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CHARTBOOK
Market Comment

Prepared by OceanFront Investment Counsel Inc.

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Chartbook Market Comment: November 2022

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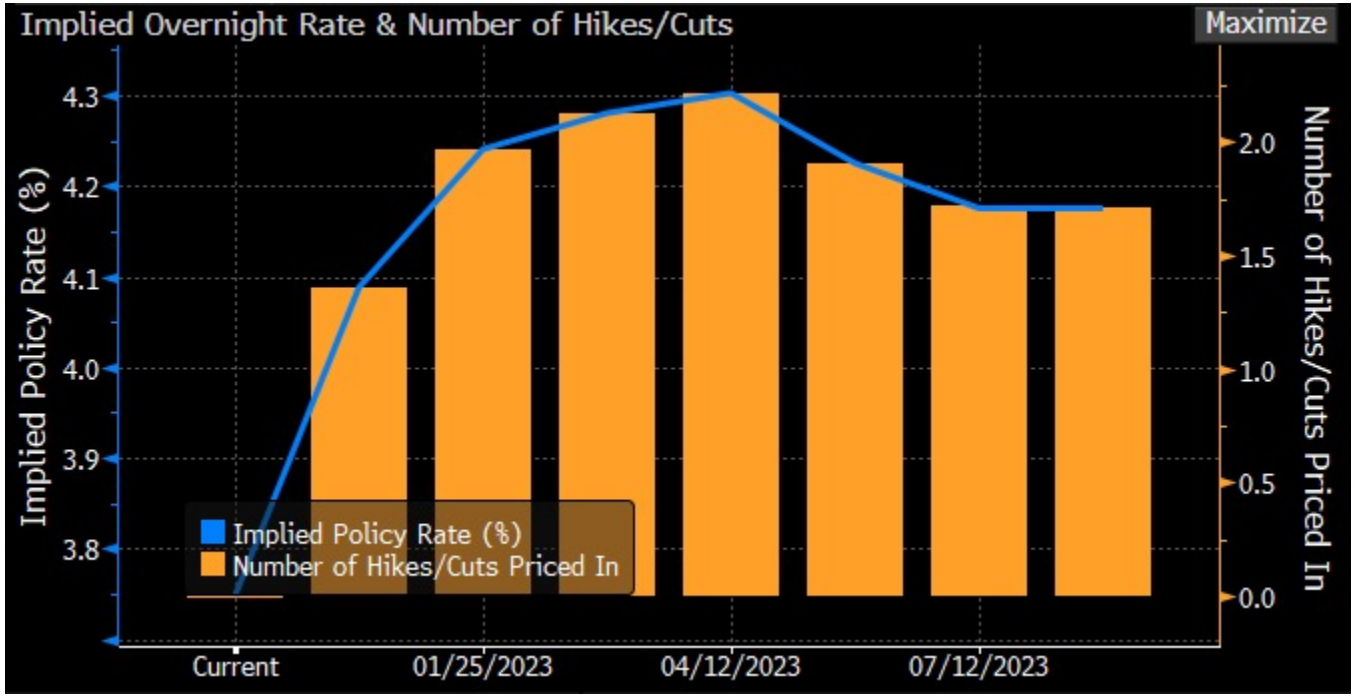
Market Comment

Last week, the Bank of Canada (BoC) announced its new interest rate policy, raising its overnight rate by 50 basis points to 3.75%, less than the 75 basis point increase that was expected. This is interesting for several reasons. Interest rate policy announcements in developed countries have largely been dominated by surprises to the upside this year rather than the downside like this announcement. The BoC was among the first central banks to begin hiking rates this year and has been among the most aggressive in their monetary policy. This could be interpreted as a signal that the BoC is close to the end of its hiking cycle and that other central banks could follow in relaxing their pace of hikes. Investors are anxiously watching central banks for any sign of a "pivot" in policy where they switch to less aggressive or even accommodative monetary policy, which would be favorable for financial markets, but it is far too early to say whether this pivot is imminent.

