Wealth Management
Dominion Securities

MARCH '23 *EDITION*

Market Madness

Negative Economic Growth = **Positive** Returns??

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MARCH MARKET UPDATE

Let's start by acknowledging that the subject line of this article might make you think we're using an "Opposite Day" theme this month. Although that is not exactly the case, we will point out there are often times when the prevailing narrative in the investment community may not line up with what has occurred historically. To show one glaring example, let's ask a question related to the aforementioned subject line: "Would you believe it if we told you that many of the S&P 500's top performing years came during times of negative real growth in the economy rather than positive?

If you answered NO, we understand completely. But perhaps take a look at the chart included on this page, that maps out the S&P 500s annual return alongside the Real GDP of the economy ("Real" GDP is inflation adjusted). You'll see that the years since 1951 in which the U.S. economy had negative Real GDP also happened to have extremely positive gains in the stock market, in almost all cases. 8 of 9 times to be exact, including most recently in 2020. (More on this below)

If you had instead answered YES to that question, then well done! We look forward to discussing all the cash you'd like to invest during the next recession, as you clearly understand market dynamics and are absolutely willing to put money to work during the worst of times. (Note: this is obviously NOT how most humans are wired. **"Buy Low – Sell High" sounds easy enough in theory, until it's actually time to Buy Low.)**

	S&P 500	Real GDP		S&P 500	Real GDP		S&P 500	Real GDP		S&P 500	Real GDP
1951	24%	8.0%	1969	-8%	3.1%	1987	5%	3.5%	2005	5%	3.5%
1952	18%	4.1%	1970	4%	0.2%	1988	17%	4.2%	2006	16%	2.8%
1953	-1%	4.7%	1971	14%	3.3%	1989	32%	3.7%	2007	6%	2.0%
1954	**52%**	**-0.6%**	1972	19%	5.3%	1990	-3%	1.9%	2008	-37%	0.1%
1955	31%	7.1%	1973	-15%	5.6%	**1991**	**30%**	**-0.1%**	**2009**	**26%**	**-2.6%**
1956	6%	2.1%	**1974**	**-26%**	**-0.5%**	1992	8%	3.5%	2010	15%	2.7%
1957	-11%	2.1%	**1975**	**37%**	**-0.2%**	1993	10%	2.8%	2011	2%	1.5%
1958	**43%**	**-0.7%**	1976	24%	5.4%	1994	1%	4.0%	2012	16%	2.3%
1959	12%	6.9%	1977	-7%	4.6%	1995	38%	2.7%	2013	32%	1.8%
1960	0%	2.6%	1978	7%	5.5%	1996	23%	3.8%	2014	14%	2.3%
1961	27%	2.6%	1979	19%	3.2%	1997	33%	4.4%	2015	1%	2.7%
1962	-9%	6.1%	**1980**	**33%**	**-0.3%**	1998	29%	4.5%	2016	12%	1.7%
1963	23%	4.4%	1981	-5%	2.5%	1999	21%	4.8%	2017	22%	2.2%
1964	16%	5.8%	**1982**	**22%**	**-1.8%**	2000	-9%	4.1%	2018	-4%	2.9%
1965	12%	6.5%	1983	23%	4.6%	2001	-12%	1.0%	2019	31%	2.3%
1966	-10%	6.6%	1984	6%	7.2%	2002	-22%	1.7%	**2020**	**18%**	**-2.8%**
1967	24%	2.7%	1985	32%	4.2%	2003	29%	2.8%	2021	29%	5.9%
1968	11%	4.9%	1986	19%	3.5%	2004	11%	3.9%	2022	-18%	2.1%

Source: RBC Wealth Management, S&P 500 total return index, Bloomberg

Let's take a second to consider what this chart is actually telling us. Should our takeaway be that when you see a recession on the horizon, is it time to raise your risk level and put as much in the equity market as possible? No, absolutely not! The road to those bright green numbers you see on the screen can often be paved with volatility and some major downturns before the eventual recovery. Taking a closer look at 4 of the last 5 "negative growth" years from the chart can provide some needed context (1991 was a smooth ride in comparison, so let's just put that to the side for now).

Some commonalties between 1980, 1982, 2009 and 2020:

1) Each of these years included a US economy that was experiencing slower growth and eventually turned negative

2) Each year is confirmed to have been part of an official U.S. recession by the National Bureau of Economic Research (NBER)

3) Each year clearly ended up with a very positive return.

This seems like a situation where 1 + 2 does not equal 3. However, if we zoom in on those individual years to view how the S&P 500 eventually got to those outsized returns, it makes a little more logical sense. In all 4 of those years, the S&P 500 dropped a minimum of 18% from its annual high (and as high as 29% at the start of 2009). From there, the stock market would begin to recover quite rapidly to post large gains well above the level prior to the drop. On each of these occasions, the recovery in the S&P 500 begins PRIOR to the end of the recession when the economy was still at negative GDP levels, as seen here:

1980 – Recession ends in July. Market bottomed in March and recovers (4 months prior)
1982 – Recession ends in November. Market bottomed in August and recovers (3 months prior)
2009 – Recession ends in July. Market bottomed in March and recovers (4 months prior)
2020 – Recession ends in April. Market bottomed in March and recovers (1 month prior)

Why this is relevant and important to remember today:

The US economy is still holding up pretty well, but it is showing signs of slowing down. The question at the moment is if growth will slow down enough to actually turn negative and bring on a recession (which is still not yet a guarantee). If a recession does occur, knowing the history of how the market tends to react can help investors avoid making unnecessary mistakes when the news is grim (remember March 2020 at the height of the pandemic?). We'll likely be hearing a lot about the dreaded "R word" throughout 2023, and this is why we wanted to provide some historical context in our March newsletter, even if the conclusions drawn from the data may seem like "Madness" at first glance.

The key as always is to stick with your financial plan, rebalance your asset allocation on a regular basis (especially during volatile periods), and don't let fear drive your investment decisions. Patience and discipline will always be the better choice.

WHERE SHOULD I INVEST?

Stocks vs. Real Estate- Considerations for Canadian Investors

Read the full article here

The above article was released by RBC Dominion Securities recently and we thought this would be an interesting piece to share. The consistent growth of the housing markets in most major cities in Canada over the previous decades has left many with the assumption that real estate is a more attractive long-term investment option than other asset classes such as equities. Over the past two decades, however, both the stock market and real estate have delivered impressive long-term returns. In fact, the S&P/TSX Composite has generated annualized total returns since early 1999 that are in line with, or better than, the top Canadian real estate markets such as Toronto and Vancouver.

Of course there are going to be dissimilarities and trade-offs between two forms of investment that are different. Importantly though, while the stock market is naturally more volatile, historical data shows that equities are every bit as effective as residential real estate in Canada for growing wealth over the long term.

BRAVING THE COLD FOR A CAUSE

The Into the Cold Polar Bear Dip

is a charitable fundraiser supporting Journey Home Hospice, the first hospice in Canada specifically serving people experiencing homelessness and providing quality end-of-life palliative care in a comfortable and inclusive setting. On February 14th John and some friends from his squash club, the B&R, braved the frigid waters of Lake Ontario, at Sunnyside Beach, in support of this cause. To learn more about Journey Home Hospice or to donate yourself, please follow think link below.

https://donate.sehc.com/donation-20/into-the-cold-polar-bear-dip

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

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Best regards, John, Tim, Liam & Mikail

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