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# CHARTBOOK
## Market Comment

Prepared by OceanFront Investment Counsel Inc.

oceanfrontwealth.com

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## Chartbook Market Comment: September 2023



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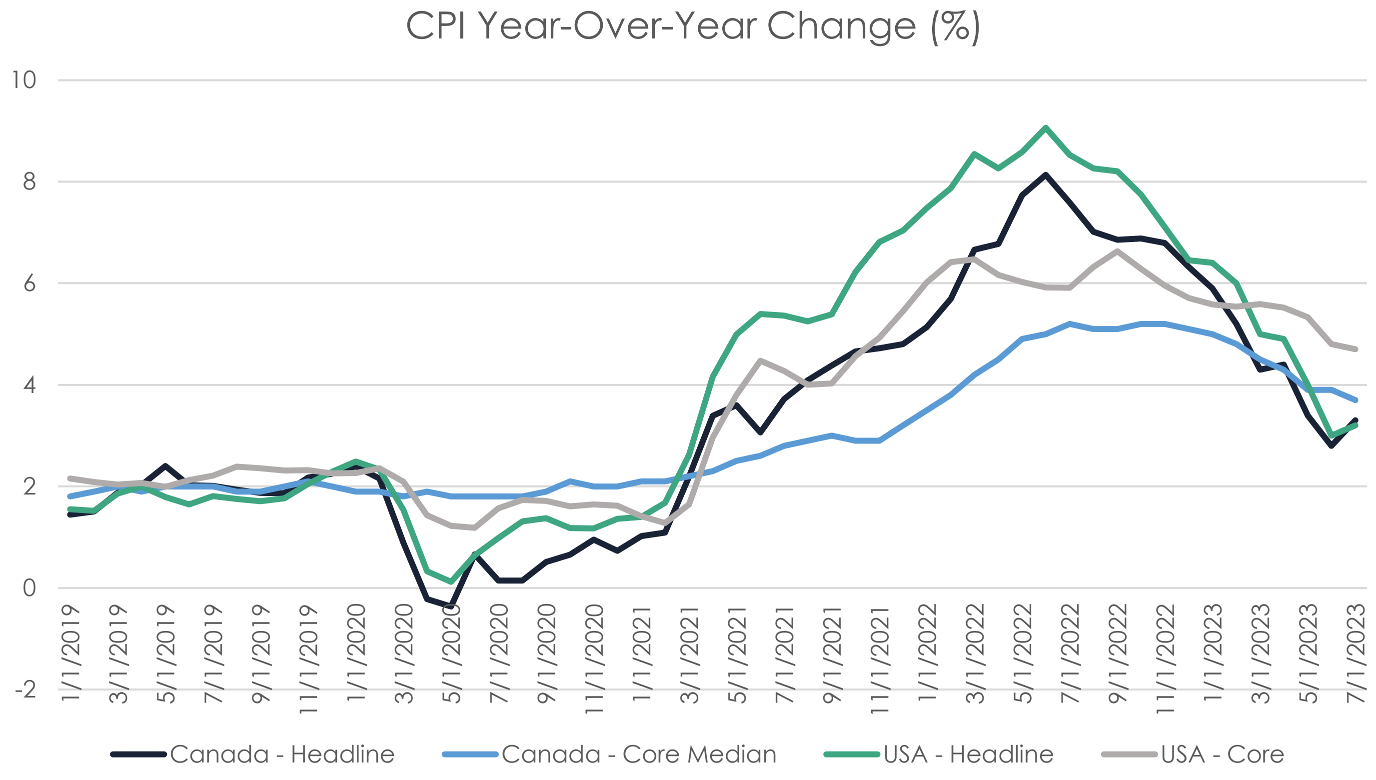
# Market Comment

On Wednesday, September 6, the Bank of Canada ("BoC") announced that it would hold its overnight interest rate steady at 5.0%. The BoC noted in its statement that while inflation has come down, core inflation remains elevated. The bank noted that global growth has slowed, but remains fairly strong in the US, suggesting the bank is concerned about "stagflation", an economic phenomenon last seen in the 1970's, where growth was slow but inflation was very high.

