Client Insights: Market Commentary

PRIVATE CLIENT SOLUTIONS

December 1, 2022 Nadeem Kassam, MBA, CFA

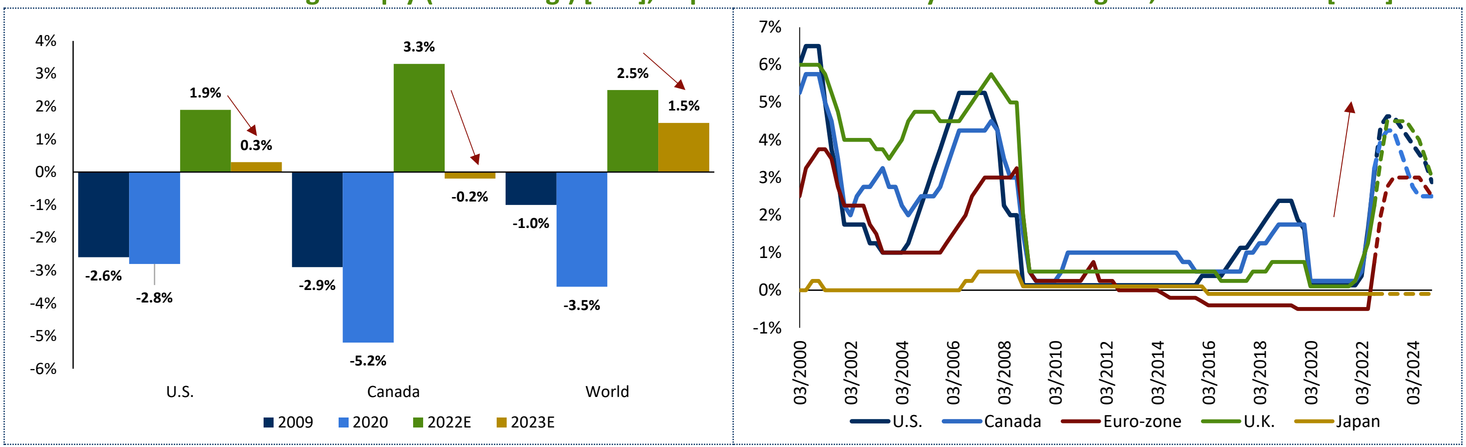
2023 Outlook – It's Complicated…

It's been a whirlwind year for most investors who have had to navigate through a challenging period full of elevated levels of volatility and high uncertainty. The "wall of worries" for investors has continued to evolve, from persistent COVID-19 concerns to the economic/market worries that followed, including fears of an impending recession. For 2023, we expect another challenging year ahead for investors with the level of uncertainty to remain high. But with markets selling off as economic/corporate fundamentals continue to normalize this year, albeit down from very-high/unsustainable levels, we are now seeing a more compelling risk/reward profile for both stocks and bonds globally than we did at the start of the year. For long-term oriented investors, we suggest to: **1)** Stay invested and well-diversified; **2)** Ignore the headlines; **3)** Stick to your investment plan; **4)** Capitalize on mispricing/bargains in the marketplace across asset classes; and, **5)** Remain selective and focus on allocating capital to securities that offer a compelling risk/reward profile – **avoid places to hide and instead focus on places to invest**.

2022 – The Great Normalization!

The economy entered 2022 on a solid footing only to slow materially from peak levels reached in June 2021 when global real GDP rose by 13.1 per cent year-over-year (YoY) versus the 20-year average of 3.5 per cent YoY. Real GDP growth is now set to slow materially from the peaks with the consensus now calling for an increase of only 2.5 per cent and 1.5 per cent YoY in 2022 and 2023, respectively. Inflationary pressures have been very "real" in 2022. While initially viewed by the majority as only a transitory issue and primarily fuelled by the pandemic, inflationary pressures have since broadened out this year to all components in the consumer price index (CPI) basket, including both goods and services. However, we are seeing strong signs that peak inflation is likely behind us, with pressures moderating rather quickly. Monetary and fiscal policy measures, which were ultra-loose at the start of the year, have since tightened aggressively. Pandemic-related fiscal measures have ended, while interest rates have risen at the fastest pace on record! All of these rather abrupt and rapid changes have triggered an aggressive sell-off in global markets and asset classes in 2022, resulting in a complicated outlook for 2023.

Real GDP Growth Slowing Sharply (YoY % Chg.) [LHS]; Expectations for Policy Rates Are Higher, Then Lower? [RHS]



Source: Capital Economics; Raymond James Ltd.; Data as of November 24, 2022.

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Global Equities – Remain Selective & Well Diversified

Major global equity markets have put up a mixed showing this year as headwinds for some markets have resulted in tailwinds for others. Large-cap, blue-chip and value-oriented indices globally (e.g., FTSE 100, Nikkei 225, S&P/TSX Composite, etc.) have outperformed their growthier and more expensive peers (e.g., Nasdaq 100, S&P 500, etc.) as interest rates have risen from record lows this year. **As a reminder, asset prices (incl. the price of equities, bonds, housing, art, antiques, crypto, etc.) typically fall as rates rise**. The exception has been the MSCI China index, which is being hit by several headwinds, not to mention the ongoing COVID-19 lockdowns in the country. **For 2023, we suggest investors maintain a diversified allocation to global equities and remain highly selective.**

