February 2023

Investors had lots to cheer this January. Stocks rose, bond yields fell, and inflation cooled again. There were also early signs central bank rate hiking might be paused soon as well as positive economic news coming from Europe and China. After a bruising 2022, it's a promising start to the New Year.

Monthly market developments

- Canadian, U.S. and global equities wrapped up January with impressive gains. The Nasdaq in particular had its best month since July and best start to the year since 2001, up approximately 11%.
- It was also a bright beginning to 2023 for bond markets. Yields fell on more signs inflation is easing and as a result anticipation the Fed might start reversing its rate increases in the latter part of this year.
- Several U.S. banks posted quarterly earnings. Market reception was neutral to negative due to uncertainty over their projections for 2023, but the actual reported figures were overall quite strong.
- In Europe, the economic outlook has started to improve as evidenced by positive consumer sentiment and business expectations survey results and local Purchasing Manager Indices (PMIs).
- Economic activity including consumer demand, manufacturing and services is picking up in China as it reopens for business after lifting its "zero-covid policy" pandemic restrictions.
- Oil prices fell slightly as optimism over China reopening and the Fed possibly slowing or reversing rate hikes soon was countered by the market reception towards U.S. quarterly reporting season.
- U.S. inflation cooled from 7.1% to 6.5%. This was the sixth straight month inflation had fallen as prices for goods, food and energy continued to stabilize. While encouraging, it wasn't enough of a sustained downward path for the Fed not to announce another 25 basis point increase on February 1.
- Canadian inflation eased from 6.8% to 6.3%. In its CPI report, Statistics Canada said this was largely due to lower gasoline prices which were offset by food and housing costs remaining high. The Bank of Canada raised its benchmark rate 0.25% to 4.50%. Bank governor Macklem indicated rate hikes would now be on hold but, if needed, the bank would hike again to get inflation back to its 2% target.

How does this affect my investments?

As difficult as 2022 was with rate increases, high inflation and market swings, the worst is now probably behind us, and the conditions created for a much more compelling investing environment going forward. Central bank policy, which operates with a lag, is likely to weigh on the economy into 2023, but equity valuations have normalized, and the potential returns of several asset classes offer attractive opportunities. Corporate earnings in general have also remained resilient and supply chains are finally moving again.

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 ensure 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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