CHARTBOOK

Market Comment

Prepared by OceanFront Investment Counsel Inc.

oceanfrontwealth.com

Chartbook Market Comment: September 2022

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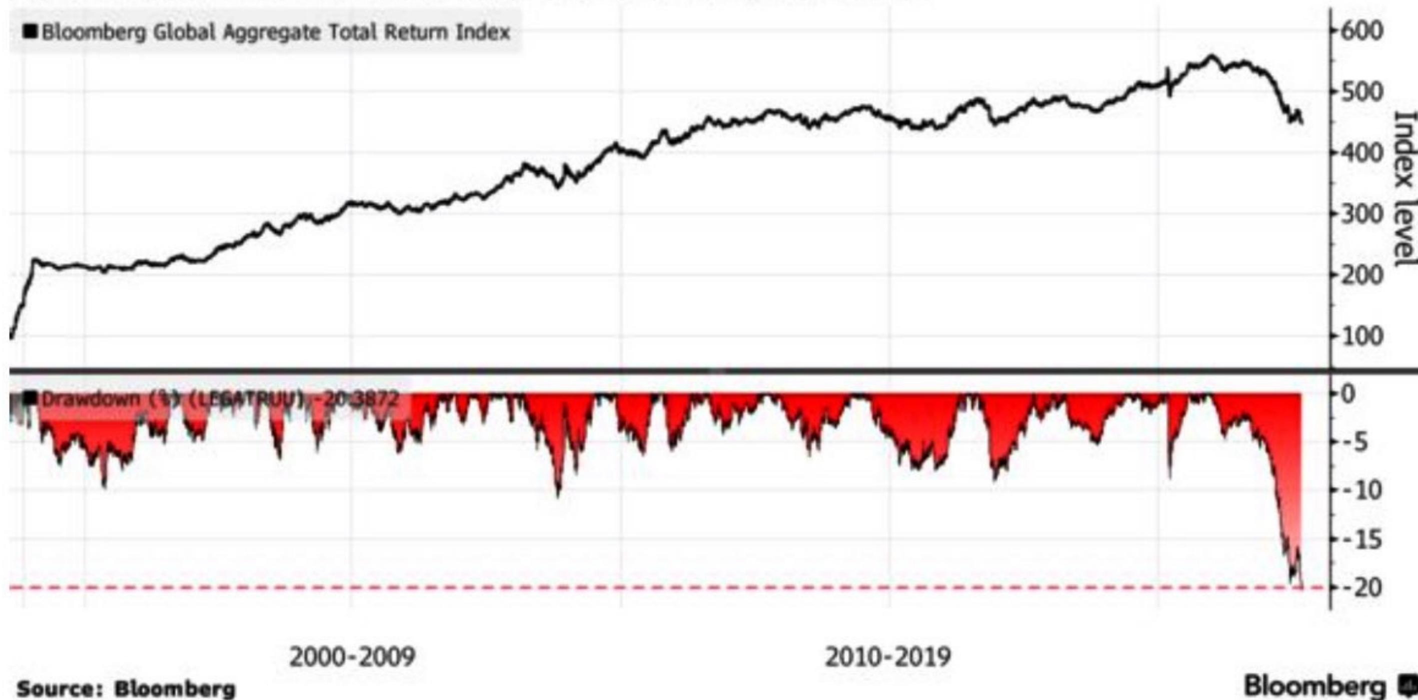
Market Comment

After a big bounce in stock and bond markets in July, most markets pulled back in August. The TSX fell 1.5%, the S&P500 fell 4.1% and the US Aggregate Bond Index fell 2.8%. Inflation and interest rates remain the most important factors for markets. In July, CPI inflation in Canada was 7.6% and, in the USA, it was 8.5%. Central Banks continue to hike interest rates to combat inflation; on Wednesday, the Bank of Canada raised its policy rate by 75 basis points to 3.25%, the highest level since April 2008.

