



# CHARTBOOK

## Market Comment

Prepared by OceanFront Investment Counsel Inc.

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# CONTRIBUTORS

## PORTFOLIO MANAGERS

Scott Keast, CIM, CFP®  
Shane McMahon, CIM, CFP®

## SENIOR WEALTH PARTNER\*

Bruce Lindsay, CFP®, CH.F.C.®, CLU®

## SENIOR WEALTH ADVISOR\*

Brendan Leathem, CFP®, CLU®, CIM®

## ASSOCIATE PORTFOLIO MANAGER

Adam Carris, CFA®, CIM®, CFP®

## PORTFOLIO ADMINISTRATOR

Matthew Cameron, CFA®, CIM®

## WEALTH ASSOCIATE\*

Kim Reynolds, CIM®, QAFP®

\* OceanFront Wealth Inc.

# Market Comment

The big news last week was the Bank of Canada (BoC) announcing that it is ending its quantitative easing program and no longer expanding its balance sheet with bond purchases. This is the first step along the path that eventually leads to the BoC increasing its policy interest rate, which is expected to begin next year. The BoC cited progress in the global economic recovery, and its forecast for strong economic growth in Canada as the reasons to begin tightening monetary policy.

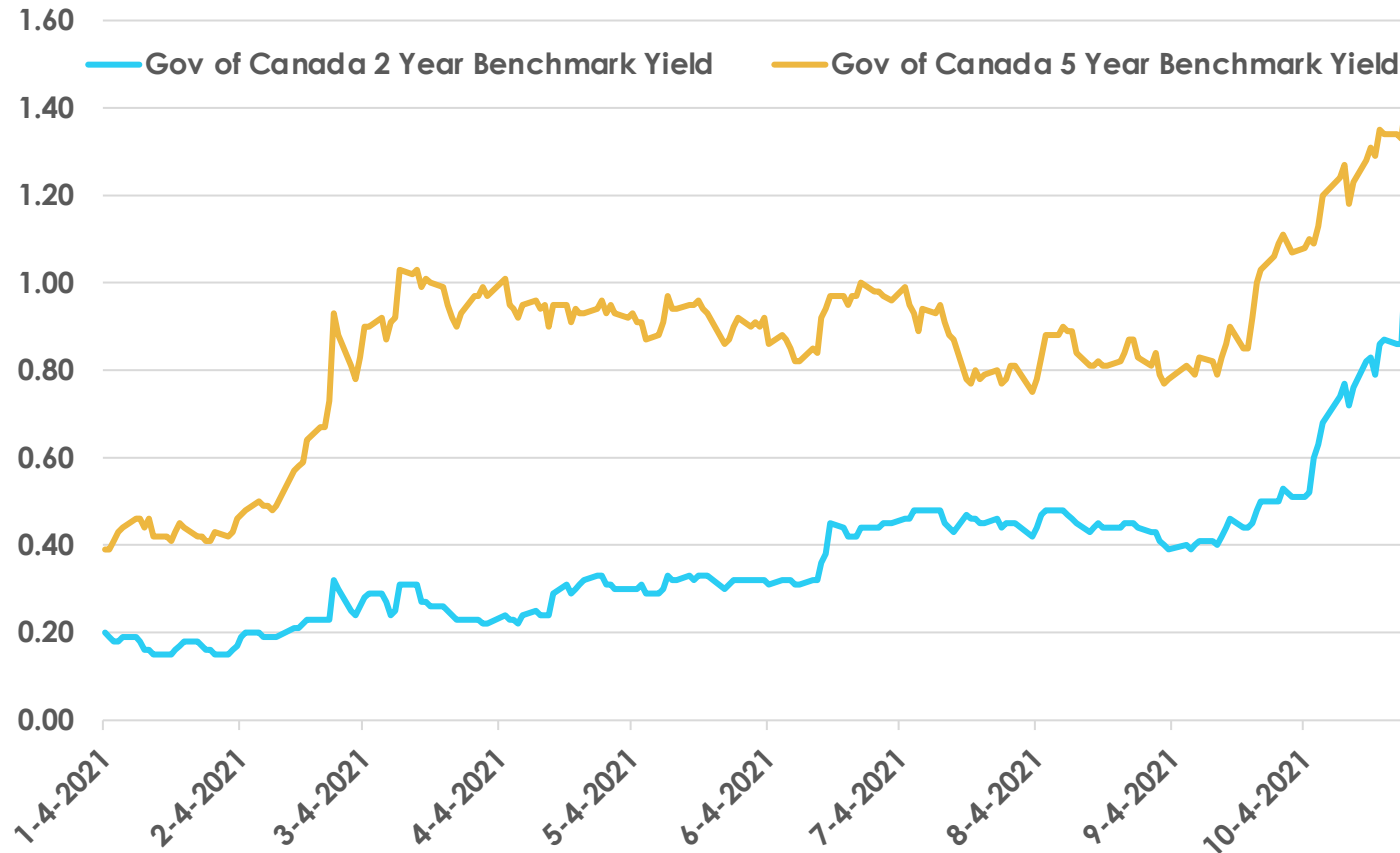
“The Bank projects global GDP will grow by 6½ percent in 2021 – a strong pace but less than projected in the July Monetary Policy Report (MPR) – and by 4¼ percent in 2022 and about 3½ percent in 2023.”

