COOPER WEALTH MANAGEMENT
RBC Dominion Securities
Trevor Cooper W.Frank Cooper Walter Harmidarow

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

Finding the Investing Balance

"Investing is the intersection of economics and psychology."
- Seth Klarma, Famous Value Investor

So far this year, investing has been difficult due to higher inflation and rising interest rates which led to the compounding problem of a negative investor mood and the resulting market weakness. Finally, in the last week of May, we saw the largest market rally since November 2020 and the first signs of improvement in both global economics and investor sentiment. This month, we will explore global economic market issues and their potential effect on market psychology to help determine the best investment balance moving forward.

There is no doubt that economic developments affect market psychology but once the market's mood changes to negative, the focus shifts to only negative news and positive elements are ignored. This year provides a textbook example. The investment outlook for this year looked strong but then inflation came in hotter than expected and the U.S. Federal Reserve opted to fight inflation by aggressively raising interest rates. These twin economic shocks turned market sentiment negative and any good news such as double digit growth in the technology sector, strong corporate profits and record low U.S. unemployment rate was ignored.

Market sentiment only begins to improve once the market has identified the size of the problems and starts to see multiple signs of economic improvement. For example, in 2008, the funding of the U.S. TARP bill, designed to keep the U.S. banking system afloat, helped to change the completely negative market narrative but it took actual improvement in the economy in early 2009 to fully convince investors to become positive, which led to a record year. At the moment, some positive signs are to appearing and the market is beginning to take notice. Shanghai is being reopened after a 2 month Covid shutdown which will help to ease supply chain issues. Corn and wheat prices are at multi week lows as new supply is on its way. Natural gas prices in Europe have stabilized at a price far lower than the March highs and supply remains sufficient, even with the European Union starting to ban Russian energy imports. OPEC+ is increasing oil production to help cover the shortfall caused by the Russian embargo. Finally, the market is growing more comfortable that the U.S. Federal Reserve won't raise interest rates much above their projected target of 2.5%. This is particularly important to the market's psychology as it dramatically decreases the likelihood that the U.S. economy will go into recession.

At the moment, the market psychology is improving but just as if we were injured, it takes time to heal and there can be setbacks. It is determining where we are in the recovery process that poses the biggest investment challenge. For example, the oil price is trading too close for comfort to the July 2008 high of $147.27 per barrel. While some argue we could go higher depending on the outcome of the Ukrainian war, history has taught us that supply will rise to meet demand and the price will likely settle down to OPEC's target range of $70-$80. We have sought balance by having two producers, Tourmaline and Suncor, and two pipelines, Enbridge and Pembina, that will provide us with upside appreciation if oil stays higher but also give us dividend income and stability if prices start to fall.

In the short term, the market will remain data driven as investors look for signs that inflation is slowing down. However, it will take a number of signs all pointing in the same direction for a substantial rally. For example, the May non-farm payroll numbers were higher than expected but the average hourly wage increase was lower. Both of these items are positive as they indicate the U.S. economy is strong and wage inflation is moderating. That good news was overshadowed by Jamie Dimon, the head of JP Morgan, and Elon Musk of Tesla both stating they felt a recession is coming and this was enough to turn the market negative. This is the point where we have to separate hard facts from feelings. It is interesting to note that only one week before at their annual Investor Day, JP Morgan was talking about the strength of the U.S. economy and how their profit margin would improve as interest rates rose while Tesla's own forecast is for continued growth. Both these men can move markets with their opinions but we have to keep in mind that these opinions can be self serving, as their first duty is to their own shareholders, not the overall market.

Here are some of the challenges that still have to be overcome. Covid still remains a factor as the recent shutdown of major Chinese cities has proven. However, with Shanghai reopening and the general global concern over Covid declining, this situation is resolving itself. It will also help to ease the global supply chain issues, which will further ease inflation. The war in the Ukraine has now passed 100 days with no clear resolution in sight. Over 20 million tons of Ukrainian wheat is trapped, with this year's harvest yet to come. This has caused a surge in food inflation globally and while increased U.S. and Canadian production will help, it won't solve everything immediately. Sadly, this looks like it will drag on but once ended, wheat prices should come down significantly. The price for other commodities such as natural gas, copper and iron ore remain high, but like oil, it will take time to bring more supply online.

On balance, the first signs of positive news are beginning to outweigh the negative. The bond market is not pricing in either a recession or interest rates much above 2.5%. Corporate earnings and consumer spending remain strong. Consumers are shifting demand to travel and leisure which should help reduce the cost of goods as demand lessens. Wage increases are moderating and signs are beginning to appear that overall inflation is easing. In Canada, the economy is expected to be particularly strong while commodity prices remain high.

In conclusion, the market seems poised for a rebound as better news is beginning to appear on many fronts. We have not achieved balance yet as bad news still carries more weight but there are signs of improvement. We will continue to manage the balance between growth and income, always looking to maximize return and minimize risk.

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

Yours truly,
Trevor, Walter and the Cooper Wealth Management team