There are signs that inflation has peaked, with recent data showing slowing inflation and certain supply chain issues potentially easing. While this will be welcome news to central banks, inflation is still well above their long-term targets of around 2%, so they have indicated that more hikes will be necessary. The hikes will likely continue until inflation declines substantially and/or the unemployment rate rises significantly. Investors are anticipating the point where central banks deem that enough has been done and this headwind of rate hikes and quantitative tightening is removed.

Internationally, other key issues are a soaring US Dollar and an emerging energy crisis in Europe due to a lack of supply of Russian gas. The US Dollar has climbed to a 20 year high which puts pressure on countries and international corporations that have significant US Dollar denominated debt. Europe is facing massive increases in energy costs which threatens to push their economies into recession.

Bond Bear Market



As interest rates continue to rise, bond prices continue to fall. As measured by the Bloomberg Global Aggregate Total Return Index, bonds are down 20% year-to-date.

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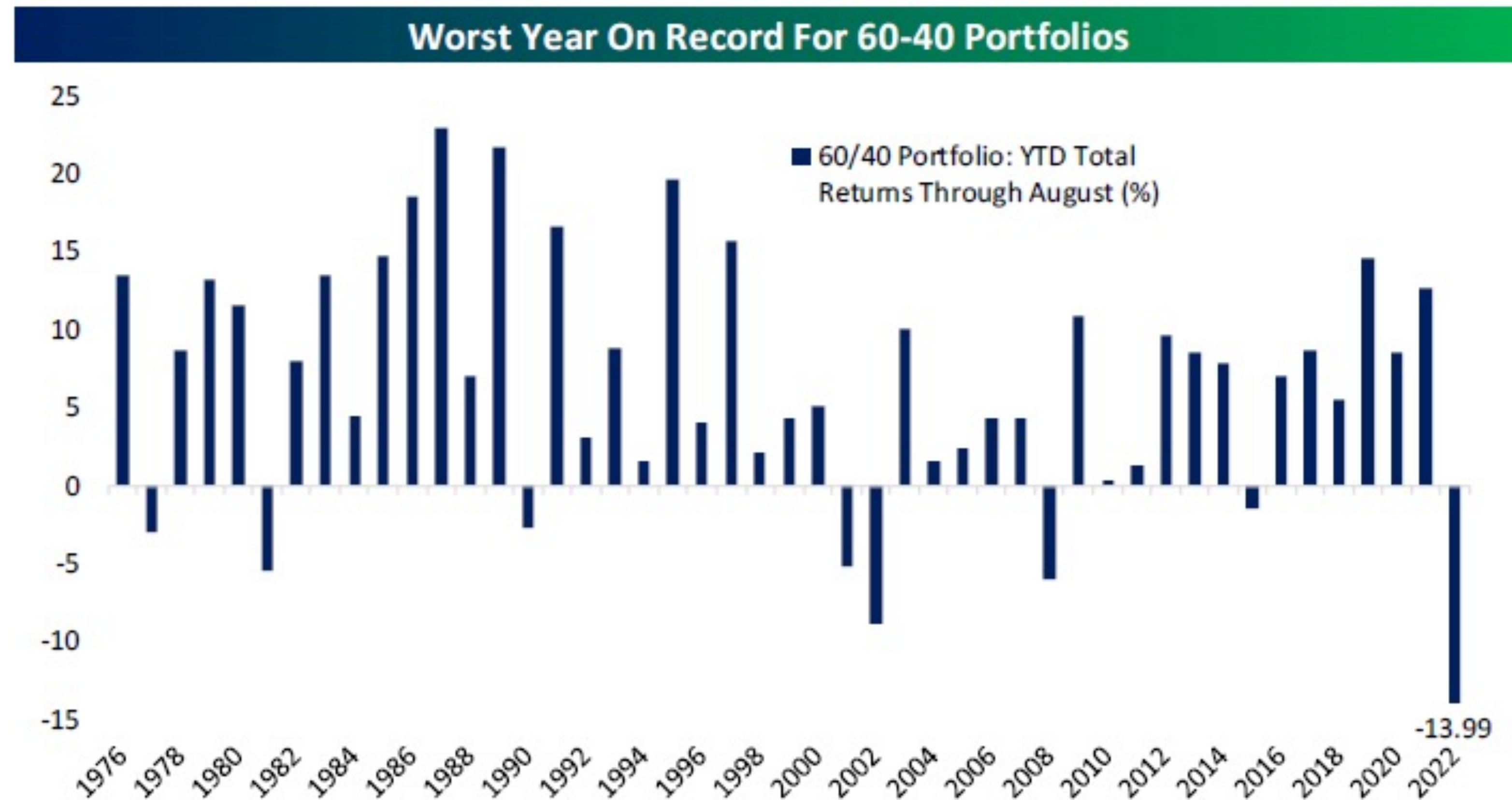
60/40 Portfolio Returns

