UPPER CANADA CAPITAL

PRIVATE WEALTH MANAGEMENT

October 2023 Market Commentary

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Looking Ahead Despite Near-Term Uncertainty

September tends to be one of the worst months for the stock market, and this year was no different. The weakness over the past month resulted in negative returns across equity markets for the third quarter.

The S&P/TSX Composite, S&P 500, and MSCI World Total Return Indexes were down 2.20%, 3.27%, and 3.36% respectively, in Canadian dollars. Year to date, however, they are still up 3.4%, 13.1%, and 11.6%, respectively (sourced from YCharts as of October 2023). The markets have been volatile recently because inflation has not declined as expected, and interest rates remain high. Investors had thought central banks would have started discussing interest rate cuts by now, but that has yet to happen.

Slower Global Growth

Economies around the world are starting to show signs of slowing, due to significant increases in interest rates. Up to now, economies have stayed strong, thanks to consumer activity (which accounts for two- thirds of economic output). Consumers had excess savings after COVID lockdowns, higher wages, and a robust job market. However, there are signs that consumer support for the economy may be weakening, with declining savings rates and early job market problems. These developments could slow down the global economy in the near future.

Interest Rates

The weakening North American economy will likely lead the Bank of Canada and the U.S. Federal Reserve to pause their interest rate increases in the coming months. Inflation has fallen significantly from last year's highs. Central banks are careful not to harm economic activity by being too aggressive, and it's expected that interest rates will be lower a year from now.

Stock Market Trends

Higher wages and inflation have affected corporate earnings, causing declines of 6% and 12% for U.S. and Canadian companies, respectively. While earnings are expected to recover in the second half of 2024, there may be some uncertainty before that happens. The good news is that not all companies will be affected in the same way. Companies that are financially solid with strong profit growth as well as products or services that are hard to replace, are likely to fare better in the future.

Fixed Income Opportunities

It's important to remember that bond prices move the opposite way to interest rates or yields. If we believe the economy is slowing but not heading into a recession, there may be opportunities in fixed income investments. Bonds are currently offering yields not seen in a while. For example, highly rated Canadian corporate bonds currently provide a yield of nearly 5.5% as of the end of September 2023, compared to just 2.4% at the beginning of 2022.

The Impact of Al

Artificial intelligence (Al) may have a big impact on the broader economy, investments, and society in the future. But there are many unanswered questions. It's worth noting that being the first to adopt new technology doesn't always lead to a lasting advantage. Think about the progression from the Palm Pilot phone to the BlackBerry smartphone, which was eventually replaced by the iPhone. We believe that there's a bit of euphoria surrounding Al right now, and it's wise to approach the current Al trend with a healthy dose of skepticism.

What Lies Ahead?

While market volatility is expected to continue for the rest of the year, it's important to remember that trying to time the ups and downs of the stock market is nearly impossible. Just look at last year's events. In September 2022, the S&P 500 dropped 9.3% and recovered 8.0% the following month. Over the next 9 months, the index was up nearly 20.0%. It's crucial to stay focused on your long-term financial goals and not let short-term market fluctuations distract you. (Data sourced from YCharts as of October 2023).

As always, I'm here to talk if you have any questions about the markets or your investments.

Warm regards,

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