However, as the bank also noted, slower growth is generally necessary to bring prices down and reverse the trend of elevated inflation. The Canadian economy contracted at an annual rate of 0.2% in the second quarter of 2023 and the labour market has loosened somewhat.

The BoC is clearly still concerned about inflation, noting that "inflationary pressures remain broad-based". Gasoline prices are rising, putting upward pressure on inflation in the near term. The bank said it is prepared to hike rates further if needed. This is consistent with OceanFront Investment Counsel's opinion that rates are at or near their peak and are likely to remain high until inflation is under control.

# Inflation




Headline inflation in the US and Canada ticked up in July, while core inflation, which strips out volatile energy and food prices, continued to decline. As energy prices are on the rise, we have likely seen a bottom in the headline inflation data, at least in the short-term.

 Source: Bloomberg, OceanFront Investment Counsel Inc.

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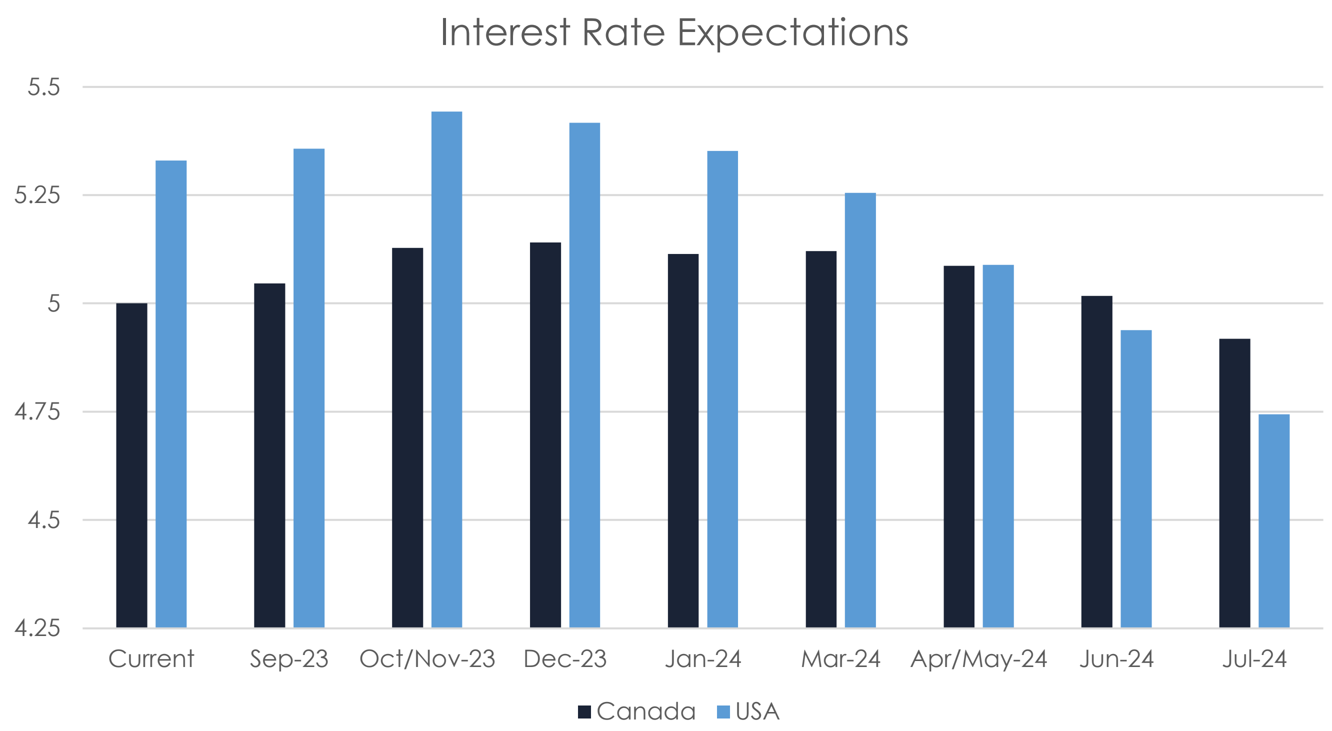
# Interest Rate Expectations

Market expectations for interest rates show that investors believe the BoC and Federal Reserve have most likely reached the peak of their interest rate hiking cycles.