With both bonds and stocks falling this year, the standard 60% stocks/40% bonds "balanced" portfolio is suffering its worst year on record, dating back to 1976.



 Source: Bespoke Investment Group, OceanFront Investment Counsel Inc.

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Market Timing

The difficulties of trying to time the market

Bank of America looked at the impact of missing the market's best and worst days each decade

Decade	Price return	Excluding worst 10 days per decade	Excluding best 10 days per decade	Excluding best/worst 10 days per decade
1930	-42%	39%	-79%	-50%
1940	35%	136%	-14%	51%
1950	257%	425%	167%	293%
1960	54%	107%	14%	54%
1970	17%	59%	-20%	8%
1980	227%	572%	108%	328%
1990	316%	526%	186%	330%
2000	-24%	57%	-62%	-21%
2010	190%	351%	95%	203%
2020	18%	125%	-33%	27%
Since 1930	**17,715%**	**3,793,787%**	**28%**	**27,213%**

Source: Bank of America, S&P 500 returns

When markets are down, it can be tempting to sell positions to cash and wait to buy back in. However, this strategy is extremely difficult to execute successfully because of the probability of missing out on a significant amount of the upside when markets rebound.

From 1930-2020, the total price return of the S&P500 was 17,715%. This is the return an investor would have received (excluding dividends) for remaining invested over that entire period and not making any portfolio changes.

If this investor had missed out on the 10 best days in each decade, the total price return drops from 17,715% to just 28%!