The BoC also commented on inflation, expecting it to remain elevated for some time.

“The recent increase in CPI inflation was anticipated in July, but the main forces pushing up prices – higher energy prices and pandemic-related supply bottlenecks – now appear to be stronger and more persistent than expected... The Bank now expects CPI inflation to be elevated into next year, and ease back to around the 2 percent target by late 2022.”

The announcement had rippling effects through financial markets, as Canadian government bond yields spiked on the news.

# Bond Yields



Over the past two months or so, yields on Canadian Government Bonds have risen rapidly. The 5-year yield has increased to roughly 1.4% from 0.80%, and the 2-year yield has increased to 1% from 0.4%.

The 5-year yield is an important metric for mortgages, as this is where banks typically borrow the funds they use to lend to homebuyers on mortgages, so this rate rising is likely to push mortgage rates higher as well.

It is evident that we are now in an inflationary, rising interest rate environment.

# Interest Rate Hikes

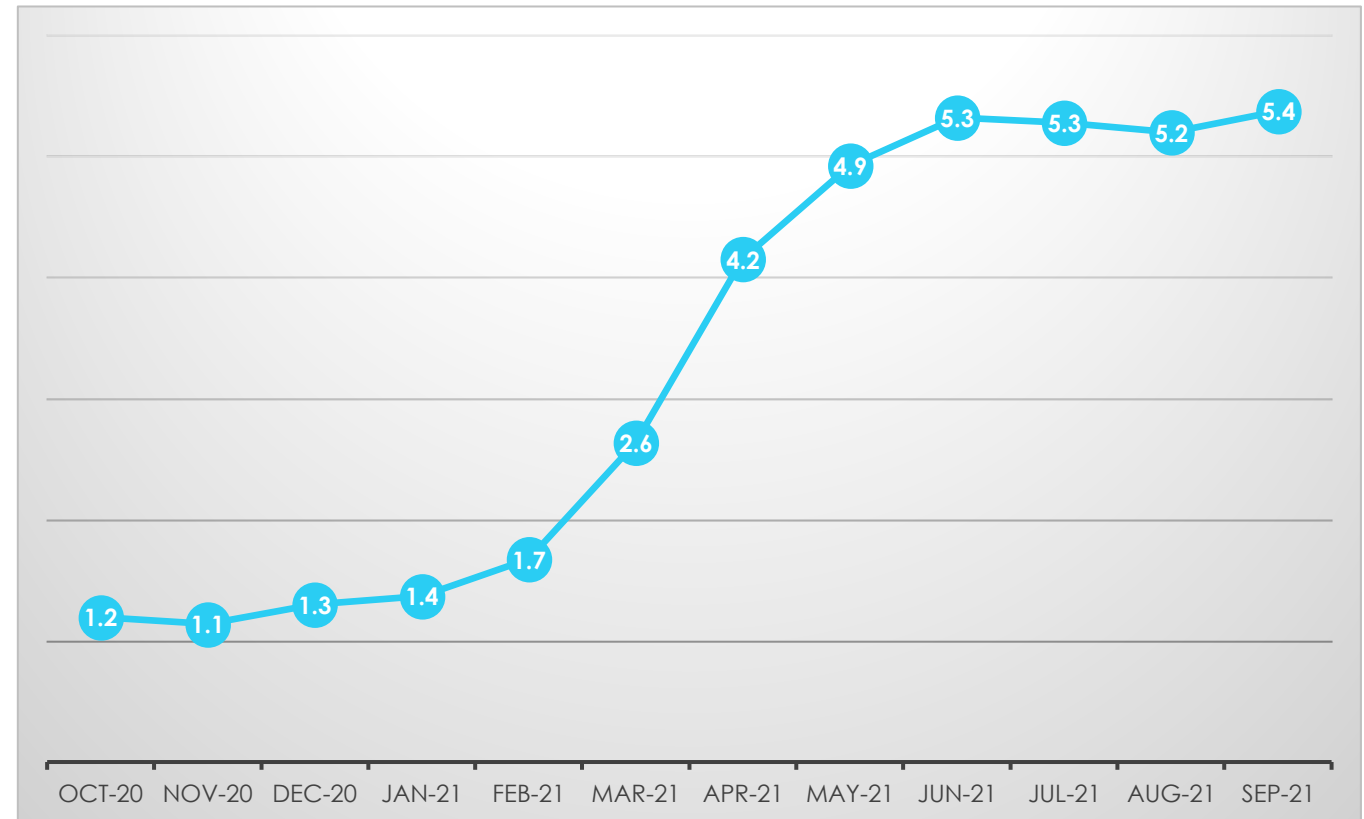
Region: Canada »		Instrument: Overnight Index Swaps »		Enable Overrides	
Target Rate	0.250	Pricing Date	11/01/2021		
Effective Rate	0.2000	Cur. Imp. O/N Rate	0.195		
Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
12/08/2021	+0.284	+28.4%	+0.071	0.266	0.250
01/26/2022	+0.717	+43.2%	+0.179	0.374	0.250
03/02/2022	+1.721	+100.4%	+0.430	0.625	0.250
04/13/2022	+2.176	+45.5%	+0.544	0.739	0.250
06/01/2022	+2.963	+78.7%	+0.741	0.936	0.250
07/13/2022	+3.914	+95.0%	+0.978	1.173	0.250
09/07/2022	+4.532	+61.8%	+1.133	1.328	0.250

The market is now pricing the first rate hike in Canada to be announced at the March 2<sup>nd</sup>, 2022 meeting and at least four, 0.25% hikes in the next 12 months. The market is pricing still more hikes before the tightening cycle concludes.

