The positive start to the new year for investors was "put on ice" in February as stocks stalled and bond yields rose again. Here's a summary of the notable events that steered the markets.

Monthly market developments

- Most major stock indexes fell in February, sparked by rising bond yields which led to concerns the path to economic recovery might still be bumpy, though YTD equities remain in positive territory.
- In bond markets, yields rose as investors pondered if U.S. inflation news and other data pointing to a strong underlying economy might result in Fed interest rates having to stay higher for longer.
- Earnings season for Canada's largest banks started with several posting quarterly results during February. Market reception was mixed, but the actual reported figures were overall quite resilient.
- There were a number of positive Canadian and U.S. economic indicators. Job gains on both sides of the border were above expectations and retail sales also rose. U.S. GDP grew a respectable 2.7%.
- There was promising economic news from the U.K. and the eurozone as surveys of manufacturers and the services sector revealed a pick-up in activity and an easing of supply chain problems.
- An academic, Kazuo Ueda, was named the new Bank of Japan head over existing deputy governors potentially indicating a change in the bank's near-zero rate policy which could impact global bonds.
- U.S. inflation rose to 6.4%, slightly greater than economists anticipated while housing costs also remained stubbornly high. As expected, the Fed raised its target interest rate by 25 basis points to 4.75%. Fed chair Powell indicated the end of its tightening cycle is near with probably only one or two more hikes of 0.25% to come. He added a soft landing for the economy is still attainable.
- Canadian inflation slowed from 6.3% to 5.9%. However, mortgage interest costs continued rising and there was higher prices at the gas pumps, showing the path to a more acceptable level of inflation is not a straight line**.** Bank of Canada governor Macklem said last month interest rates would now be on hold to assess the effects of hiking so far. The next rate announcement is scheduled for March 8.

How does this affect my investments?

Economic indicators such as employment, consumer spending and business sentiment have revealed more robust activity than anticipated at the outset of 2023, despite central bank rate hiking. This strength combined with declining inflation has a mixed impact. While it potentially looks good for company earnings and performance, it's also likely going to slow the cooling of inflation and result in higher interest rates for longer. We believe this explains the return of volatility and rising yields last month.

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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