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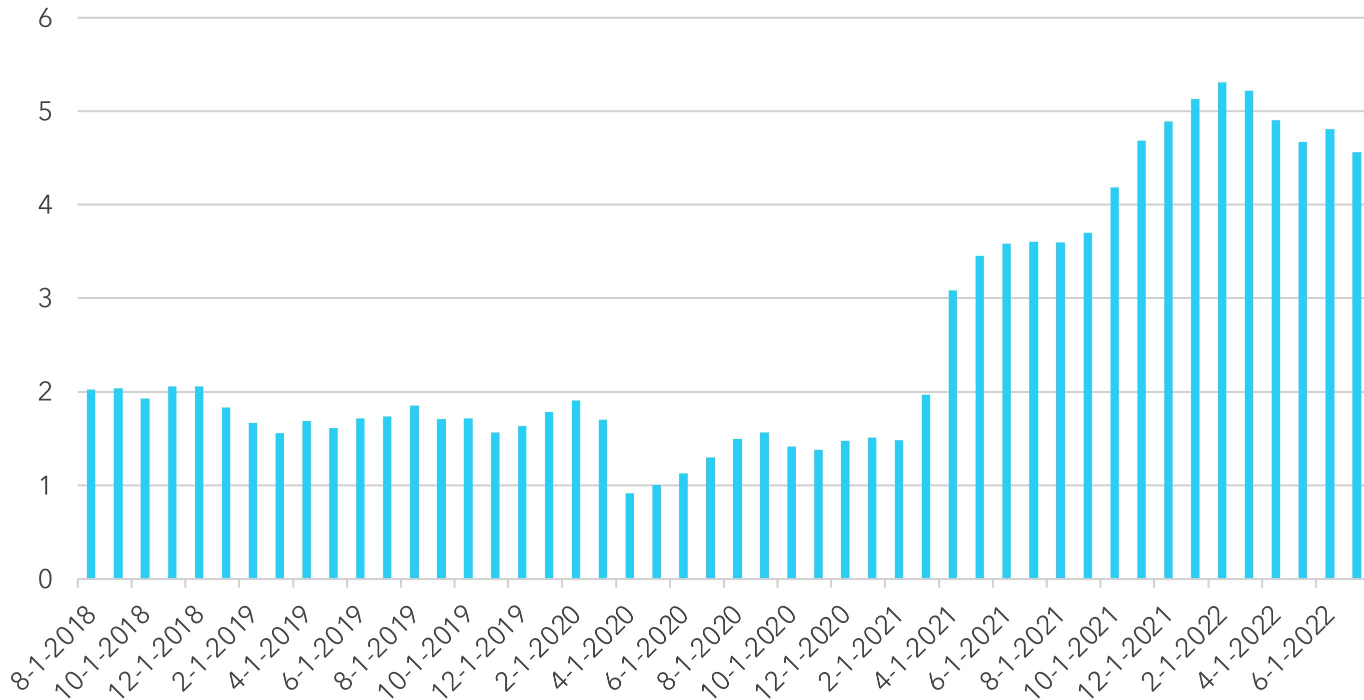
Inflation – US



Inflation has been declining for the past several months as measured by Personal Consumption Expenditure.