Data as of August 31, 2023



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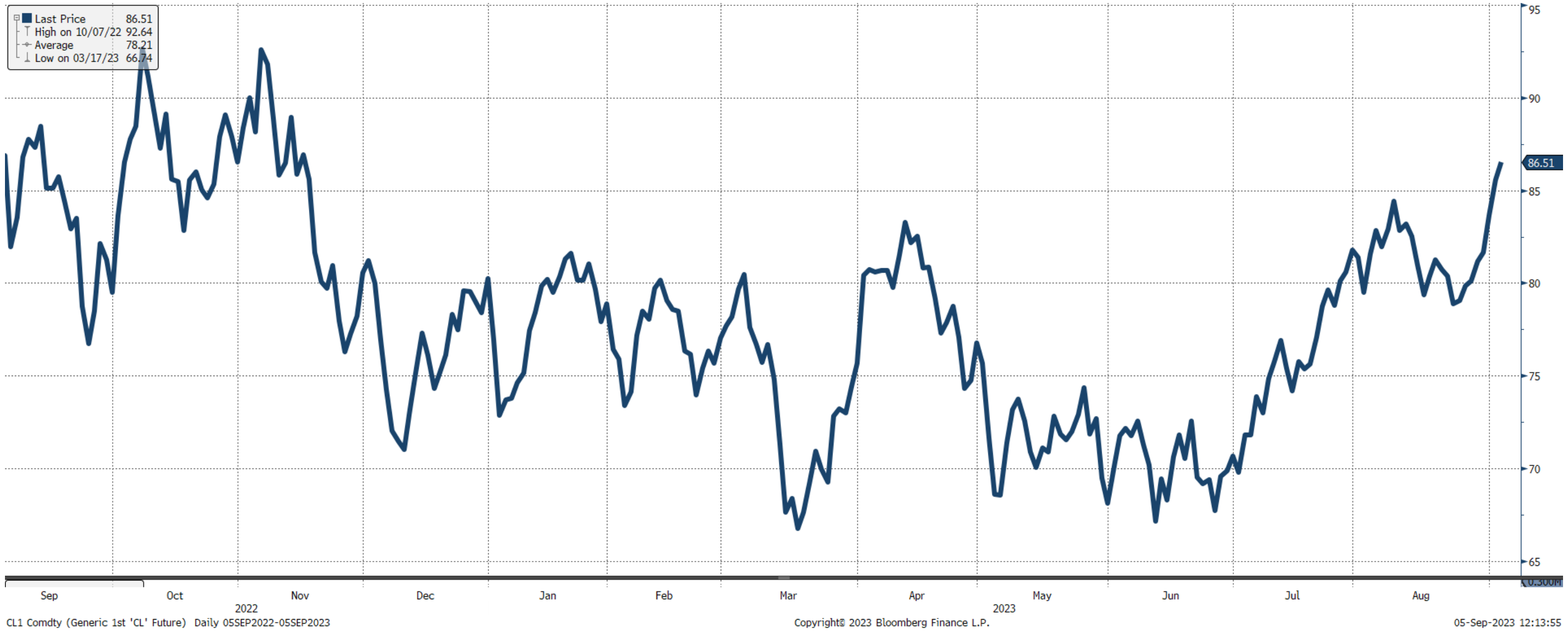
# Oil



