THOUGHTS FROM HOME

Our Advisors

Trevor Cooper
Portfolio Manager &
Senior Wealth Advisor

Walter Harmidarow
Portfolio Manager &
Senior Wealth Advisor

W. Frank Cooper
Senior Wealth Advisor

Chris O'Connor
Associate Wealth Advisor

Anne McDougall
Financial Planner

Our Team

Pamela Townsend

Maddy Bodden

Rachel Cooper

Karen Charlesworth

Austin Coles

Holly Kelly

Reflections and Projections

"The only function of economic forecasting is to make astrology look respectable."

- John Kenneth Galbraith, Noted Economist

John Galbraith did have a sense of humour but his work in economics helped to provide new insights into how the global economy worked. However, he recognized that in our ever changing world, even noted economists can look wrong over any forecast period. Forecasts help to shine light on the path

moving forward and while there may be detours, it gives us a starting point for the new investment year. This month, we will review the successes and failures of the last year and evaluate the current investment landscape to try to maximize the number of positive investment outcomes.

There were two stocks in our portfolio that disappointed: Disney and Cargojet. Disney remains depressed as major parts of their business are still being hit by Covid. However, we believe the stock has significant upside once the crisis passes. Cargojet has signed significant contracts with Amazon which ensure a bright future but concern that freight shipping could slow down if consumer spending weakens has kept the stock price down. We still believe in the company but did sell some stock in taxable accounts to offset capital gains.

The good news is that the majority of the portfolio performed well, led by technology such as Advanced Micro Devices and Microsoft. Our expectation is for another strong year from these companies as well as other key holdings such as Apple and the Canadian banks. We have had a a correction in technology names to start the year but we expect earnings to drive share prices as the year progresses.

The investment landscape continues to be overshadowed by Covid. The Omicron variant seems to be crowding out the stronger Delta variant but with the sharp increase in the number of overall cases, hospitalizations are again beginning to rise, even though fewer people are becoming seriously ill on a percentage basis. With the large number of overall cases, it is definitely worrisome. Covid has defied all predictions so far but the market seems to be looking through the crisis and not reacting to daily case counts or even considering any U.S. shutdowns. Hopefully, Omicron is the last major variant and we get through it quickly.

In fact, the U.S. government seems determined to try to slow down the economy and tame inflation by raising interest rates, despite the fact that much of the service, hospitality and travel sectors of the economy are operating at well below capacity. Just talking about raising rates has moved the yield on the 10 year Treasury up to 1.8% from 1.45%. It doesn't sound like much but is a large move on a percentage basis. This has also had the effect of causing a sell off in the technology sector, as a perceived rise in rates negatively impacts future growth and they reduce price/earnings ratios and therefore stock prices. There are no doubt some inflationary pressures in the economy, particularly in the U.S. labour market, as unemployment has once again dropped to a pre-Covid level of 3.9% and over 10 million jobs remain unfilled. However, it is difficult to see how raising rates will help. As we have talked about for months, most U.S. companies are very well funded and don't need to rely on borrowing to fund their operations. If the U.S. Federal Reserve begins a quantitative tightening program by selling their $10 trillion bond portfolio, it will put downward pressure on bond prices and drive yields higher temporarily but if the market absorbs those bonds, the Fed is left with nowhere to turn. The current bond market scenario is very similar to the December 2018 bond market where the Fed took a similar aggressive interest rate stance and was beaten back by the market. We will see what develops in the coming days but if the market reacts as it did before, we could see a significant rally in growth stocks later this year. One thing for certain: the high flying zero earnings growth companies and zero paying assets such as crypto currencies will have a very difficult year if rates manage to move higher.

In the Canadian market, the steepening yield curve has been good for our bank holdings which are off to a strong start. If fact, with oil trading near $80 and commodity prices remaining firm, it promises to be a decent year for the Canadian market as our stock index has a much lower exposure to technology and a higher percentage of value type investments.

In summary, the two main clouds on the investment horizon remain Covid and the threat of higher rates. However, we do expect consumer demand to remain strong and corporate earnings to remain robust. We are maintaining our balanced growth/value approach heading into this year and will adjust as necessary. Forecasts remain difficult but we see many hopeful signs that the market will have another successful year.

As always, questions, comments, thoughts and concerns are always welcome.

Yours truly,

Trevor, Walter and the Cooper Wealth Management team

Privacy & Security | Legal | Accessibility | Member-Canadian Investor Protection Fund

RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. RBC Dominion Securities Inc. is a member company of RBC Wealth Management, a business segment of Royal Bank of Canada. ®Registered trademarks of Royal Bank of Canada. Used under licence. © RBC Dominion Securities Inc. 2022. All rights reserved.