 Source: Federal Reserve Bank of St. Louis, OceanFront Investment Counsel Inc.

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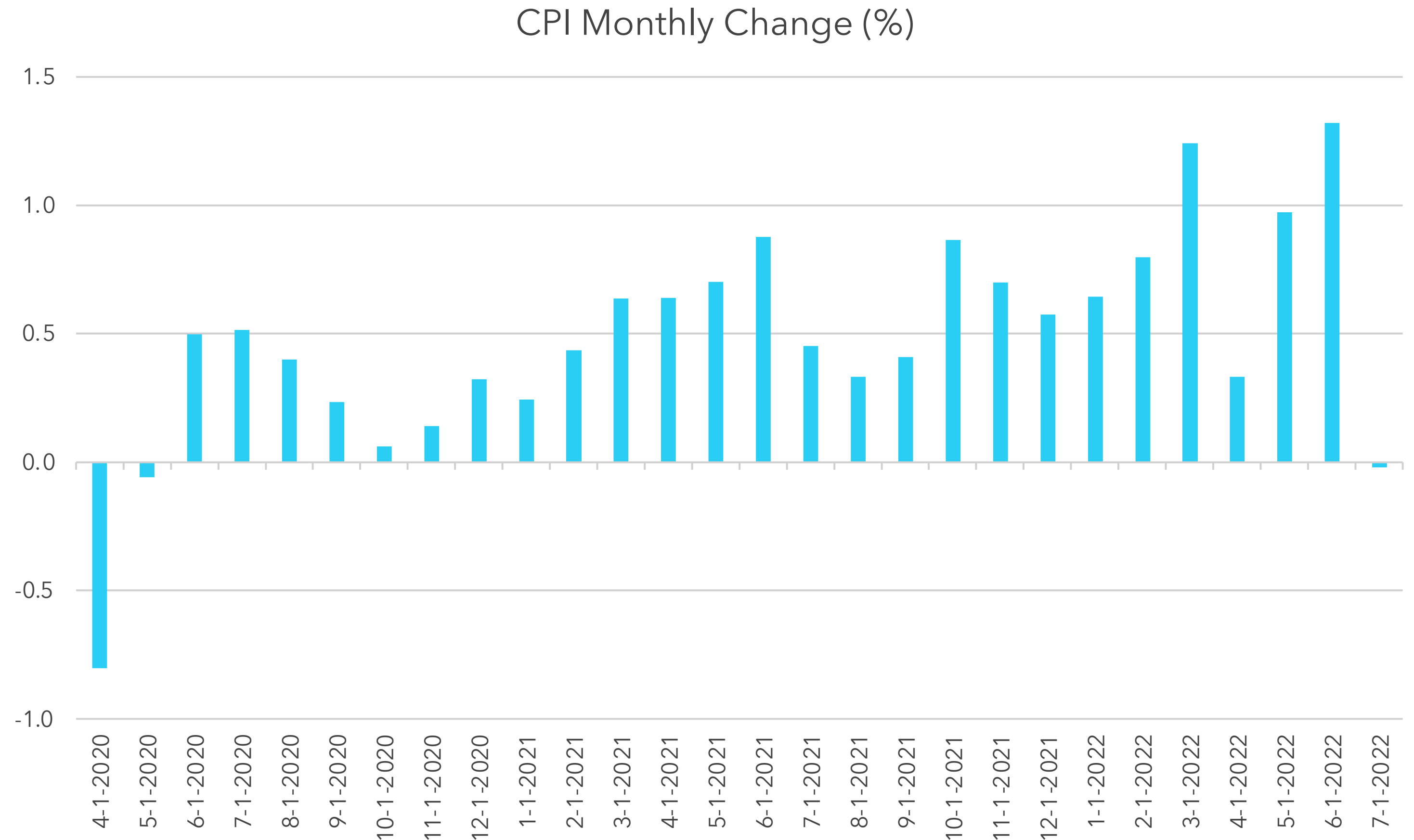
Inflation - US

