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Recent Posts

Three myths about estate planning

Why Canadians need to update their Wills, executor and power of attorney and let go of misconceptions about estate planning.

Proof Point: The housing-charged boom in Canadian net wealth is over

The decline in household wealth comes at a time when Canadians are already feeling the squeeze of higher inflation and rising interest rates.

It has been a rather eventful month, with third quarter earnings results and central bank policy, yet again, driving much of the market narrative. These developments weren't outright positives. But, weighed against rather downbeat expectations and nearly unanimous negative investor sentiment, the news served to act as a bit of a catalyst, leading to some gains across most global equity and bond markets recently. We share some key takeaways below.

The Bank of Canada unveiled its latest interest rate decision over the past week. It raised its overnight rate for the sixth time this year, bringing the target to 3.75%. The 0.5% increase, which is still sizeable by historical standards, was less than the 0.75% that was expected. Moreover, it was less than the preceding two interest rate hikes of 0.75% and 1.00% delivered in September and July, respectively. In some ways, the Bank of Canada had suggested this would be the case not too long ago when it indicated its pace of rate tightening would eventually moderate. It appears that time has come, although it cautioned it expects its policy rate will still "need to rise further".

Not too surprisingly, Canadian bond and equity prices responded favourably, as there is a growing sense that monetary policy may be transitioning to a phase where central banks are more patient and gradual with their actions. Interestingly, global investors were paying particular attention to the Bank of Canada because it had been one of the first central banks to act so forcefully earlier this year in an effort to tighten financial conditions. Global investors hope other central banks may follow in its footsteps and slow the pace of tightening. Notably, the European Central Bank, which only began to raise rates this past summer, raised its policy rate by 0.75% in recent days.

The other noteworthy development of late has been on the earnings front with companies reporting third quarter results in recent weeks. It's fair to say it's been a mixed bag. On the negative side, the large "mega cap" technology companies generally disappointed relative to most expectations. As always, some issues were company specific in nature. But, generally speaking, the forward looking guidance from many companies was weak, with businesses ranging from semiconductors, to software makers, to online and e-commerce platforms pointing to weakness across a broadening set of end markets.

To the contrary, the results from the U.S. banks and payment networks suggested the U.S. economy remains resilient right now. Many management teams indicated cash balances among U.S. households continue to be above average. While consumer spending was expected to moderate in the face of high inflation and growing economic uncertainty, it simply hasn't materialized yet. Moreover, lending activity remained healthy, with strong loan growth across commercial, mortgage, and credit cards. Overall, management teams were consistent in their assessment: they expect challenges to eventually surface, but there are few signs of an imminent shift in trend. Of note, the Canadian banks will report their results a month from now.

Overall, we continue to believe the North American economy is more resilient than some may appreciate and the economic and earnings challenges may be more meaningful next year, once this year's rates hikes have been fully digested. As investors, it's important to keep in mind global markets are forward looking and tend to reflect the future outlook in advance. Meanwhile, a shift to a more patient approach by central banks would still be very welcomed by investors. Whether that change is underway remains to be seen, but we believe that eventuality is not too far off into the future. For now, we continue to tread cautiously with our portfolios.

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Sincerely,

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