Markets continue to be driven by inflation and the central bank's aggressive monetary policy (which is focused on fighting inflation). A big question investors are asking is if this policy will drive the economy into recession. It's unclear if that will be the case, but another question investors must ask is, even if we do enter a recession, and with markets already having experienced large losses, how much bad news is already priced in? Markets typically fall in advance of a recession and bottom well before it is over.

Implied Interest Rate - Canada

The Bank of Canada's overnight interest rate is now 3.75%, and the market is forecasting this rate to increase to a terminal rate of about 4.3% next spring.



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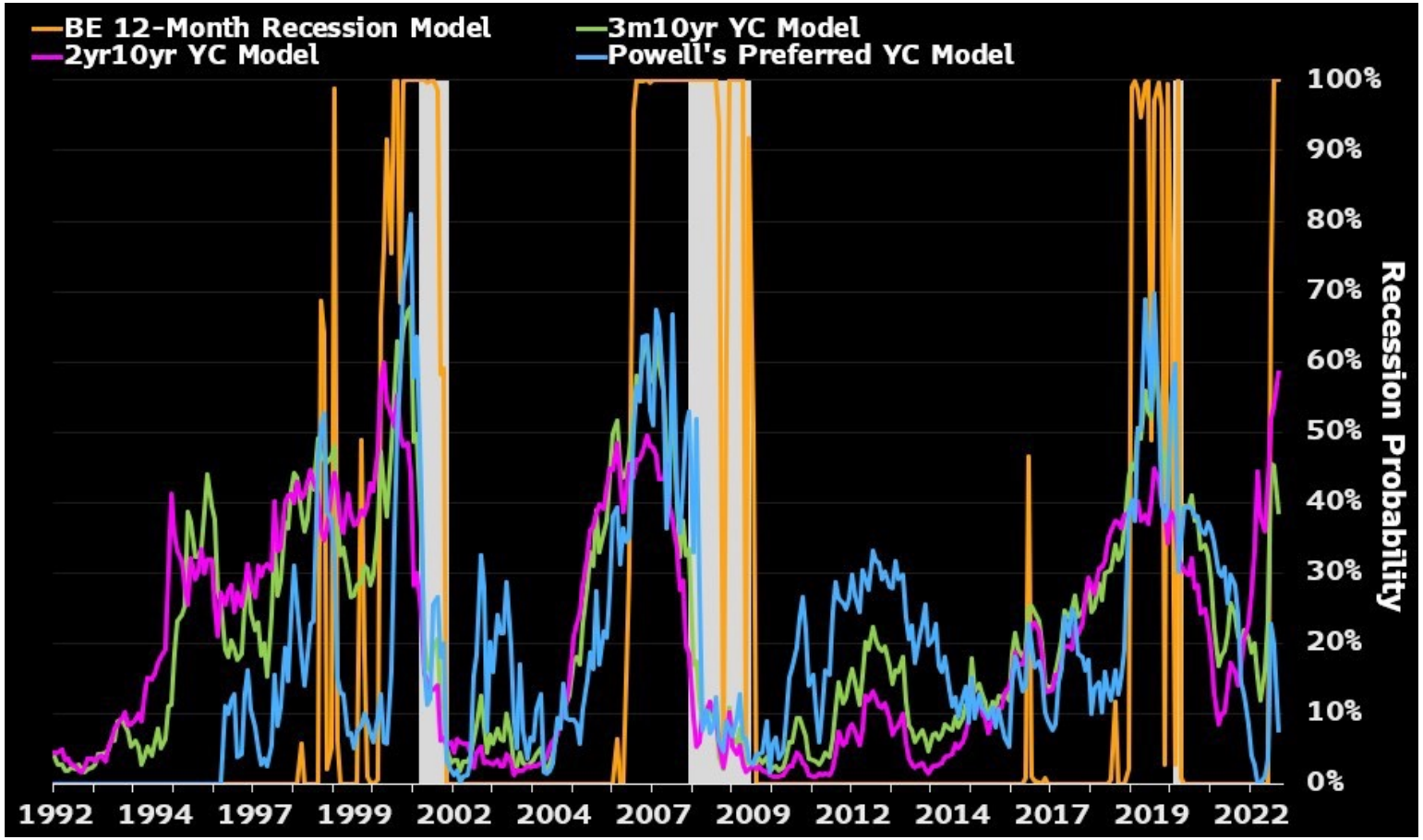
Recession Probability - US



Will these interest rate hikes contribute to tipping the economy into recession? Current recession forecast models are mixed.