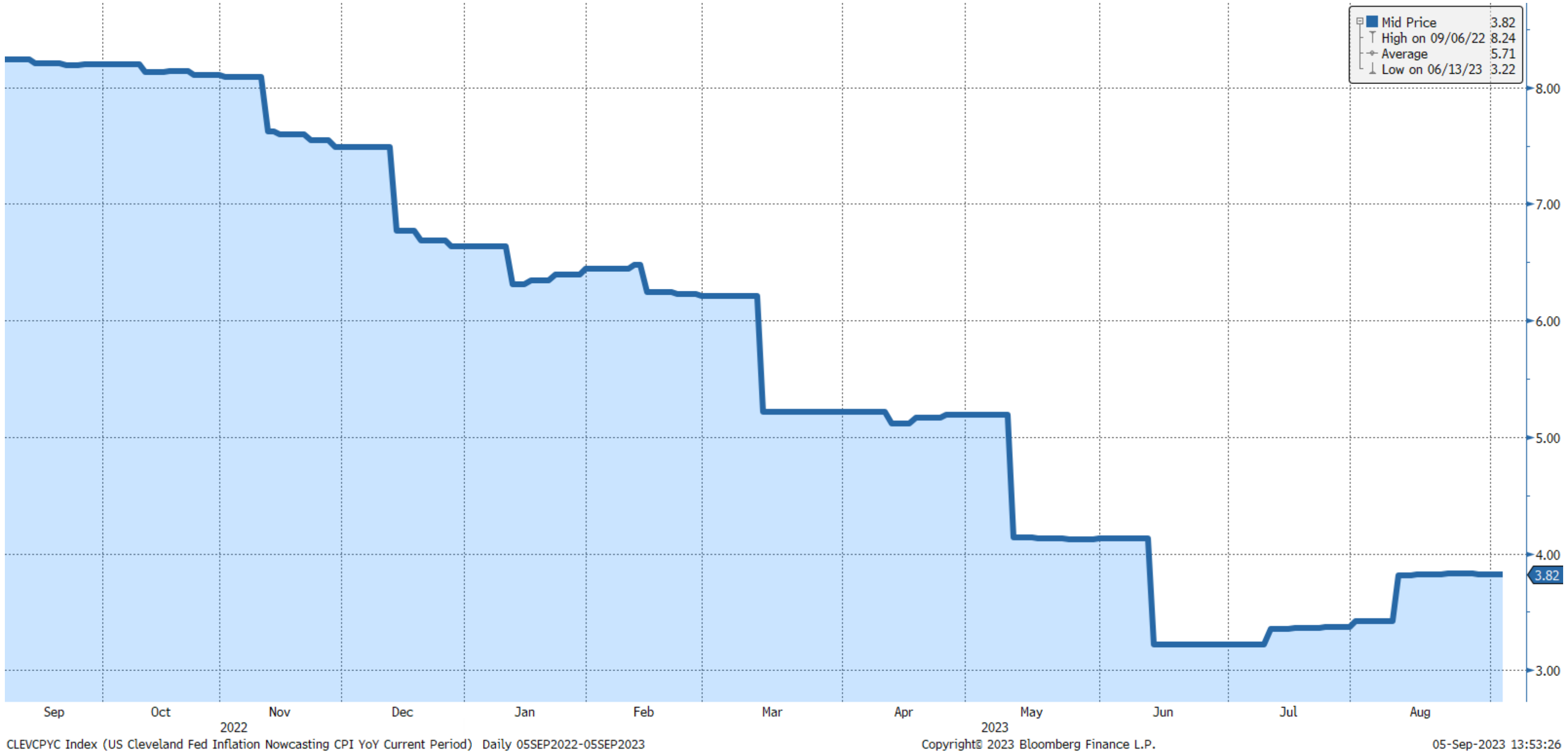

The price of WTI Crude Oil recently rose to the highest level since 2022, at about US$87/barrel. This is one factor driving inflation higher after a steady decline in price from early 2022 until June 2023.

This isn't a great sign for inflation, but it's bullish for energy stocks.

 Source: Bloomberg, OceanFront Investment Counsel Inc.

# Inflation Forecast

The Federal Reserve Bank of Cleveland does a forecast of inflation, which they call a "nowcast". The latest forecast is for 3.8% in August 2023. This is more evidence that inflation has bottomed in the short-term.




 Source: Bloomberg, OceanFront Investment Counsel Inc.

