Market Update

May 2022

An Important Note: The difference between perception and activity

The risk of a recession continues to be a hot topic of discussion, based both on Google searches and investment manager surveys (Bank of America GFMS). And there is cause.

Historically, low employment, an overactive economy and inflation typically drive Central Banks to increase interest rates in an effort to slow things down. With their focus particularly on inflation, Central Banks have historically raised interest rates too far and tipped the economy over into a recession. I believe t hey raise rates too far because of their impatience with inflation's slow response. Inflation is a lagging indicator, meaning it takes time to fall – we will likely only see inflation fall months after rates are raised.

While this is a possible outcome (and will likely occur eventually) we place the odds of this happening in the near term on the low side. We are of the opinion that there is a greater chance that the economy continues to grow. There remain several very significant tailwinds that one does not usually see before a recession.

First, economic growth continues to be positive. While it has slowed from quite high levels, the continued growth points to an economy that is bending but not breaking.

Second, consumption continues at a strong pace. Both the average household and corporation are financially very healthy. Both are spending and planning on spending.

Third, the labour market is decelerating but not contracting. Less hiring and more layoffs would still leave a strong market while bringing down inflation.

Fourth, while many of the supply chain problems (mainly caused by COVID-19) remain, there has been tremendous progress throughout.

Interestingly, a survey of CEOs (The US Conference Board MOCC) found that a majority now expect the economy to enter a recession but 66% nonetheless plan to expand their workforce. In other words, as I have found talking to business owners, "others are having a hard time and will likely have it even harder in the future, but we are doing great, expanding, record sales. "

Similarly, consumer sentiment (what they are saying) continues to tumble, but consumer spending (what they are doing) continues to grow. In other words, "my neighbor must be having a hard time, but I'm doing just fine. "

This difference between perception/sentiment and actual activity is not that unusual. Historically I have found the truth lies more in actual activity. Perceptions reflect human emotions and are not as reliable.

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May was relatively flat. The markets fell for the first couple of weeks and then reversed.

The war in Ukraine appears to be fading from the headlines. It should not. The newspapers should be reporting, loudly, what is going on. The horror is real, and we should not be spared the grim truth. We should not be allowed to ignore it, letting it run in the background, simply because it is no longer 'new'. This is an issue for all of mankind.

But as I have written before, the markets march to their own drum. A company may care. A company may donate money. A company may encourage its employees to do good. But the company's stock price is rarely moved by such action. The stock price is a cold calculated value based on expected profits. It reflects the company's potential and ability to realize that potential. Nothing more.

And so, as always, the focus remains, and must remain, on the long term. One should invest in strong companies that have the opportunity and potential and can weather the inevitable storms and prove profitable. One should invest for the long term and ignore short term fluctuations and forces one cannot control. One should focus on one's own life, plan, and goals. At the end of the day I believe that is all that truly matters.

Looking forward we are concerned but neutral in the short term, and positive in the medium and long term. We continue to invest new funds (finding some good opportunities) and monitor our positions closely.

Have a great month and let us know if there is anything we can do for you,

- Meir

Index	Month	Year to Date
Bonds FTSE Canada Universe Bond Index - CAD	0.00%	-10.30%
Canadian Equity - S&P/TSX 60 Index - CAD	0.10%	-1.50%
US Equity – S&P 500 - USD	-1.10%	-12.70%
International – MSCI EAFE Index - USD	2.00%	-11.00%
Emerging Markets - MSCI Emerging Markets Index - CAD	-1.40%	-12.90%
Real Estate - Dow Jones® Global Real Estate Index - USD	-4.80%	-13.50%
S&P/TSX Preferred Share Index - CAD	-4.40%	-6.00%

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[1] Bonds FTSE Canada Universe Bond Index - CAD
Canadian Equity - S&P/TSX 60 Index - CAD
US Equity – S&P 500 - USD
International – MSCI EAFE Index - USD
Emerging Markets - MSCI Emerging Markets Index - CAD
Real Estate - Dow Jones® Global Real Estate Index - USD
S&P/TSX Preferred Share Index - CAD