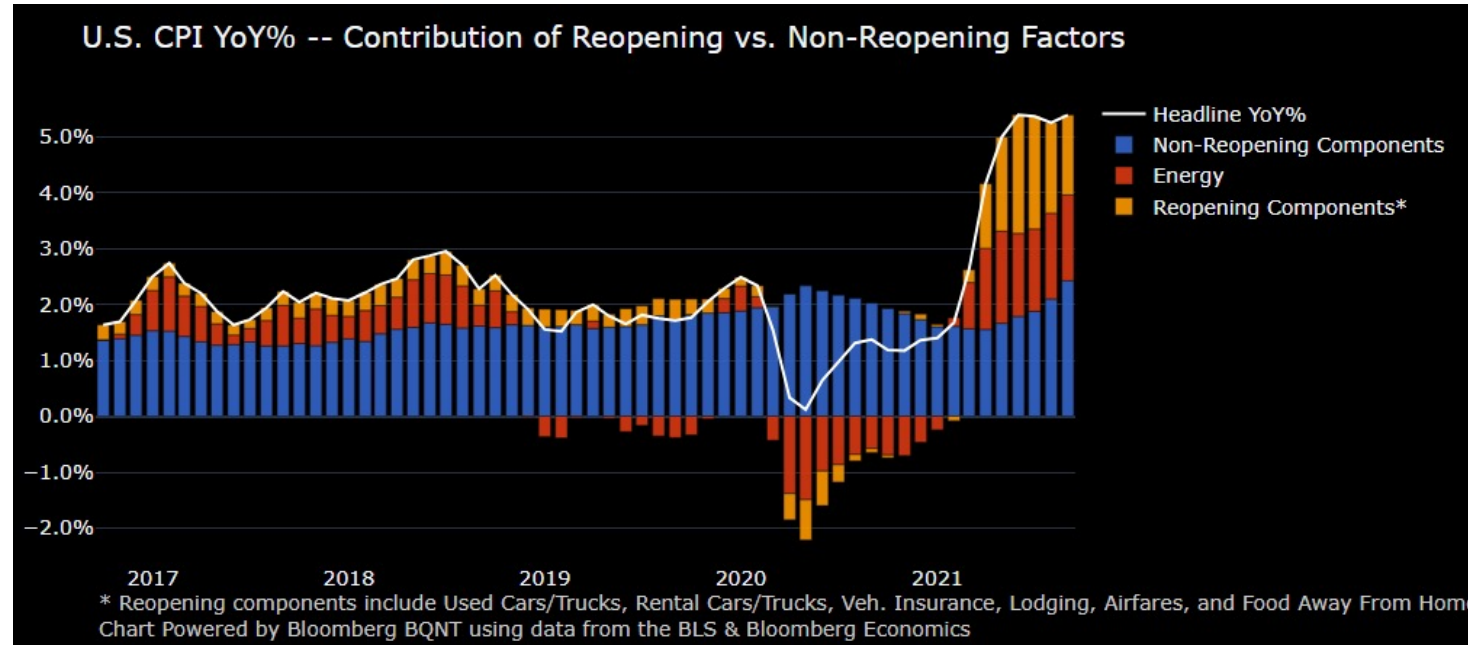
# Inflation

Inflation has increased substantially over the past year, rising to 5.4% from just over 1% in the US. This will be a factor that central banks consider when setting monetary policy and may force some to tighten and/or raise rates earlier than they would like.

The Bank of Canada's decision last week may prove to be a canary in the interest rate coal mine.