CPI numbers came in below expectations for July, and showed no inflation for the month.



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Gasoline

Gasoline prices have declined dramatically from the peak in June and have been a deflationary component of CPI since then.

 Source: Stockcharts.com, OceanFront Investment Counsel Inc.

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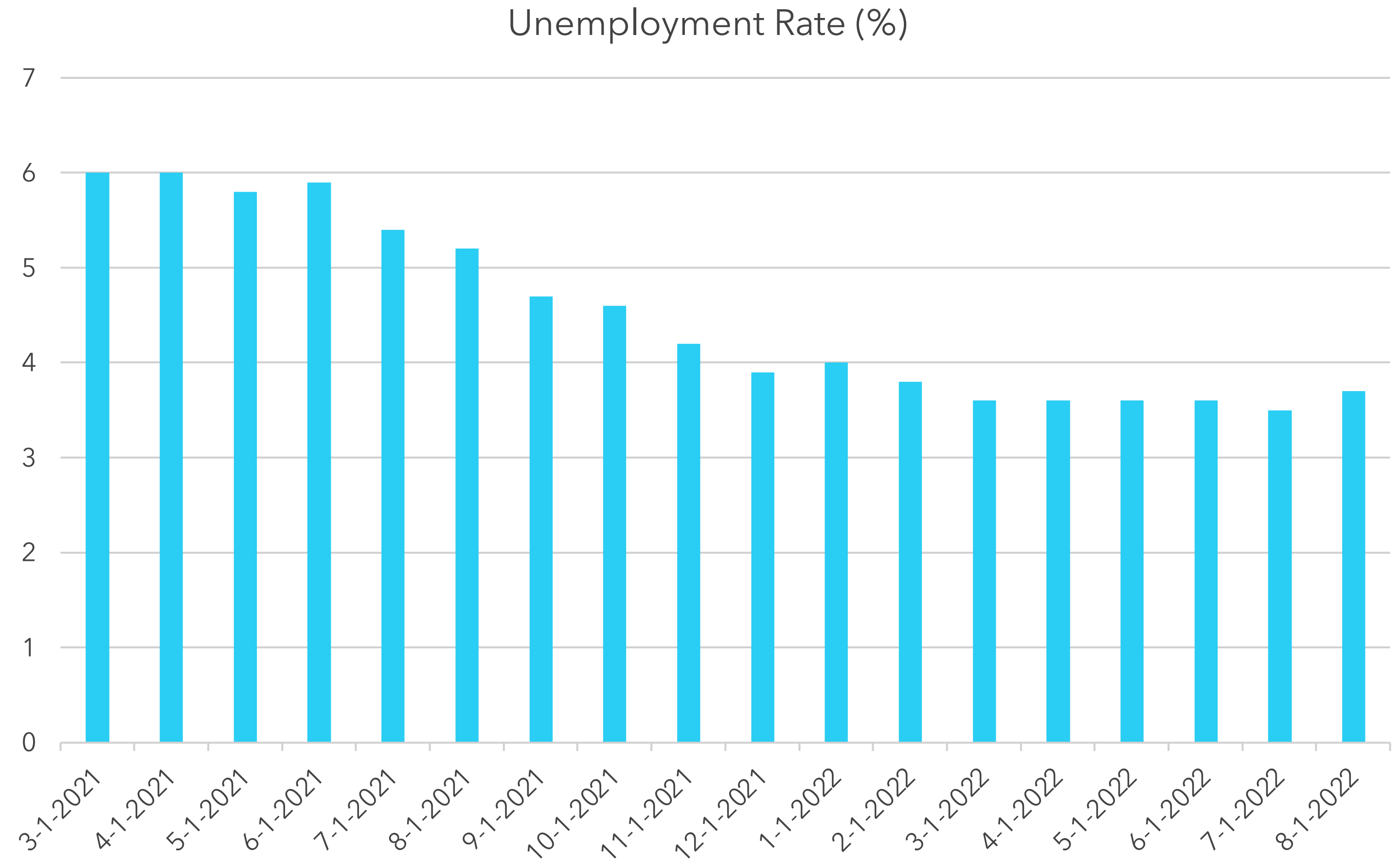
Employment - US

In August, the unemployment rate in the US rose from 3.5% to 3.7%. This is one of the key pieces of data that the Federal Reserve is watching, and they have implied that the unemployment rate needs to rise in order to cool off demand and bring inflation down. It is a sign that the Fed's policies are having the desired effect.



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Supply Chain Issues Easing?

The backlogged queue of ships waiting to dock at the major port of LA-Long Beach has eased and now reached a record low. This is a sign that supply chain bottlenecks may be easing, which have been a major contributor to high inflation.