This chart shows four models forecasting the probability of a recession occurring within the next 12 months, ranging from under 10% all the way up to 100%. No one knows for certain what the future will bring.

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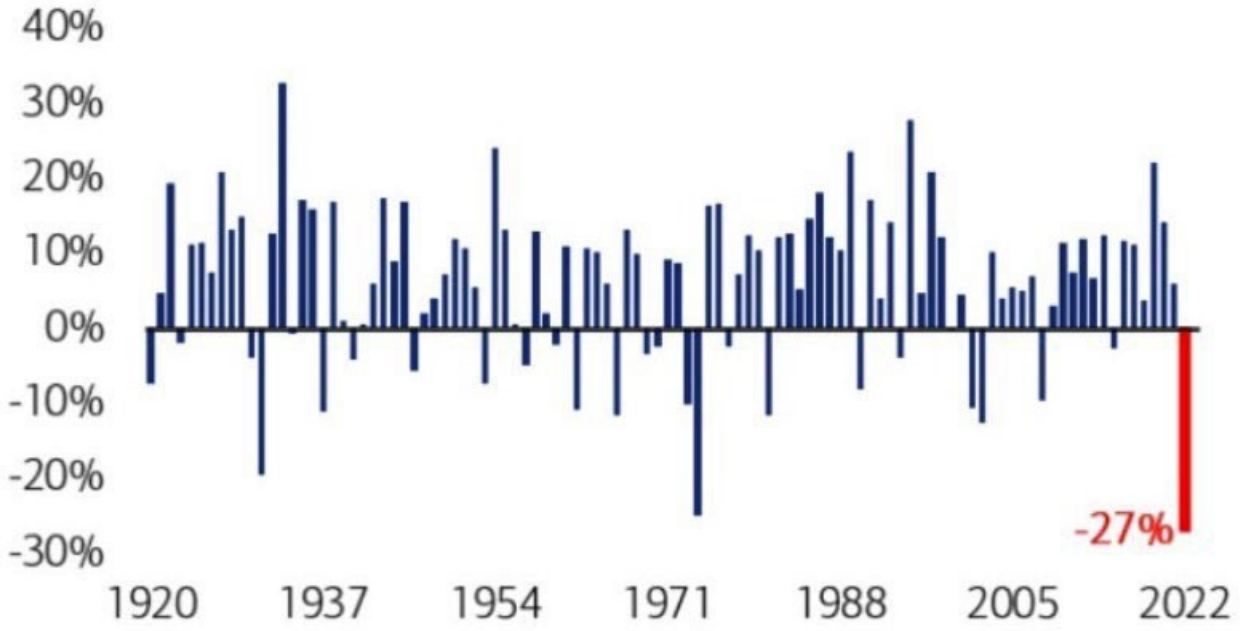
Balanced Portfolio Returns

Exhibit 24: Worst first 3 quarters ever for 60/40
Performance of 60/40 portfolio through first 3 quarters of the year



Source: BofA Research Investment Committee, Global Financial Data. Note: 60/40 constructed using and index of 60% S&P 500 total return & 40% US 30-year government bond.

BofA GLOBAL RESEARCH

For the first three quarters of the year, the drawdown in this hypothetical balanced portfolio was the worst of any first three quarters of a year dating back to 1920.

While stocks are not performing as badly as they have during some previous bear markets, the bond allocation of portfolios is also dragging returns this time around, a highly unusual occurrence.

