BEING A REALISTIC OPTIMIST IN TODAY'S MARKETS

I do not believe I have ever heard the term 'realistic optimist' in relation to the markets. Most of the investment talk I hear about being realistic seems to be pessimistic. On business news, I will sometimes hear '*I'd like to be an optimist but let's be realistic'*, and then what follows is typically a very negative discussion of what is going wrong today and/or is expected to go wrong in the future. According to Mr Google, realists explain events as they are. Realistic optimists (so they do exist!) are cautiously hopeful of favourable outcomes, but they do as much as they can to obtain the desired results. The unrealistic believe it will all turn out well in the end, and do not do what is required to achieve that (source: PsychoCentral, Realism and Optimism: Do you Need Both, medically reviewed by Scientific Advisory Board by Jane Collingwood on May 16, 2016).

I mention the above because I believe it pays to be a long-term optimist when dealing with the stock market. But long-term optimism should be accompanied by a realistic sense that things can go wrong and/or can stay bad for a while. There will be rainy days. There will in fact be rainy seasons. The first nine months of 2022 was indeed one of those periods. As we came to the end of September, the optimist in me reminded myself that markets tend to do better after a sustained period of poor performance. But the realist in me realized - and continues to believe - that certain conditions that caused the 2022 downturn are still very much present.

What makes me optimistic?

- Equity market valuations are more attractive, since the market sell-off has improved valuations.
- Pessimism is still very high. FYI: see quotes from Tom Lee in the section below.
- We are getting more and more evidence that inflation is slowing down.
- Companies and consumers have much stronger balance sheets today than what we have seen in past recessions.

What does the realist in me say?

- I believe that as long as inflation is high, the U.S. Federal does not want to see asset prices increase. In fact, lower prices for stocks, bonds, and homes help the Fed in its fight against inflation.
- The U.S. Federal Reserve seems still intent on increasing its federal funds rate in December and in early 2023. It is running the risk of causing a recession, the so-called hard-landing scenario.

In a year or two from now, it will be interesting to see whether the low point of the 2022 bear market was on October 12th. But if that was indeed the low for the market, RBC Global Asset Management has found that when stocks hit their bottom, they rebound swiftly (source: RBC Global Asset Management, Volatility in Perspective, November 2022).

In a few weeks from now, it will also be very interesting to hear 2023 forecasts from various experts. In my opinion, one should have a certain degree of healthy skepticism when it comes to forecasts. I once heard a funny line about forecasts existing only to prove economists had a sense of humour. Indeed, how many forecasters last year saw a greater than 20% decline (from top to bottom) coming for the U.S. stock market in 2022? Admittedly though, some did correctly forecast a negative year for 2022.

Should you have any questions or concerns, please feel free to reach out. And as always, we encourage you to contact us if there has been an important change in your financial situation.

Wade Brown Wealth Management
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Insights/Opinions from Experts

In this section, as I often do, I would now like to offer a few very recent quotes/insights/observations from respected market experts that hopefully provide useful perspective during these very uncertain times. Today's newsletter is a bit shorter than usual, so I am more than making up for it with greater input from some very smart people!

"…the 11 headwinds of 2022 have all flipped… the turn has already happened… each headwind is now a tailwind….e.g. Crude Prices surge from $75 to $130 for much of 2022 then as 2022 nears an end, crude has dropped from $130 to $75…Bank of America Fund Manager Survey shows risk appetite is the lowest ever. ..And look at retail investor sentiment. AAII Bull-Bear spread, the 52 –week average, is the lowest ever...In our view, the case for owning equities is the strongest now than it has been in all of 2022."
Source: Tom Lee, Fundstrat, Head of Research, 11 Headwinds of 2022 already turned into 11 tailwinds in past month... why YE rally intact, Nov 28

“Goldman Sachs: Growth & Recession…(forecast of) global growth of 1.8% in 2023...U.S. narrowly avoids recession as core PCE inflation slows by 2 percentage points by late 2023 with modest unemployment rise.”
Source: CNBC, Nov 27

“Inflation’s peak can only be certain in hindsight. The world ate a lot of input inflation in 2020 and 2021. Digesting the bulge - now under way - will be a major relief, turbocharging stocks and bonds globally.”
Source: Globe & Mail, Rejoice investors! Input costs indicate the inflation war is won, Ken Fisher, Co-Chief Investment Officer, Fisher Investments, Nov 25

“We are getting to the point where perhaps bad news is good news because it means the Fed will slow.”
Source: CNBC, Stephen Weiss, Chief Investment Officer, Short Hills Capital Partners, Nov 24

“US recession is unlikely – if there is one it’ll be mild. Bear markets, six of the last 17 ended in October…Most stocks made a 52 week low back in June...I know the S&P made a new low in October but small caps didn’t and a lot of other groups did not. ..I think you can make the argument that the new bull market has been alive for four or five months.’
Source: CNBC, Ryan Detrick, Carson Group, Chief Market Strategist, Nov 23

“The conviction that the US is hurtling towards/or already in a recession is ubiquitous….The minority view, which is also mine, is that much of the US inflationary pressure in 2022 has transitory components…If this is indeed the case, then markets are not "fighting the Fed" if inflation is cooling….if inflation softens, as we expect, we believe markets will adjust abruptly.”
Source: Tom Lee, Fundstrat, Head of Research, Nov 23

“This will be the 5th time in 50 years, only the 5th time, that you have had the bond market, meaning Treasuries, and equities down in the same year.”
Source: CNBC, Stephen Weiss, Chief Investment Officer, Short Hills Capital Partners, Nov 22

“Wharton finance professor Jeremy Siegel is bullish on next year’s stock market, predicting equities could rise 15%, or possibly even 20%. The move higher will begin once the Federal Reserve signals it will wind down interest rate hikes. ‘They haven’t gotten it yet that inflation is basically over but they will, ‘Siegel said on ‘Squawk Box’ Monday. ‘They are going to get it maybe very late this year or early next year and, I think, as soon as they get it you are going to see a big increase in the equity prices.’ “
Source: CNBC, Jeremy Siegel, Wharton Finance Professor, Nov 21

“There is usually a sequence of events. First the market goes, then earnings go, then the economy goes.”
Source: CNBC, Liz Young, Head of Investment Strategy, SoFi, Oct 27