters, Globe & Mail