January 10, 2022

The global economy seemed to take news about the omicron variant in its stride this December. Here's a summary of the notable events during the month that steered the markets:

COVID-19 and market developments

- After dipping in November, for only the second month in 2021, equity markets stabilized in December with U.S. and Canadian equities ending the year significantly up, approximately 20-25%.
- Bond markets, which tend to move much slower and in the opposite direction to equities, saw U.S. treasury yields and eurozone bond yields falling slightly during December.
- Bitcoin experienced its biggest monthly drop since May, although it is still up approximately 65% year to date and cryptocurrencies attracted more assets in 2021 than all previous years combined.
- One of the biggest acquisitions in Canadian banking history occurred. Bank of Montreal purchased U.S. based Bank of the West for US$16.3 billion. This is BMO's largest ever deal.
- The omicron variant caused the province of Ontario and many Canadian financial companies to pause reopening and return-to-office plans, however the tone has started shifting from more lockdowns.
- The Bank of England became the first major central bank to raise rates since the pandemic. The bank said this was in response to inflation likely hitting 6% in early 2022, three times above its target.
- U.S. inflation climbed again, to 6.8%, its highest level in 40 years. The Fed stated it expected inflation to begin cooling by the second half of 2022. It had previously projected in September a rate hike by late 2022, but in December hinted three raises were coming. In addition, the Fed announced it will double the pace at which it reduces its pandemic stimulus, from US$15 billion to US$30 billion a month, putting it on track to complete the program in Q1 2022.
- In Canada, inflation remained at 4.7%, its highest level since 2003. The Bank of Canada noted it could be ready to start hiking rates as early as April 2022. It had already announced in October it was ending its pandemic stimulus. The bank's five-year mandate was also renewed by the federal government. This included a new measure, to consider the labour market when making interest rate decisions and use the flexibility of its 1-3% inflation target range to support employment if necessary.

How does this affect my investments?

The emergency stimulus of central banks is ending so we might experience some near-term volatility as market conditions shift. While the omicron variant is concerning, it should not stop the global economy's recovery. Economic fundamentals and corporate earnings remain healthy. Inflation will likely cool, as supply chain disruptions ease, but settle at a higher rate than we had pre-pandemic. It's also inevitable the pace of growth will slow after the record-breaking double digits returns of 2021.

Regardless of where we are in the market cycle, it's important to take a disciplined approach to investing and stay focused on your long-term financial goals. We recommend you maintain a diversified mix of asset classes in your portfolio to maximize potential returns and minimize risk. Regularly reviewing and rebalancing your portfolio also helps you remain on track.

We are here to support you in achieving your financial goals. Please do not hesitate to contact us, 250-785-9603.

Dean Falkenberg
Financial Advisor