October 2022

McMillan Goode Beer Market Update

QUICK TAKES

- GIC rates are closing in on 5%; Canadian banks post attractive dividend yields
- Market shows signs of another rally. Morgan Stanley calls for 10% upside
- Sept CPI release saw prices 6.9% (CAN) and 8.2% (US) higher since last year
- Canadian inflation is low compared to other G20 countries outside Asia
- Earnings season is just starting; expect price volatility to continue

CHARITABLE DONATIONS

The deadline for making charitable donations is approaching quickly. Please make sure you speak to your advisor as soon as possible if this is something you are considering.

One thing to keep in mind is the tax advantage you will get for donating securities rather than cash. In fact, donating securities is the single most efficient way to give charitably. This is because capital gains will not be triggered, allowing you to give more and avoid paying capital gains taxes on the transaction altogether!

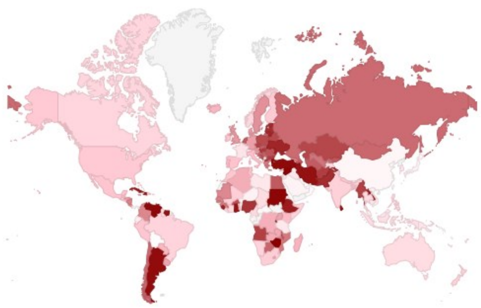

Figure 1: Global Inflation heat map

GOOD NEWS IS BAD NEWS

One of the most highly anticipated economic releases this month was the U.S. jobs report. It showed unemployment falling to 3.5% and 263,000 jobs created, compared to 315,000 jobs added in August and an unemployment rate of 3.7%. Lower unemployment is usually good news—those who want to work are able to find it for the most part; however, given the high inflation environment we find ourselves in, a strong labor market is not what investors are looking for. These results suggest that the federal reserve will continue increasing interest rates, and that a policy pivot is still over the horizon.

Investors would rather see a weaker labour market as proof that our fight against inflation is gaining traction. This is due to the famous economist William Phillips, who studied the short-run relationship between inflation and unemployment: As one decreases, the other tends to increase, or vice versa. So to bring down inflation, we should expect to see unemployment rise at the same time.

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BUY LOW, SELL HIGH

The market giveth and the market taketh away, but recently it feels like there has been a lot more taking than giving. Hidden in the chaos, there is one thing investors have been given lately: opportunity. Make the right decisions today and create wealth for yourself in the future.

Past data shows that S&P 500 investments made during — and immediately following — a downturn are far more profitable than those made at any other time. The most important thing to remember is to restrict those investments to high quality companies. Your investment advisor will be able to help decide where to allocate your money effectively.

BEAR MARKET VOLATILITY

Bear markets and corrections are nothing new. Some last longer than others, but the market has always recovered. A correction can actually benefit the long term health of the economy.

DID YOU KNOW? 5 BEAR MARKET FACTS

1. They tend to be short lived. The average length of a bear market is only about 14 months, a lot shorter than the average bull market duration: 2.7 years.

2. Half of the S&P500's strongest days in the last 20 years occurred during a bear market. Another 35% of the market's best days occurred within the first two months of a bull market.

3. A bear market doesn't necessarily indicate an economic recession. There have been 26 bear markets since 1929, but only 15 recessions during that time.

4. There have been 26 bear markets and 27 bull markets since 1926.

5. Assuming a 50 year investment horizon, you can expect to live through about 14 total bear markets.

INTEREST RATES & INFLATION

The Consumer Price Index is a key measure of how prices change over time (inflation). It is therefore very important for central banks, as their policy this year has been focused on lowering inflation. The September numbers released this month showed prices rose 6.9% in Canada and 8.2% in the U.S. relative to the same time last year.

> **"WITHOUT PRICE STABILITY, THE MARKET DOES NOT WORK FOR ANYONE"**
>
> - Jerome Powell, Fed Chair

You might be wondering why interest rates and inflation are such a concern to investors. The short answer is that central banks use interest rates as a tool to implement monetary policy; i.e., to keep inflation contained. And when interest rates move, it causes fundamental changes to the business climate.

For example, higher interest rates give companies an incentive to hang on to excess cash, rather than invest in new projects. Likewise, consumers find it more worthwhile to save today and spend tomorrow, so to speak. These mechanisms tend to slow down the economy, which is why you might see the words "policy error" and "recession fears" in so many news headlines lately.

CLOSING REMARKS

In almost all cases, it is wise to stay invested in tough times. We cannot forget that the market is forward looking. It will recover before the real economy does; unfortunately, nobody can say when for certain. We thank you for your continued patience during this stressful time. In person reviews, if possible, are a great thing to do; click below to book online.

SCHEDULE A MEETING

DISCLAIMERS