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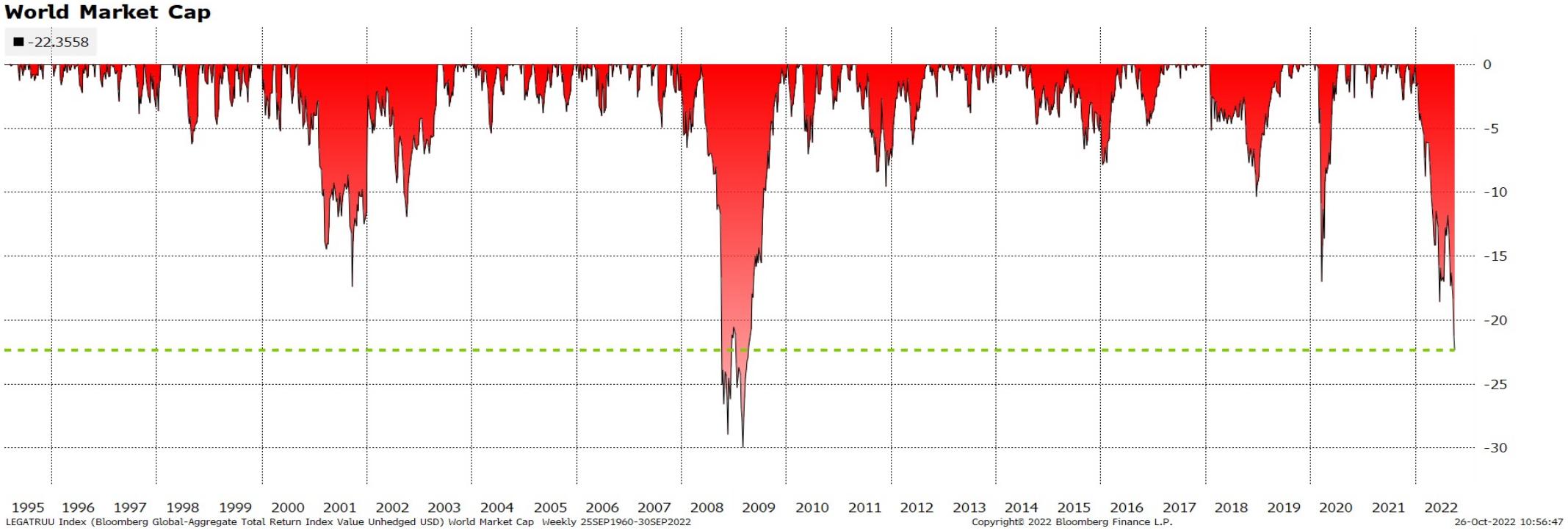
Global Market Capitalization

Market Cap of MSCI World Index + Bloomberg Global Agg



Similar to the previous slide, this chart combines the returns of stock and bond markets to show the collective loss of value that has occurred during this bear market. This 22% loss is worse than the 2000s dotcom bear market but less than the 30% loss in the 2008 financial crisis.

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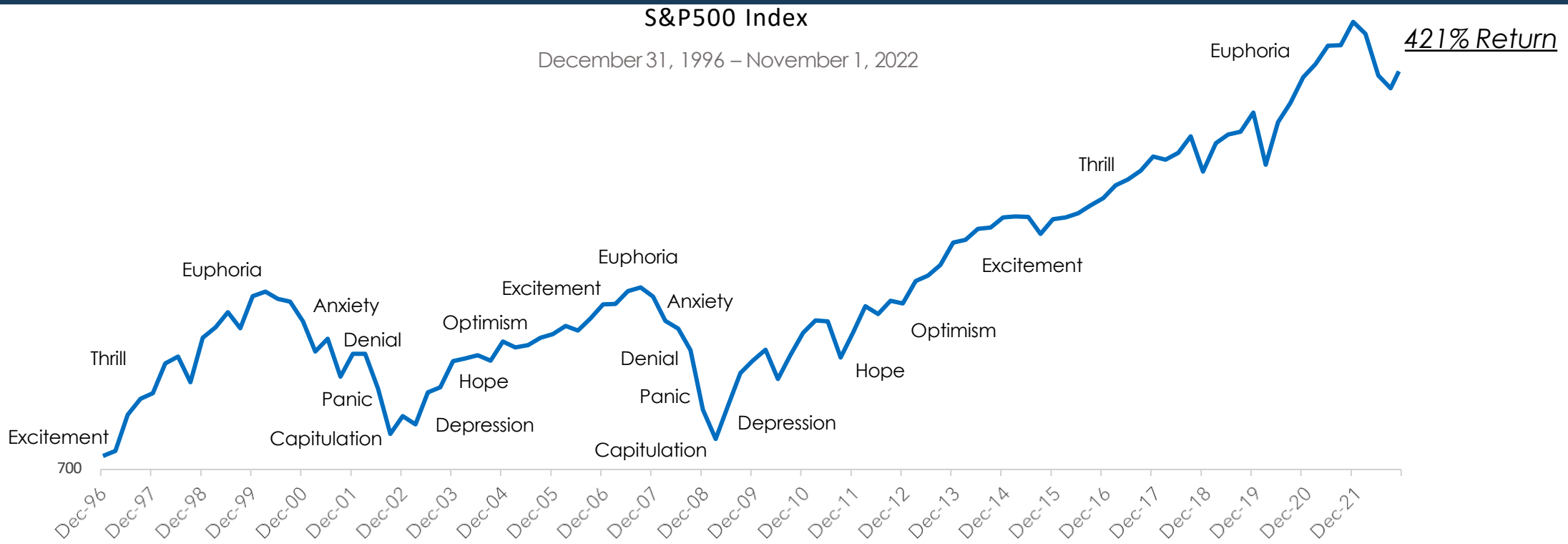
Cycle of Investor Emotions



