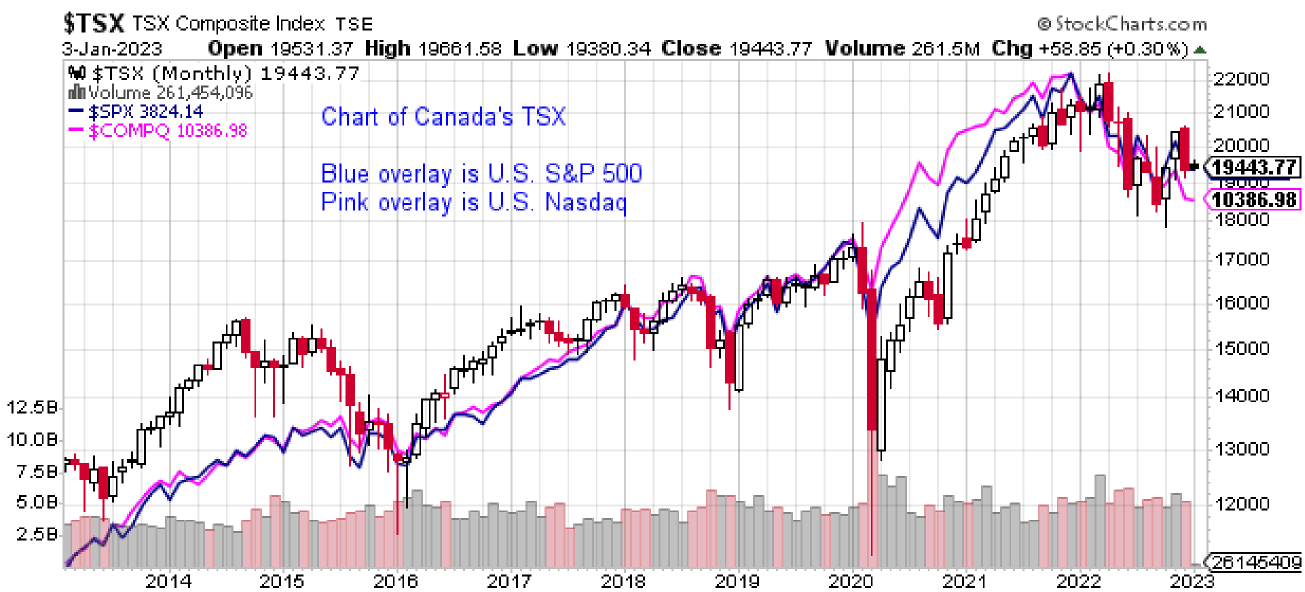
'Don't stop thinking about tomorrow. Don't stop, It'll be here
It'll be better than before. Yesterday's gone, yesterday's gone."
Christine McVie (Fleetwood Mac)

Market Update **January 2023**

	2022
Canada's TSX	<8.7%>
U.S. S&P 500	<19.4%>
U.S. Nasdaq	<33.1%>



Brief 2022 summary:

Despite the weakness, the TSX outperformed the American market by the widest margin since 2005 last year. In your portfolio, the Canadian side served up relative strength and it paid good dividends. As we opened up from Covid, inflation set in with supply chain issues. Recall, China as a major supplier and it's '0-Covid' policy resulting in a long lockdown. The response from the central banks, when it came, was swift with very rapid increases in interest rates designed to slow demand and price inflation. Stocks, Bonds, Gold, Real Estate all fell last year. Within losing market indices the winning sector was Energy and the loser Technology – an inverse outcome from a year earlier. In fact, energy was responsible for the TSX relatively outperforming the U.S. market last year. Canada is primarily a resource economy with some very good banks thrown in.

A turning point?

Remember that the stock market is forward looking and doesn't necessarily reflect the current economy. The volatility we have been experiencing is a tug of war for direction. The S&P 500 in the U.S. tried to rally several times last year and each time it failed to sustain a break-out higher, and it was because of either another interest rate hike or chatter from central bankers suggesting more rate increases were to come. This provided that sense of a yoyo market.

The end of a bear market has always occurred as the market not only breaks out higher, but sustains the move on the back of better sentiment. I believe that positive sentiment will be fueled by the belief that the central banks are finally finished raising interest rates. Many pundits believe that will occur in the first or second quarter of 2023.

Mr. Powell, at the Fed wants it to be more difficult to spend to get price inflation down. In the U.S. he appears to not mind a forced recession.

Bear markets historically, have tended to last around 13-15 months. This one is 12 months old. The **average** draw down is about 27% (achieved only by the Nasdaq last year). On **average** markets have recovered to previous peaks from troughs within 24-27 months. See those waves in the chart above – all failed attempts to break higher? Stay invested. History suggests this is a short-term event and that one of those waves in the chart above will eventually break out much higher – with a 100% historical track record. The magnitude of these interest rate hikes is unprecedented for the short period of time in which they have occurred, suggesting we are nearing an end to them.

2023…

Diversification. The dividend payors will remain defensive in your portfolio. As we approach January call maturities, I will be seeking longer-term calls in order to enhance income and capture premium as a hedge against potentially weaker call premiums in the first half of the year.

I would also consider bringing in strike prices (the price at which you would have to sell stock) in order to further enhance up front income. This can be particularly useful in the U.S. market where, for example, technology stocks don’t tend to offer much dividend income.

Here is an example.

SGEN trades at $133 at the time of writing this letter, with a consensus target of $165.

The January ’24 (1 year) $165 call is trading around $11.00 representing 8.2% upfront in income. If assigned at $165, the total return would be 35%

Now if we reduced the call option strike to $150 for the same period, the call is trading around $16, representing 12% upfront in income. If assigned at $150, the total return would still be 28%.

In this strategy, the investor gets more income, more downside protection from the call but not as much potential upside, arguably a more defensive approach.

While the U.S. market appears oversold and could be considered a value play, invest with a mindset of a few years – not a few weeks.

TFSA contribution this year is $6,500. I will be sending more separately on TFSA, RSP and yes, tax preparation dates in future letters.

C**lient lunch workshop**.

It has been a long time since we have been able to gather together. I am hosting a casual workshop in our Boardroom on **Wednesday Feb 8th at 1pm.** I will provide some sandwiches and present some ideas on investment and taxes but also provide you an opportunity to ask any questions. This meeting is for clients that have pre-registered with Maureen, though you are welcome to bring a friend with you. **Register with Maureen at 250 953 8415**.

Hockey Season. I have tickets available in our National Bank Financial box at Save On Memorial Arena for both February 26th and March 4th on a first come, first served basis. Clients interested in attending a Victoria Royals game are welcome to bring family and/or friends. For more information, please call **Campbell at 250 953 8422** who returns January 9th.

If you have any questions or would like to discuss any aspect of your portfolio or market, my team and I are a phone call away. In addition to our online meetings, we are now hosting client meetings again in our Victoria office <u>by appointment</u>.

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, Reuters, Bloomberg, Globe & Mail,

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