



*not your*  
**ORD**inary newsletter

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## Trick or Treat:

What will the  
stock market  
provide?



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## OCTOBER MARKET UPDATE

Although October is well-known for being the spookiest of months, it is often September that turns out to be the most frightening for equity markets. Historically, September is by far the worst performing month for the S&P 500, averaging a -0.87% return over the past 70 years (and that was before this past month's 5.35% drop!) This recent downturn, while not very pleasant for anyone, is also not abnormal during market cycles. Stock markets do not go up in a straight line as much as we would all like them to.

Interestingly, the level of fear exhibited in markets right now is eerily similar to exactly one year ago, at a time when the S&P 500 was down over 25% on the year. The popular "Fear & Greed Index" from CNN Business has recently dropped as low as 18 (well into the "Extreme Fear" range), which is almost the same level seen in October 2022 when the market ultimately found its bottom. As we have discussed before, measures of extreme fear or greed are often seen near major inflection points in the market when the current trend is ready to become exhausted.

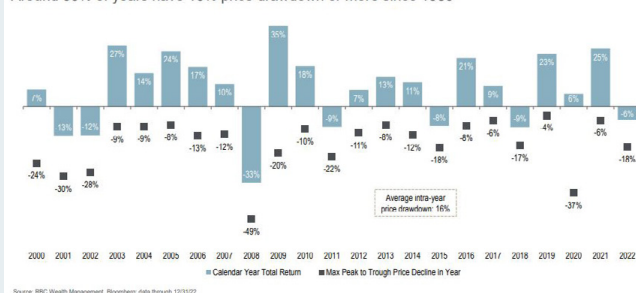
### THE QUESTION FOR OCTOBER IS: WILL THE MARKET PROVIDE US WITH A TRICK OR A TREAT DURING THE REST OF 2023?

To further this Halloween theme, we'll be borrowing some titles of popular scary movies as inspiration for our topics:

### 1. FRIDAY THE 13<sup>TH</sup> / NUMBER 13.

Not only does October have a Friday the 13<sup>th</sup> on the calendar this year, but that date will mark exactly one year from the bottom of the stock market in 2022 (S&P 500 hit a low of 3,491.58 on that day). There are a few catalysts hovering around Friday the 13<sup>th</sup> this year that may affect where stocks go from here. These include the all-important September CPI inflation report on October 12<sup>th</sup>, and the start of earnings season on the 13<sup>th</sup> with major companies JPMorgan and UnitedHealth reporting results. With the nervousness currently present in the market, **a softer than expected inflation reading or strong corporate earnings could help to ease some of the short-term concerns in the market.**

S&P/TSX Composite: Even good years have bad stretches  
Around 60% of years have 10% price drawdown or more since 1980



At the time of writing, markets have not yet reached an official 10% correction this year, but it is possible they end up breaching that level. The important thing to keep in mind is these types of mid-year corrections are extremely common even in positive years for the market. They are not always

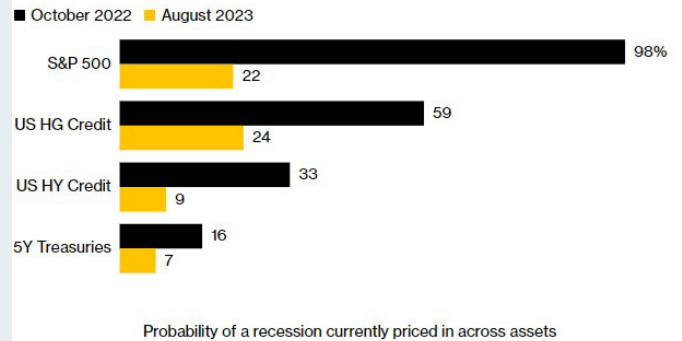
a premonition of doom! To illustrate this, please note the attached chart showing the annual return of the TSX along with its largest mid-year drawdown.

Now circling back to the Number 13: **Since 2000, any year that the TSX keeps its maximum drawdown to -13% or better, it has ended up with positive returns in ALL 13 of 13 occurrences**, with the lowest annual return being 7% (2012). As of now, the TSX is slightly negative for the year. For this trend to continue, it would require the market finding a bottom soon along with a late-year rally. Given that we are headed into what is usually the best-performing time of year (October to January) and adding in the extreme levels of fear, there is some reason to be hopeful for this to occur.

## 2. THE SHINING

Wouldn't all economists and investors love to have telepathic abilities like the boy in The Shining? Maybe then they could time recessions and stock market downturns with complete confidence! In reality, we can see in the chart below how wrong stock market investors can be in the short-term. Back in October 2022, the S&P 500 was trading at a level that fully priced in a recession happening soon, while bond markets were much less convinced. Over a year later, that recession has not yet materialized and the forecast for one keeps getting pushed out as economic data remains resilient. Corporate profits also remain strong. Eventually all cycles end in recession, but anyone making investing decisions based

### Recession Probabilities Have Tumbled Across Asset Classes



JPMorgan  
The bank calculates the metrics by comparing the pre-recession peaks of various classes and their troughs during the economic contraction.

on that “certainty” a year ago would have been very wrong and missed the strong S&P 500 rally.