Investor sentiment is driven by market returns. Emotionally, we often feel the worst about investing during the most opportune times to invest and feel the best during the worst times to invest.

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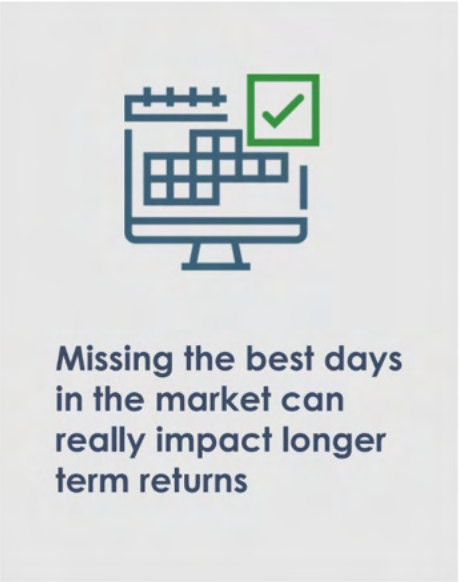
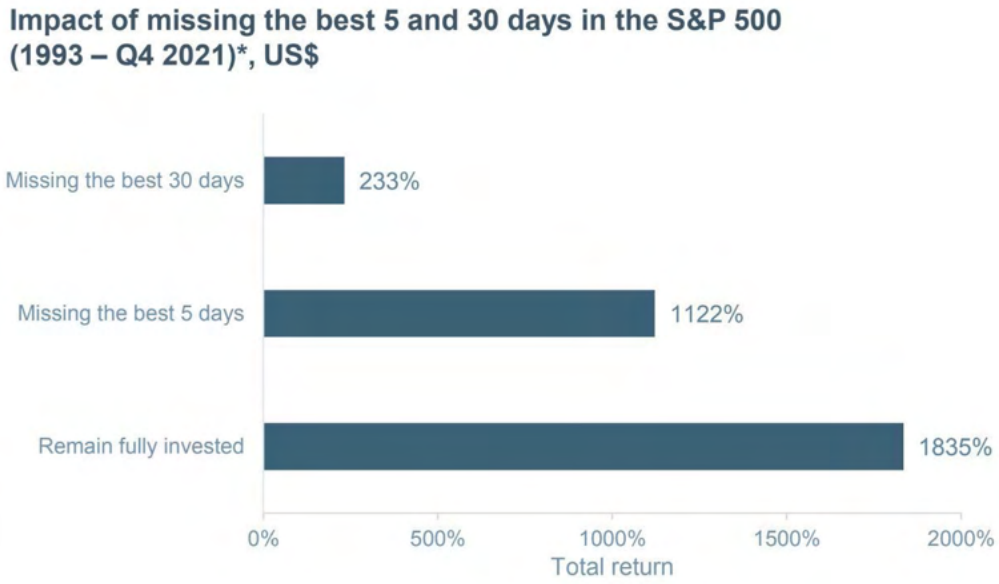
Impact on Return of Missing the Best Days in the Market

Some of the largest returns in the market can come in a small number of days, and missing out on those days can be very costly to the return of a portfolio over the long term. From 1993-2021, missing the best 30 days in the S&P500 would have earned an investor 233% instead of the 1835% earned from staying invested over the full period.





