We hope that you are well and looking forward to the holiday season!

Markets remain volatile with an upward bias in recent days. This is due to the perception that inflation, may be peaking and will likely start trending downward. If this is the case then Central Banks can begin to slow down the pace of interest rate hikes, ultimately reaching a pinnacle that the markets can find a valuation on. This is a positive because it provides some sense of certainty that investors can look to that will support prices. It is important to keep in mind that if inflation is declining it means that the economy is slowing and that we may ultimately head into a recession. The question now is how much of this scenario is already priced into the bond and equity markets and how long will this retrenchment last.

2023 will likely remain unpredictable especially in the first half until we reach the peak interest rate and the discussion shifts toward stability and a return to growth. The Central Banks are in a tricky position because they need to cool the economy without going too far. Key indicators like wage inflation and the cost of basic living remain elevated and the employment numbers continue to be strong. On the other hand other leading economic indicators like housing and energy prices have declined. The likely scenario appears that inflation will reach target levels more slowly than predicted and we will see elevated interest rates for an extended period of time before they need to stimulate conditions with rate cuts.

The good news is that if we do ultimately head into recession it is likely to be fairly limited because employment remains strong, the financial system is well capitalized, savings are elevated and corporate profits although slowing, remain constant.

European economies face greater headwinds due the Russian War and the Chinese shutdowns. As long as the these geo-political events continue this will remain an issue and even if there are resolutions it will take time to re-establish supply chains.

The bond markets will likely begin to stabilize over the next few months and this bodes well for the equity markets as well.

Shorter term we are likely to see equity markets reverse some their recent gains before normalizing. Because the timing of these events is impossible investors should remain consistent and look for high quality companies with good cash flow and stable dividends to maintain income and stay invested. There are always opportunities, especially with volatility. Energy, materials, financials and industrials remain an area of focus and ultimately technology will rebound. Elevated near-cash positions are warranted as they now offer decent returns. Risky assets like Crypto-currencies and high multiple speculative stocks should be avoided. We remain cautious in the short to intermediate term with an eye to better times in the not too distant future.

As always, if you have any questions or just want to touch base, we’re here to help.

All the best to you and yours for a wonderful holiday,

The Andras Group

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Research Capital is a national investment firm with offices in Vancouver, Calgary, Regina, Toronto and Montreal.