RESEARCH CAPITAL CORPORATION

ANDRAS GROUP
Trusted Advisors Since 1921

We hope that you had a great summer!

As we head into the fall season we have seen the return of volatility. The reason for this was the statement from the U.S. Federal reserve coming out of the Jackson Hole meeting. Chairman Powell made it clear that the number one job of Central Bankers was to tackle inflation. This wasn’t so much a change in plan as a change in tone that caused global markets to react. The statement opened up the possibility that rates may rise higher and stay elevated for longer, resulting in equities reacting negatively and bond yields rising.

Chairman Powell was direct and firm in order to slow consumer confidence and reduce asset prices as both are inflationary. To tackle inflation the economy needs to slow down. We saw markets and sentiment rise over the summer and this needed to be checked, and now the possibility of rate cuts in 2023 seems unlikely.

Consumer Pricing indicators on both sides of the border are starting to retreat, especially materials, oil and housing. Oil prices will likely increase as we approach the winter, however the worst case scenarios of run-away prices appear to have subsided. If the rate of inflation can fall into a neutral range of 4% in 2023, matching the Central Bank’s likely target of 3.5 - 4% this would bode well.

There is still a path for reasonable rate hikes and stabilizing bond and equity markets going into 2023. This would require inflation numbers continuing to decline, especially wages. Friday’s jobs numbers reflected that this may be occurring, especially as the participation rate improved as more people returned to work.

The Central Banks don't need to cause a deep recession in order to tackle inflation. A mild recession is likely priced into the markets already. Earnings were steady in the second quarter and although they are likely to come down, the worst case scenario of earnings declines is now less likely. As investors, it is important to be stock specific at this time because individual companies with strong balance sheets will tend to outperform indexes and mutual funds in this environment.

Short term equity markets are unpredictable, and in the long-term they trend upward. It is the short-term volatility that provides the higher relative returns. It is essential to know that your immediate cash needs are met and your income is covered while you go through uncertain periods. This allows you to look forward with confidence that better times lie ahead.

As always if you have any questions or just want to touch base we are just a phone call or e-mail away.

Have a great start to fall and the new school year.

The Andras Group