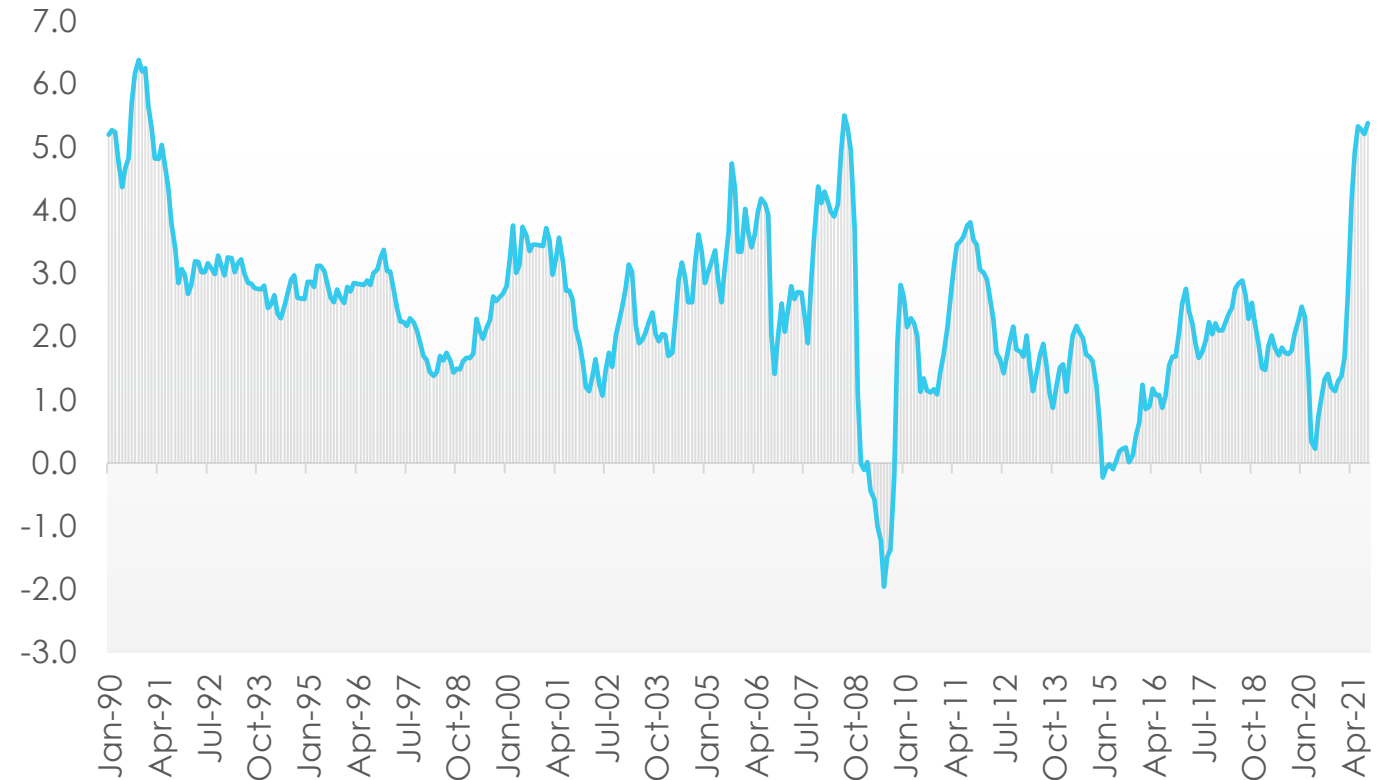
# Digging Into Inflation Data



The non-reopening components of CPI (Consumer Price Index), most notably the cost of shelter, have been adding to the increase in inflation. Inflation is not just a story of reopening-driven demand.

# Inflation Continued

In the US, inflation readings are now among the highest in the past 30+ years, recently touching the financial crisis high.



# Commodities



Commodities, shown here as the GraniteShares Bloomberg Commodity Broad Strategy ETF, are often considered a hedge against inflation. That has proven effective to date, as they have performed very well over the past 18 months.

In an inflationary environment, these raw materials are often among the products that are increasing in price including metals, energy and agricultural products.