Source: Refinitiv, Fidelity International, Feb 2022.*Total return data from 31/12/1992 – 31/12/2021.

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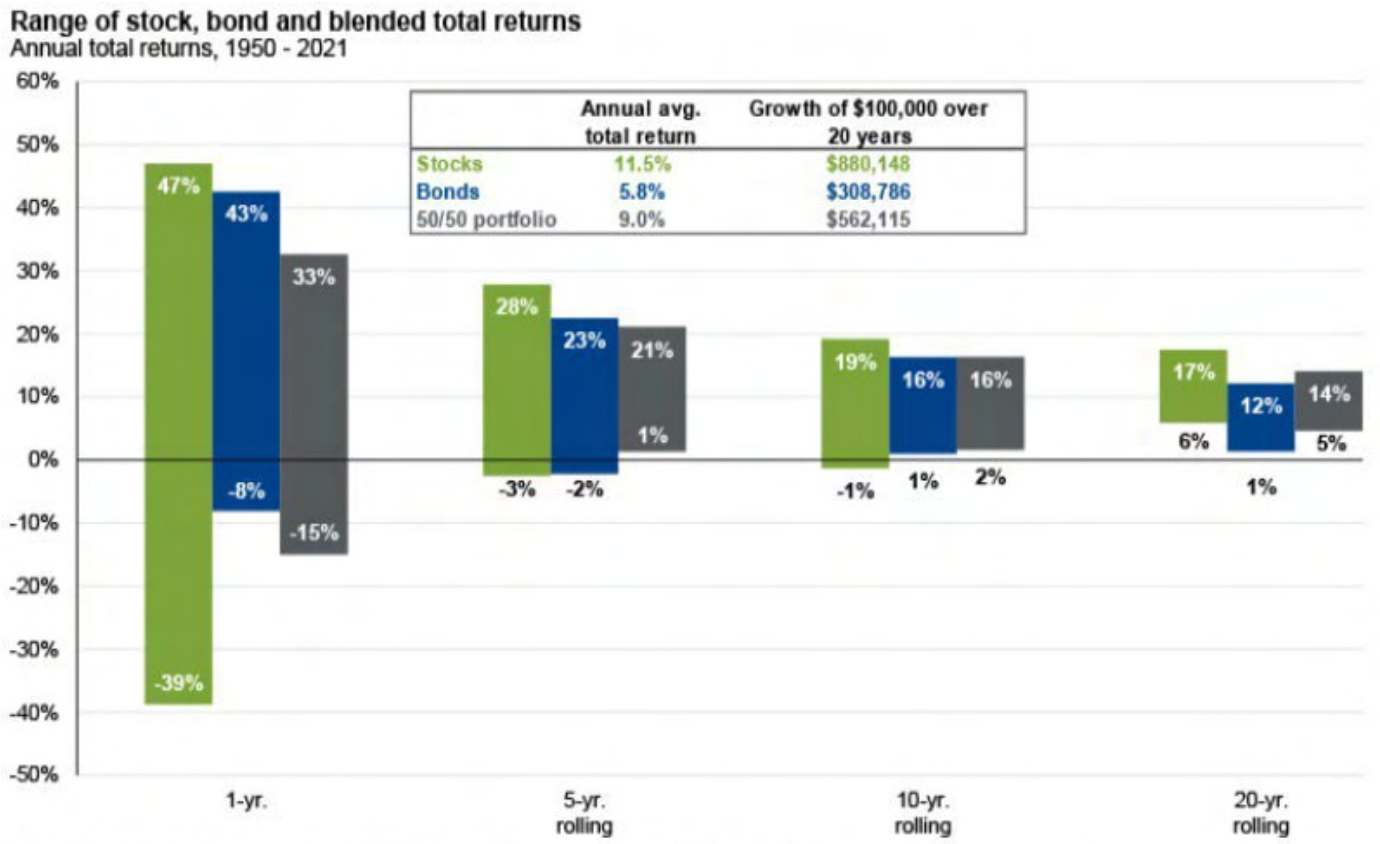
Volatility of Returns



Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management.
Returns shown are based on calendar year returns from 1950 to 2021. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2021.
Guide to the Markets – U.S. Data are as of September 30, 2022.