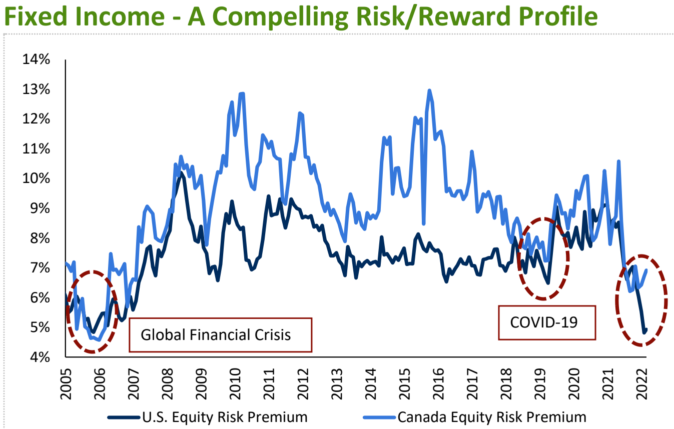
A Mixed Bag for Global Equity Markets

Equity Indices	Current PE NTM	Historical PE Median (Since 2000)	Premium (RED) / Discount (GREEN)	YTD Return
MSCI China (China)	9.91	10.90	-0.99	-30.9%
Nasdaq Composite (U.S.)	24.18	22.20	1.98	-27.3%
MSCI EM (Emerging Markets)	11.33	11.41	-0.08	-22.3%
Hang Seng (Hong Kong)	8.61	12.06	-3.45	-21.9%
MSCI EAFE (Developed Markets ex NA*)	12.15	13.56	-1.41	-15.8%
MSCI World (Developed Markets)	15.30	15.61	-0.31	-15.7%
S&P 500 (U.S.)	17.55	15.94	1.61	-14.3%
DAX (Germany)	11.61	12.87	-1.26	-9.2%
Euro STOXX 50 (Europe)	12.39	13.35	-0.97	-5.2%
CAC 40 (France)	12.31	13.31	-1.00	-3.5%
S&P/TSX Composite (Canada)	12.51	14.59	-2.08	-1.9%
Nikkei 225 (Japan)	15.77	16.45	-0.67	-1.5%
FTSE 100 (U.K.)	9.52	12.52	-3.00	1.7%

Source: FactSet; Raymond James Ltd.; Data as of November 24, 2022. *North America developed markets: U.S. and Canada.

After nearly a decade of ultra-low interest rates, during which the only game in town was equities, the recent move in global interest rates across the yield curve – which move inversely to bond prices – **has created an opportunity where the risk/reward for bonds remain quite attractive and in fact the most compelling since the 2007-2008 Global Financial Crisis**.

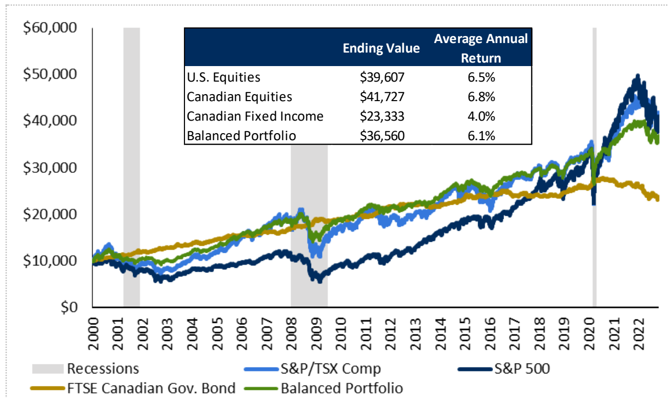
Fixed Income - A Compelling Risk/Reward Profile



Source: Bloomberg; FactSet; Raymond James Ltd.; Data as of November 25, 2022.

Moreover, despite the weak performance for fixed income as an asset class in 2022, we see the case for investors to be adding to this asset class over the next year as the economic outlook slows further with several global economies entering into a recession. Though bond prices have been falling in lockstep with equities, and thus not behaving or offering the same degree of diversification benefits most investors would have expected from this asset class, we believe stubbornly high inflation and the rapid pace of interest rate hikes/tightening as the main culprits for this. **That said, we believe the worst of these pressures for the fixed income asset class are likely behind us.**

The 60/40 Portfolio Is Not Dead…



Source: FRED; Raymond James Ltd.; Data as of November 4, 2022. For illustration purposes only. Start investing on January 1, 2000 with an initial investment of $10,000. U.S. Equities: S&P 500 TR Index; Canadian Equities: S&P/TSX Composite TR Index; Canadian Fixed Income: FTSE Canadian Government Bond Index; Balanced Portfolio is 60% S&P/TSX Composite TR Index + 40% FTSE Canadian Government Bond Index.

Final Thoughts for 2023…

For long-term oriented investors, we suggest to: **1)** Stay invested & well-diversified; **2)** Ignore the headlines; **3)** Stick to your investment plan; **4)** Capitalize on mispricing/bargains in the marketplace across asset classes; and, **5)** Remain selective and focus on allocating capital to securities that offer a compelling risk/reward profile – avoid places to hide and instead focus on places to invest.

Finally, as this will be our last edition of the Insights & Strategies report for 2022, we wish everyone a happy holiday season and a very happy New Year. Thank you for your ongoing support.

You can find all previous Insights & Strategies reports here.

Wishing you all the best in 2023!

Important Investor Disclosures

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