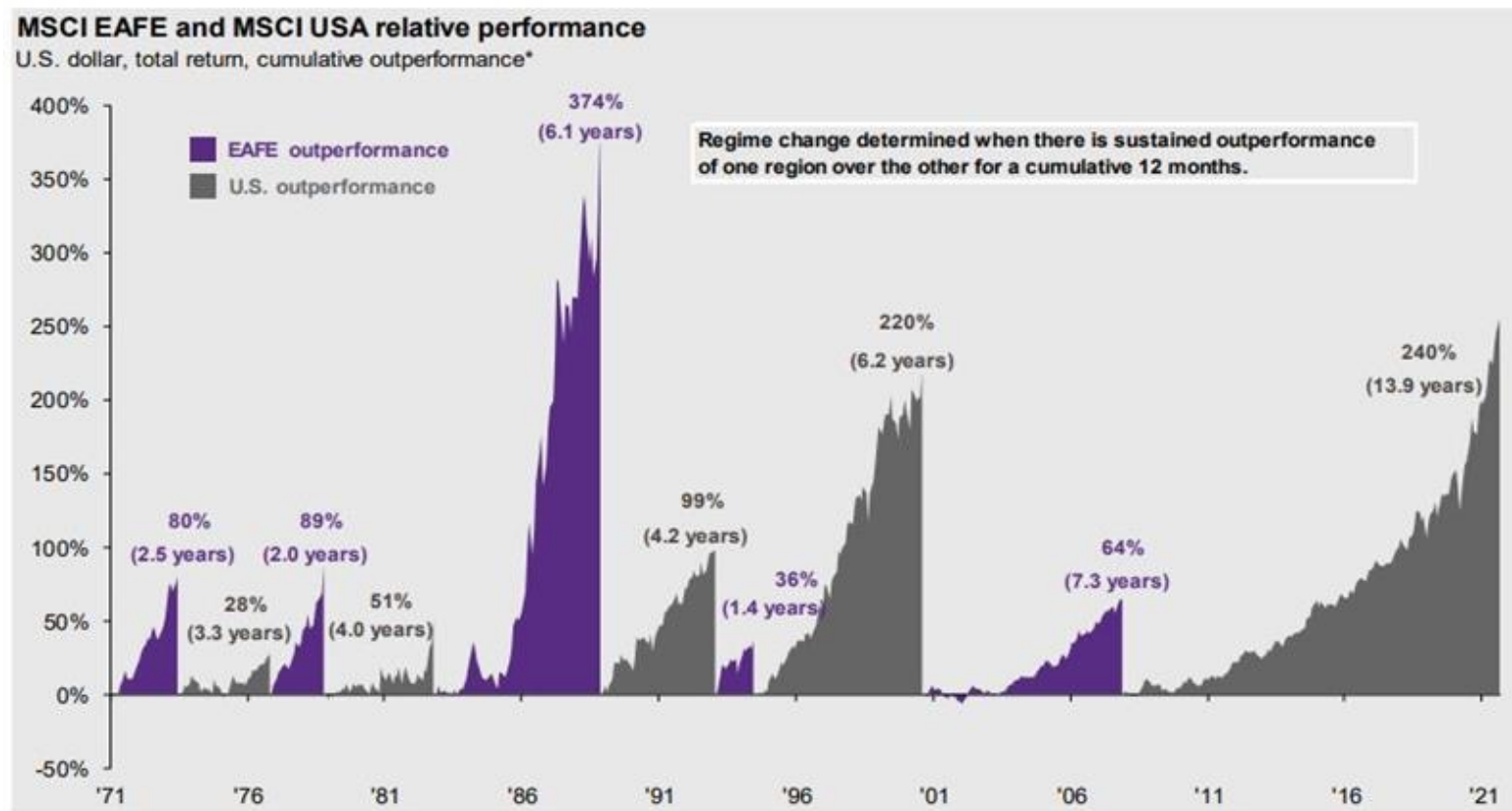
# Bitcoin

Cryptocurrencies like Bitcoin, although relatively new and untested, also may be an effective hedge against inflation. Bitcoin has recently touched new highs after a large drawdown of roughly 50% this year.

Bitcoin has more than doubled in price year-to-date (as of Oct. 29, 2021).



# Is US Equity Best?



Source: FactSet, MSCI, J.P. Morgan Asset Management.