## 3. THE UPSIDE DOWN (FROM STRANGER THINGS)

Ok, so this isn't a scary movie necessarily.. but the name of the alternate dimension from the popular Netflix show Stranger Things is still spooky and fits this next topic well.

### Interest Impact

Companies are earning more in interest than they are paying out since Fed rate hikes

#### Non-financial corporate net interest payments, whole economy



Note: Seasonally adjusted annual rate; includes miscellaneous payments  
Source: Federal Reserve Bank of St. Louis

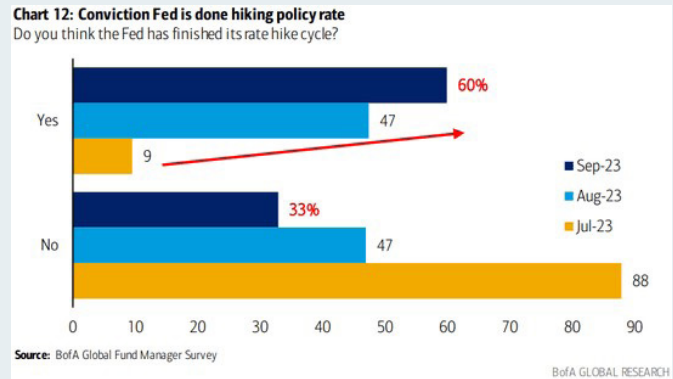
As counterintuitive (or Upside Down) as it may seem, **large corporations in the United States are actually benefitting from higher interest rates.** Usually higher borrowing rates = higher costs to businesses. We had touched on this in our previous newsletter, but here’s a quick summary of why this is happening: Many big corporations with plenty of cash flow have already locked in their funding at much lower rates available in previous years. They also have a lot of cash on hand which they can now invest at higher interest rates, earning more than the cost of funding. The net result is shown on the “Interest Impact” chart. In this case, **rising rates have made cash-rich companies even richer!**

#### 4. FINAL DESTINATION

This is in reference to the Federal Reserve’s current policy of increasing interest rates, which may be reaching its “final destination”. We are beginning to see the strongest signs yet that the Fed may be done with additional hikes, and this is reflected in the Fund Manager Survey graphic attached. Just 2 months ago, only 9% of global fund managers thought that the Fed was finished, and we are now closer to 60% expecting that.

In the movie “Final Destination”, the main character was able to foresee terrible events shortly before they occurred and

would then adjust their actions accordingly to avoid an untimely demise. Here’s hoping Fed Chair Jerome Powell and his committee have similar foresight and adjust their policy to avoid unnecessary damage. The lagged effect of the previous rate hikes is now beginning to show up in the economy, albeit in the early stages. Any more economic softening may give the Fed cover to keep rates paused at current levels, just like they did at the September meeting. Once the market is certain the last rate hike is in, we could see a positive repricing in risk assets. However, don’t expect the commentary coming out of Fed meetings to sound accommodative, as they have made it clear they are going to remain data dependent and are not looking at rate cuts any time soon.



**HALLOWEEN MAY BE A SCARY TIME OF YEAR, BUT ALWAYS REMEMBER TO NOT LET FEAR GUIDE YOUR DECISION MAKING AS AN INVESTOR!**



### WILL YOU OR WILL YOU NOT?

The start of fall is usually a time when people snap out of vacation mode and decide to tackle tasks that they have been putting off for the summer months. One of these tasks that we would recommend revisiting, if you have not done so in a couple years, is your Will. **Having a valid and up to date Will for all adults in the family is one of the most important parts of the estate planning process.**

Proper estate planning requires careful consideration of many factors: reducing taxes; providing for loved ones; passing on assets in an orderly fashion; creating a charitable legacy and more. This can all be very overwhelming, but once completed it **does provide the peace of mind knowing that your wishes will be carried out and your loved ones taken care of.** As you go through creating or reviewing your Will, please see [this checklist](#) with some useful items to consider in the hopes of making the process more manageable.

We are aware there is a lot of work involved in this process but because of that, we have several resources that are well suited to

assist. RBC Wealth Management has Will and Estate Consultants who can provide a comprehensive review of your Will and ensure everything is set up in accordance with your wishes and provide valuable insights to help simplify the process. We would also be happy to connect you with one of our partners at [Royal Trust](#) who provide professional executor services, meaning a family member does not need to be responsible for this. Our clients have found both of these services very beneficial in the past. Please reach out to us if you would be interested in having an introduction to either service.



**HAPPY 60<sup>TH</sup> TO JOHN!**

Back in September John celebrated his 60<sup>th</sup> birthday. Not only was this a milestone birthday for John but it also **marked 38 years in the investment business for him.** He took this opportunity to take a once in a lifetime trip to Asia where he has immersed himself in the culture there.



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**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, David, Tim, Liam & Mikail

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