Wealth Management
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Welcome to Fed-uary! Are we finally exiting the "Groundhog Day" doom loop of rate hikes?

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FEBRUARY MARKET UPDATE

We're just over a month into 2023, and one thing is becoming more apparent by the day: The stock market bulls are not waiting any longer to charge ahead.

The TSX, S&P 500 and even the previously beaten down NASDAQ have all had one of their best months in recent history. All of these indexes have also broken above some very important technical levels that traders follow closely (including 50, 100 and 200 day moving averages). Historically, this often confirms a sustained shift in market sentiment.

Before we get too deep into that, let's back up a bit. In March of 2022, both the Bank of Canada (BoC) and the U.S. Federal Reserve (The Fed) raised their interest rate by a quarter point to 0.50%, marking the first time they had increased rates since the beginning of the COVID crisis, exactly 2 years earlier. In raising rates, central banks were finally starting to use their tools to react to "not-so-transitory" inflation, while also forecasting the problems their economies would likely face with the emergence of a serious conflict in Europe and a global supply-chain crisis.

For the remainder of 2022, any time the BoC or The Fed announced their latest interest rate decision, it felt a lot like the classic movie "Groundhog Day" (released in theaters 30 years ago this month). For those that haven't seen it, cynical weatherman Phil Connors (played by Bill Murray) ends up having to relive February 2nd over and over... and over. No matter what he does differently during this daily replay, he ultimately keeps waking up in the morning to the same song on the radio and having to do it all over again. No way to escape (until the end of course.. watch the movie to find out how).

Applying this seasonal analogy to our friends at the central banks: each subsequent rate announcement throughout 2022 produced a similar feeling of déjà vu. They would increase the interest rate; state that inflation is still running too high; mention something about the job market being too tight; then push back strongly against any potential easing in financial conditions going forward. Wash, rinse, repeat (occasionally with a higher than normal interest rate hike... have to give them credit for that slight variation I guess). However, with the most recent announcements by both the Bank of Canada and Federal Reserve, perhaps we're going to finally wake up on February 3rd after all.

As of today, interest rates in Canada are 4.50%, and 4.75% in the U.S. Governor of the Bank of Canada, Tiff Macklem, has strongly suggested that the most recent 25bps hike will be the last of the cycle, which bond markets have been pricing in for some time. South of the border, Federal Reserve Chair Jerome Powell has not yet signaled the end of rate hikes, but in listening to his February 1st press conference after announcing The Fed's latest 25bps increase, there were some notable developments. Notably, this was the second straight meeting in which they had decreased the level of the rate hike (down from 75bps at the November meeting). Perhaps more importantly, Powell acknowledged for the first time what has been apparent in the data for months now: "the disinflationary process has started". As we wrote about in our January newsletter, monthly inflation data has been running relatively flat for the past six months, while many categories reflected in the CPI report have actually shown a decrease in prices (disinflation, or deflation). With plenty of economic data to be released before the Fed's next rate announcement on March 22nd (including two additional months of inflation data), there is an increasing chance that we are going to see the U.S. follow Canada's lead in pausing rates. One more 25bps increase is currently expected, but Powell was clear that the committee will be data-dependent going forward. Let's all hope he didn't see his shadow this Groundhog Day, and stock markets can exit this prolonged "winter" earlier than many expected.

Assuming that we have seen the last rate hike for this cycle in Canada, RBC's Portfolio Advisory Group has put together some intriguing data that outlines what has occurred with the TSX index directly following that final rate hike. Looking at the last 8 times we have seen this situation, Canadian equity returns have been positive 100% of the time 3 months later, with an average return of 6.6%. Looking further out, the average and median returns on a 6-month and 12-month basis have also been very strong.

Forward TSX Returns following last BoC Hike

	3 Month	6 Month	12 Month
Average	6.6%	10.1%	12.0%
Median	6.9%	12.2%	19.6%
% Positive	100.0%	87.5%	75.0%

Source: RBC Wealth Management, Bloomberg

While we don't have a colourful chart on hand to show what happens with the U.S. market after the Fed's final hike, we do have the data. The average return of the S&P 500 index is 14.8% in the 12 months following the final rate hike of the cycle. Gains occurred in 8 of those 11 periods since 1970.

Some final thoughts to leave you with:

Investor and market sentiment is turning positive. Inflation data is steadily improving and it's not a stretch to see it falling back close to the Fed's preferred target of 2% THIS YEAR. Recession is not a slam dunk guarantee like it seemed for some back in October. It pays to stay invested and well-diversified, as some of the hardest hit stocks of 2022 are back with a vengeance (For example, as of February 1st: Amazon is up 25% YTD, Nvidia up 43%; UBER up 27%; Shopify up 42%. There are others, and they're predominantly growth companies). Markets are forward-looking and won't relive the same day over and over.. and over.

Our best to you and your families through the rest of this (hopefully short) winter. Stay warm!

HOME BUYERS' PLAN

One topic that has been present in the news cycle for quite some time is the affordability of housing in Canada. Many Canadians, particularly younger generations, feel that putting a down-payment on a property is not an option in this housing market. One way to help fund the down-payment if you are a first time buyer is the Home Buyers' Plan (HBP).

Most withdrawals from your Registered Retirement Savings Plan (RRSP) are considered taxable income in the year of withdrawal, but one notable exception is the Home Buyers' Plan. To quality for this withdrawal under the plan you must:

- Be a first-time home buyer
- Have entered into a written agreement to buy or build a qualifying home
- And intend to occupy the qualifying home as your principal residence no later than one year after buying or building it.

If you meet these conditions it is possible to withdraw up to $35,000 from an RRSP to buy or build a home without triggering tax consequences. If you have a spouse with an RSP an additional $35,000 may be withdrawn for a combined maximum withdrawal of $70,000. These funds must be repaid to the RSP over the next 15 years, but there is no interest charged. This is basically the equivalent of making an interest-free loan to yourself.

This is a reason why it is good to have a well-funded RSP, even for those who are many years from retirement. Clients with children who have earned income in the past year and do not yet have an RSP may wish to consider opening one. Please connect with our team if you are interested in learning more about the Home Buyer's Plan, or if you or a family member would like to open an RSP.

RSP/TFSA REMINDER

Another reminder, if you have not already done so, to make your annual contribution to your RSP and TFSA, in order for you to maximize the benefit of these tax-efficient accounts. Please see the information on our website for full details and contribution amounts for 2023. The RSP contribution deadline for the 2022 tax year is March 1, 2023.

If you do not have an RSP or TFSA account with us currently at RBC DS, you can also contact us about opening one for you.

AS ALWAYS, PLEASE REACH OUT TO US DIRECTLY IF YOU HAVE ANY QUESTIONS OR CONCERNS RELATED TO YOUR PORTFOLIO.

ORD PRIVATE WEALTH MANAGEMENT

Best regards, John, Tim, Liam & Mikail

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