J.P.Morgan
ASSET MANAGEMENT

In the short-term, market returns are very unpredictable. Over the longer term, returns become more reliable. Historically, the range of possible returns for stocks has been -39% to 47% over one year, but over 20 years, this range shrinks to 6% to 17% annualized. This is the value of sticking to a long-term plan and disregarding the short-term noise.

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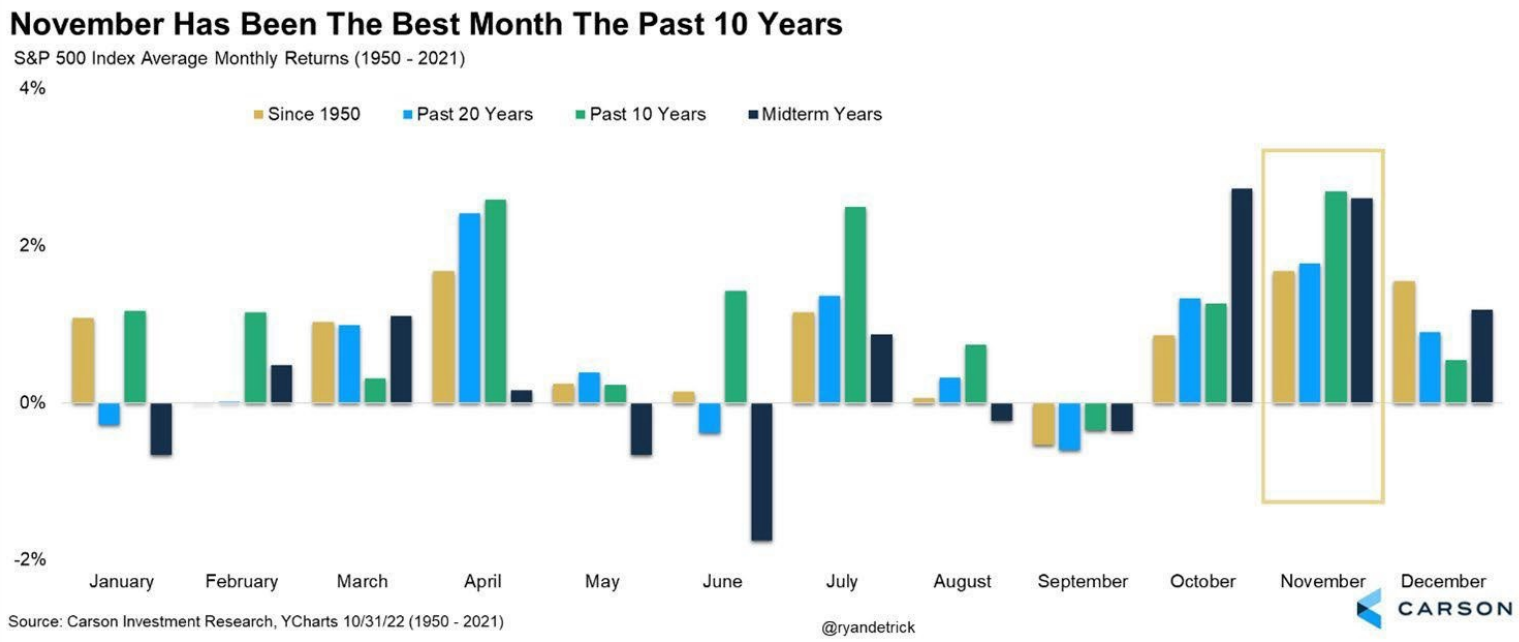
Stock Market Seasonality



Historically, the fourth quarter is a seasonally strong period for stocks, with November often being the strongest month.

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