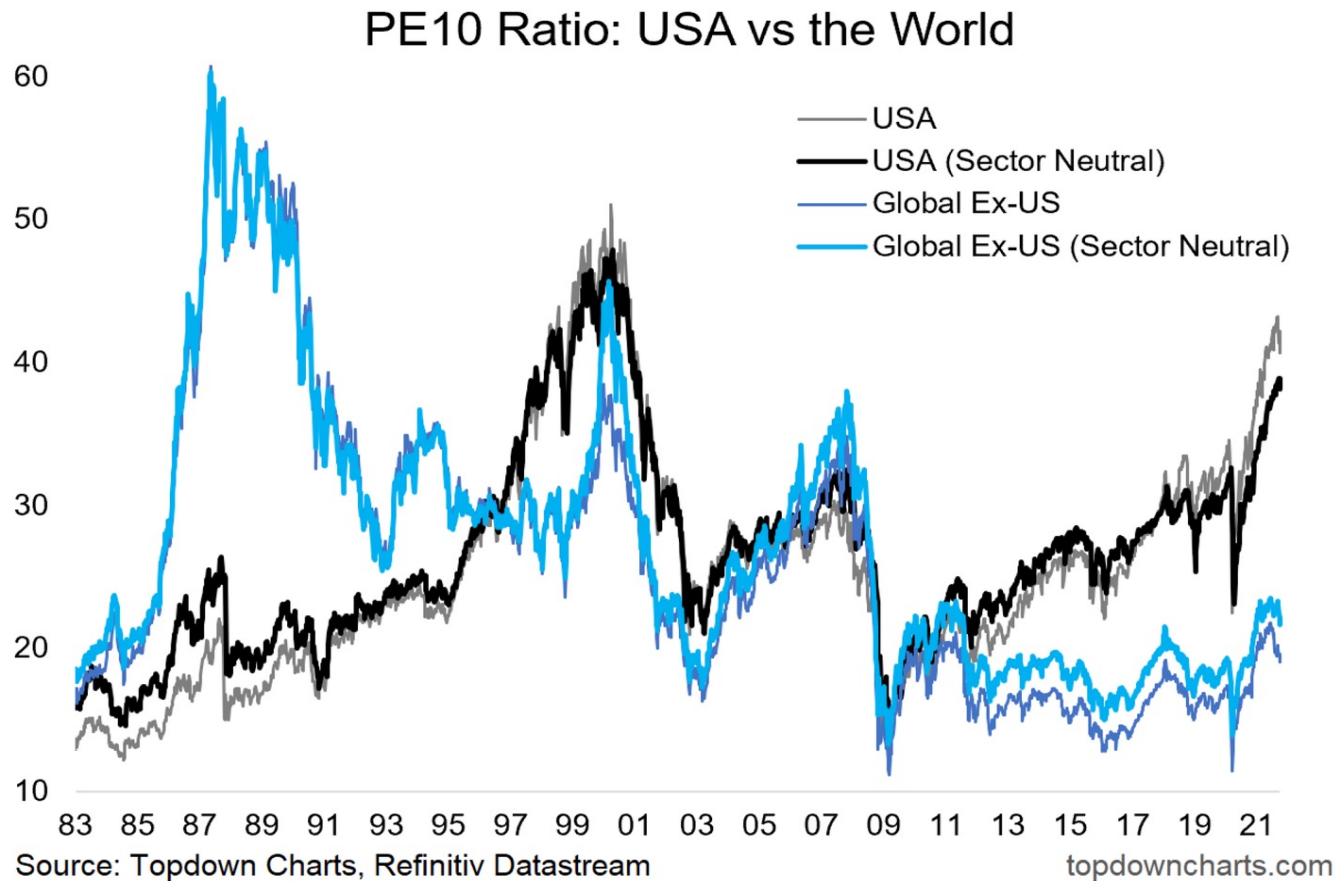
\*Cycles of outperformance include a qualitative component to determine turning points in leadership.

Guide to the Markets – U.S. Data are as of September 30, 2021.

For more than a decade, the US stock market has outperformed EAFE stocks (Europe, Asia and Far East). But as the popular disclaimer goes, past performance does not guarantee future results.

Historically there is a cycle of outperformance, with each region experiencing periods of being on top. It's unlikely this current period of US outperformance will continue in perpetuity, but it is difficult to predict when a shift may occur.