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US Dollar

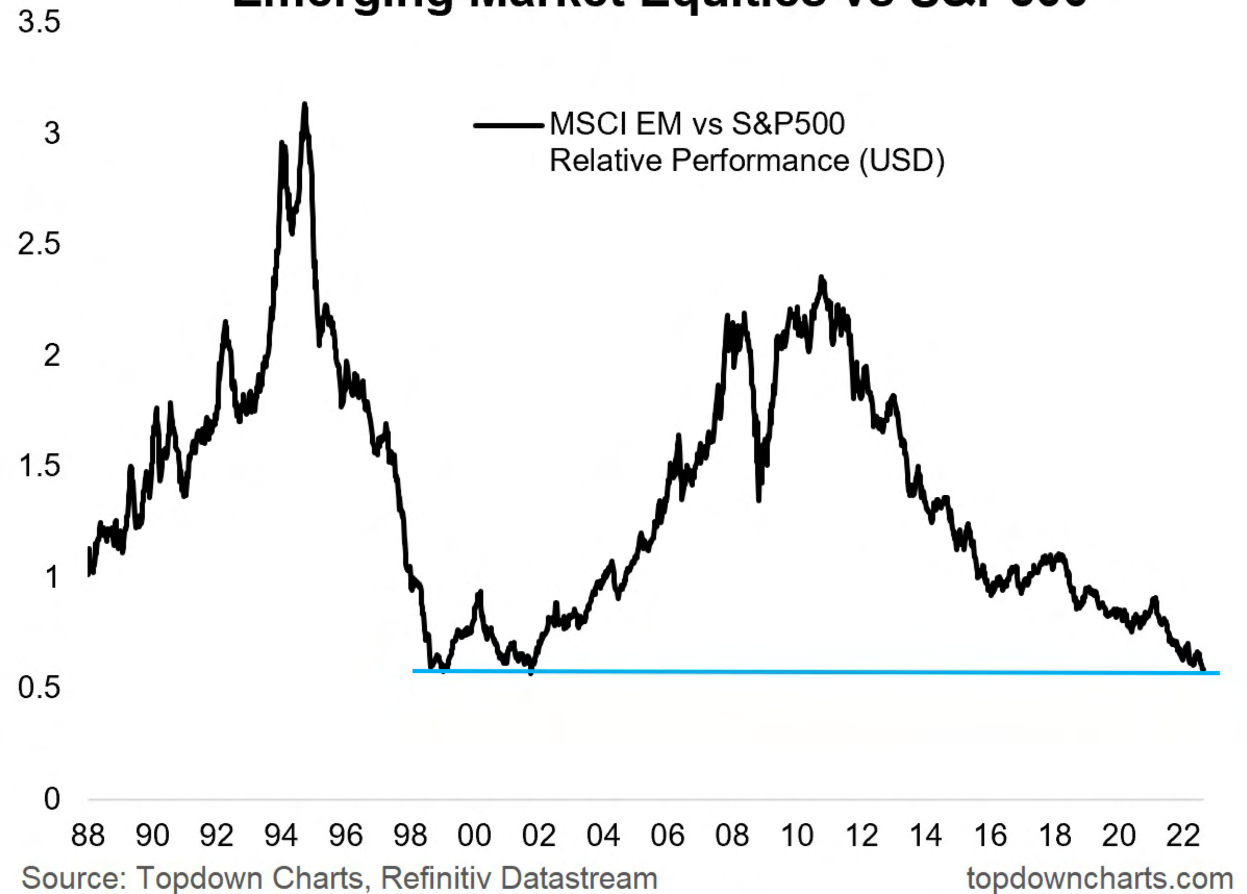
The Federal Reserve has increased interest rates by more than most central banks this year. That makes US Dollar deposits, and thus US Dollars, more attractive than other currencies because they pay more interest. This increases demand for US Dollars and pushes the value of the currency up. The US Dollar index, which ranks the USD against a basket of international currencies, has reached a 20-year high.

This leads to many undesirable side effects, notably for companies and countries with US Dollar debt but little US Dollar revenue with which to service the debt, the debt becomes far more costly.

Source: J.P. Morgan Asset Management; (Left) FactSet, ICE; (Top right) Bureau of Economic Analysis, FactSet; (Bottom right) Tullett Prebon. Currencies in the DXY Index are: British pound, Canadian dollar, euro, Japanese yen, Swedish krona and Swiss franc. *Interest rate differential is the difference between the 10-year U.S. Treasury yield and a basket of the 10-year yields of each major trading partner (Australia, Canada, Europe, Japan, Sweden, Switzerland and UK). Weights on the basket are calculated using the 10-year average of total government bonds outstanding in each region. Europe is defined as the 19 countries in the euro area.
Guide to the Markets – U.S. Data are as of August 31, 2022.

Emerging Markets

Emerging Market stocks tend to come under significant pressure when the US Dollar rises significantly. Relative to the S&P500, emerging market stocks are near a 20-year low.



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E&OE

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