Despite challenging headline news of supersized rate hikes, peaking inflation and mixed earnings from major U.S. companies, equity markets rallied defiantly resulting in a good month for investors.

COVID-19 and market developments

- U.S., Canadian and global equities rose through July with the S&P500 Index, Dow Jones and Nasdaq notching their biggest monthly gains since 2020, although all main indexes are still down YTD.
- A raft of U.S. banking, tech, retail, and oil companies released quarterly earnings which were mixed.
- U.S. and Canadian bond yields, which move in the opposite direction to bond prices, fell as equities rallied and on anticipation inflation is peaking and central bank hiking might become more gradual.
- The price of oil declined for the second month in a row, helping to ease inflationary pressures, although it's still hovering just under US$100 a barrel and up about 30% so far in 2022.
- There were a number of positive U.S. economic indicators during the month. Job creation was robust, retail sales rose, and the federal budget deficit shrank 50% compared to the same period last year.
- Canada had some promising economic indicators as well. The jobless rate fell to a record low, retail sales grew, house prices continued cooling and the trade surplus widened to its largest in 14 years.
- After relaxing its COVID-19 travel measures in June, the Canadian federal government reintroduced mandatory random testing for flights arriving at Canada's four largest international airports.
- An outage of Rogers mobile and internet network caused disruption across Canada for a few days.
- U.S. inflation rose again to 9.1%, a new 40-year high, with energy, food and housing costs continuing to be the main drivers. As a result, the Fed opted for its second straight 0.75% rate hike. Fed chair Powell had warned last month another large hike was likely in July. He reiterated the Fed is focused on fighting inflation and a third large hike might be required at its September meeting. However, he added the increases would slow at some point which was welcomed by equity markets.
- In Canada, inflation climbed to 8.1%, driven predominantly by gasoline prices. The increase was disappointing, but lower than expected leading to some economists anticipating inflation may have peaked. The Bank of Canada, forecasting that inflation will remain high for the remainder of the year before easing in 2023, raised rates a full percentage point, to 2.5%, its biggest hike since 1998.

How does this affect my investments?

This has been a bruising year so far as we've experienced a market correction with valuations repriced for rising rates. While extreme swings are stressful, buying opportunities rebound for investors and active managers. A clearer indication will be once we achieve a few months of declining inflation. Economic fundamentals including consumer demand, wage growth, job vacancies and corporate earnings in general remain healthy. It might take time, but a rebound will occur, and history has proven investors are rewarded over the long-term.
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 goals. This strategy helps you keep your emotions out of investing, typically buying high and selling low like many investors do. Ongoing monitoring and reviewing of your portfolio also ensures it remains on track. Diversifying investments reduces risk as well.

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

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