# PE Ratio: US vs. Rest of World

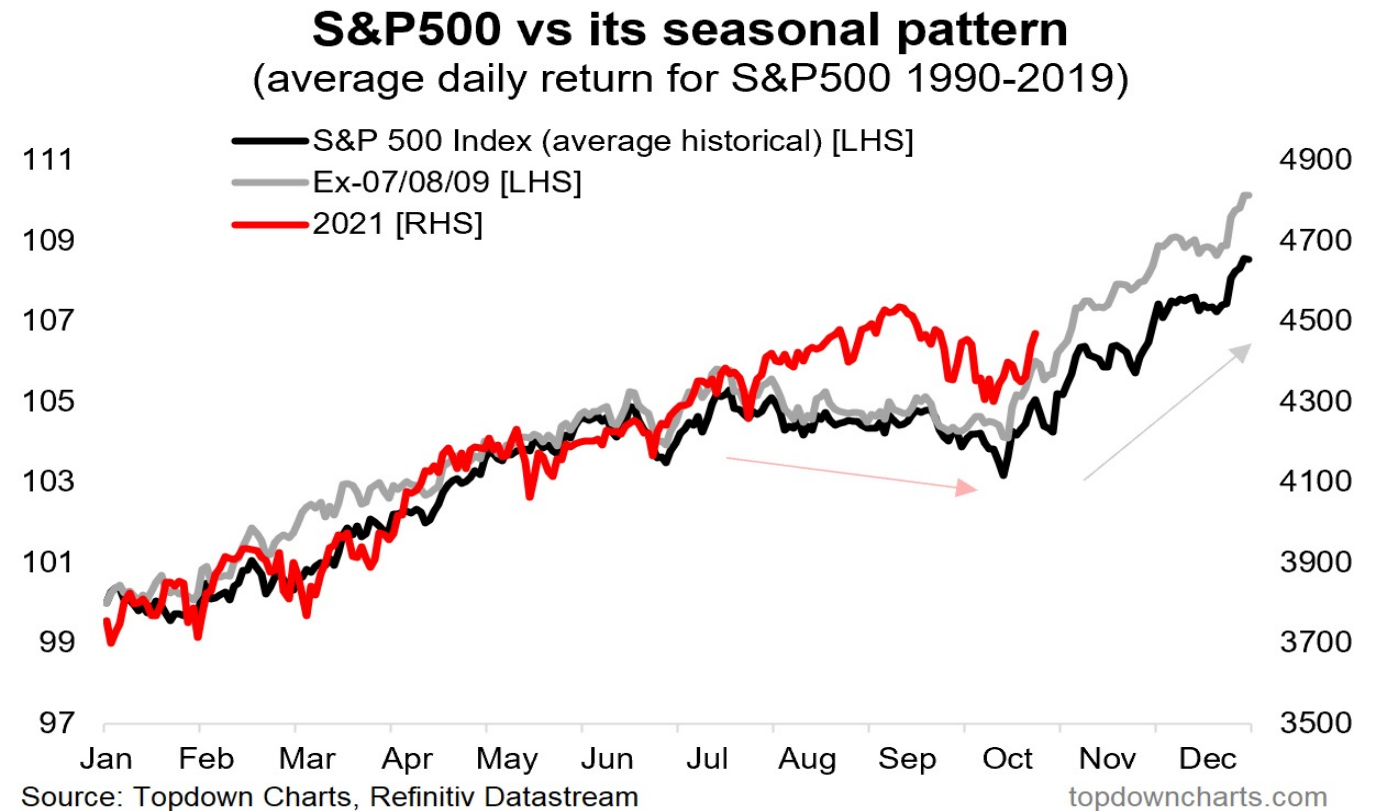


Based on valuation, the US (blue) is expensive relative to the rest of the world (black/grey). This shows a willingness among investors to pay a premium to own US assets and suggests that there may be value to be had in other regions.

# Seasonality

We are heading into what is historically the best period of the year for stocks, November to January.

It's interesting how closely this year (red line) has followed the average historical pattern of the S&P500 (black/grey).



# References

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