

The Hass Report

A Newsletter for the friends and clients of Shawn Hass & Dustin Leniuk



Wealth Management
Dominion Securities

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Inflation vs Recession



Global markets have been laser focused on inflation readings all year. And, while that was still a big preoccupation for investors over the past few weeks, another issue has emerged that could soon overtake it as the predominant market concern: the risk of recession and its impact to corporate profits. We discuss recent developments on both fronts below.

The U.S. Consumer Price Index (CPI) for August was released and it was up 8.3% year over year, below the reading for July but higher than expected. Food and energy price pressures remained elevated, although the latter declined as expected. More troubling may have been the core measure, which excludes food and energy. It was higher than expected and above the July reading. Moreover, it wasn't driven by one particular category but showed relatively broad pricing pressures. This continues to have interest rates continue their upward trend.

Nevertheless, our view on inflation remains largely unchanged. More specifically, it should recede in the months to come. One doesn't have to look too far to understand why. Shelter is the largest component of inflation, accounting for nearly a third of U.S. Consumer Price Index. It is made up of lodging away from home, rent, and housing-related costs. The latter two have shown no signs of slowing yet, and in fact increased in August. But, these two categories have historically followed home prices with a meaningful lag. We know home prices are under pressure as a result of substantially higher mortgage costs. As a result, it is just a matter of time, in our view, before trends in the largest component within the CPI basket begin to subside.

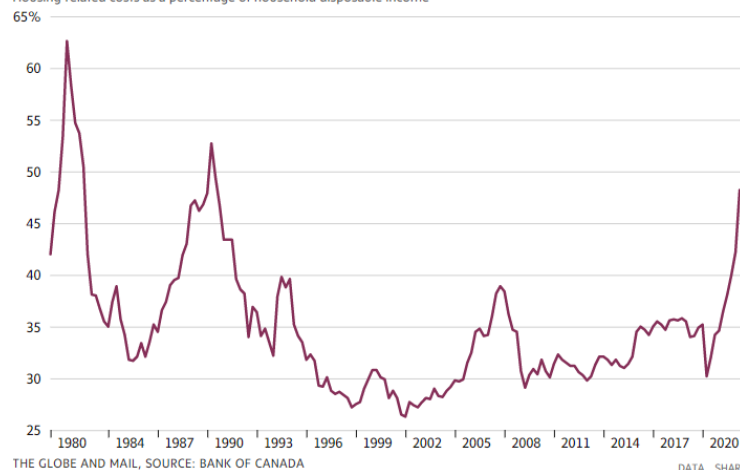
Inflation may also be at risk of falling victim to recessionary-like forces that appear to be on the rise. A few industrial conglomerates ranging from aluminum and steel makers to shipping and parcel delivery companies have warned of deteriorating conditions in their respective businesses that have led them to issue profit warnings. Part of this appears to be cost-driven and a meaningful shift in demand away from goods towards services. Weakness overseas was also cited as a notable driver by some management teams. But, it's hard to

imagine weaker demand avoiding its way into the North American economy. After all, the Bank of Canada and U.S. Federal Reserve have been aggressively tightening financial conditions with the hope that demand and activity would slow. We may finally be starting to see the impact of their actions.

A deteriorating economy is by no means something to look forward to. But, it may have the potential to have a lasting impact on inflation. Ultimately, that may prove to be a very important and constructive development for the longer-term return prospects of most assets. In the interim, we expect equities to remain vulnerable as markets digest the risks to corporate earnings. Meanwhile, we are hopeful that high quality bonds, which have struggled mightily this year, may soon begin to see their yields stabilize as growth concerns eventually overtake inflation risks as the main market concern.

Canadian housing unaffordability is the highest in three decades (see chart below from [The Global and Mail](#)): "The Bank of Canada's housing affordability index, which measures the portion of disposable household income that's spent on housing-related expenses such as mortgage payments and utility fees, surged to 48.2% in the second quarter. That's the steepest figure since the fourth quarter of 1990, when the central bank raised interest rates to more than 13 per cent to fight inflation and the housing bubble of the late 1980s began to pop."

Bank of Canada housing affordability index
Housing-related costs as a percentage of household disposable income



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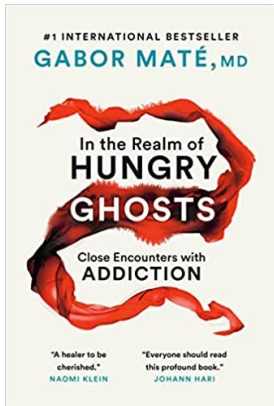


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A Book, an App and a Website

Book: In the Realm of Hungry Ghosts

Written by Gabor Maté - Starting with a dramatically close view of Maté's drug addicted patients, *In the Realm of Hungry Ghosts* weaves in stories of real people while providing a bold synthesis of clinical experience, insight and cutting-edge scientific findings. A haunting, compassionate and deeply personal examination of the nature of addiction.



App: The RoundUp - Canadian Beef

Created by the experts at Canada Beef, this comprehensive app has it all, with information on beef cuts, recipes, cooking & cuts videos, and more to help you buy the right cut and cook it with confidence and enjoy the best in beef! Look for the Canadian Beef symbol when buying beef — raised with pride by Canada's beef farmers and ranchers



Website: <https://www.justwatch.com/ca>

Essential for anyone who loves movies and TV shows. Its most useful function is seeing where a movie or TV show is currently available to stream for free, and also allowing you to compare prices for rentals.

Community

This past quarter we jumped on board a unique capital project in the backyard of some of our clients from the central corridor. The Central Alberta Child Advocacy Centre has broken ground and plans to open it's doors in the summer of 2023. When a child or youth needs help leaving an abusive situation, The Centre is there for them – not just for their immediate safety, but as part of an ongoing healing process.

They are actively changing the way Central Alberta responds to child abuse. The Centre works collectively with various partners across Central Alberta to ensure every child's needs are met, and they are supported in the most child-friendly and effective way. Through collaboration they are able to better support the kiddos.

<https://www.centralalbertacac.ca/donate/>



**Central Alberta
Child Advocacy Centre**

Podcast



Shawn gets the back story on Jack DeHeer's time at The Lake Placid Olympic hockey tournament, as well as entertaining stories on how Jack's wife, Laura, acted as his hard line agent. This story goes much beyond the game of hockey, and shares how Jack and Laura ventured back to Canada to take over Jack's second-generation family print business.

<https://www.ownerscircle.ca/>

EPISODE 17



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