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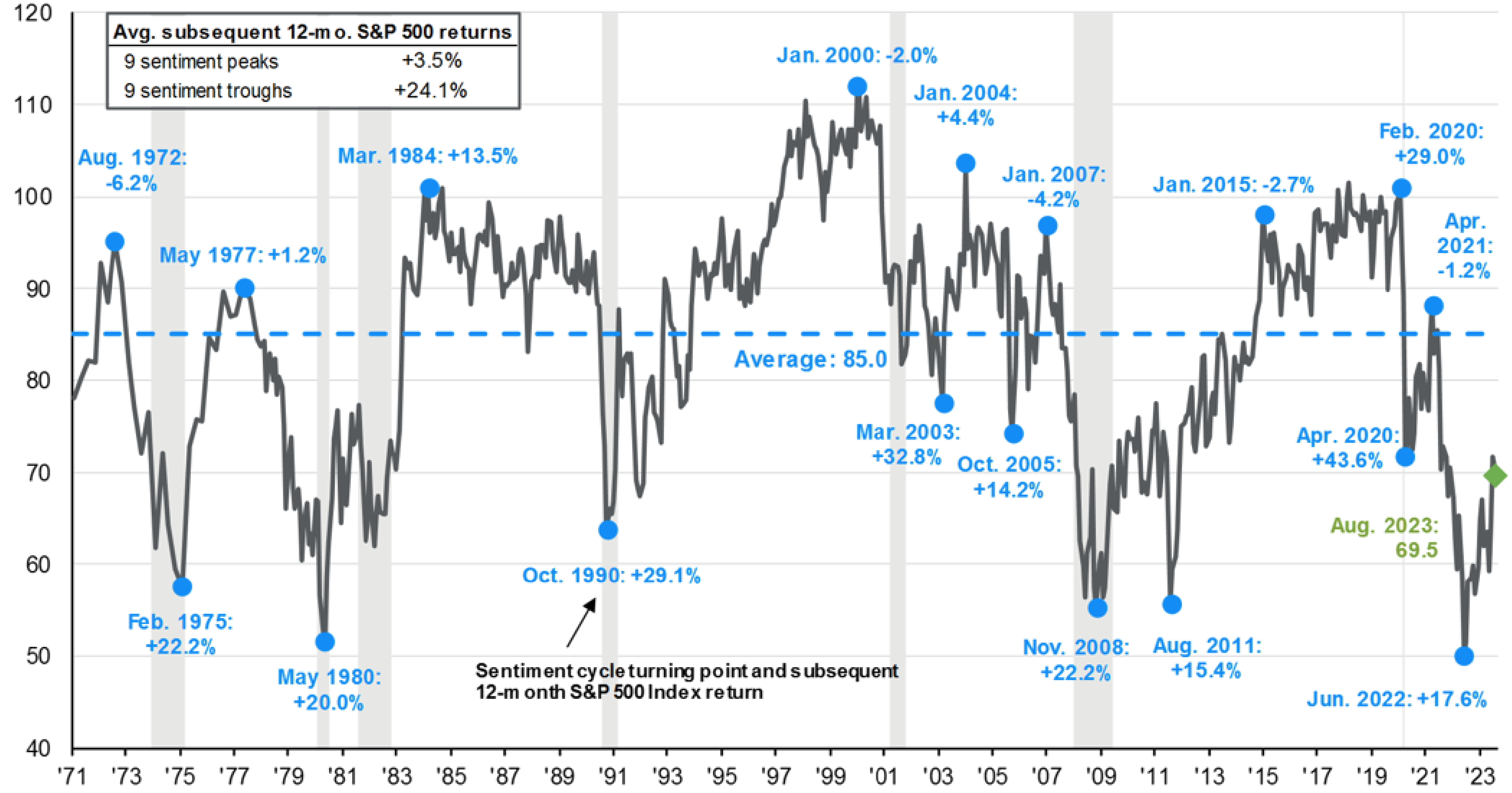
# Consumer Sentiment

**Consumer Sentiment Index and subsequent 12-month S&P 500 returns**




Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management.
Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs. Subsequent 12-month S&P 500 returns are price returns only starting from the end of the month and excluding dividends. Past performance is not a reliable indicator of current and future results.
*Guide to the Markets – U.S.* Data are as of August 31, 2023.

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Consumer Sentiment, as measured in a survey by the University of Michigan, hit the lowest level since 1980 in June 2022.

These times, when the public is extremely pessimistic about the economy, tend to occur around bottoms in stock markets. The chart shows the subsequent 12 month return of the S&P500 Index after these low readings have occurred.

In the most recent case, the S&P500 has returned 17.6% since the sentiment low in June 2022.



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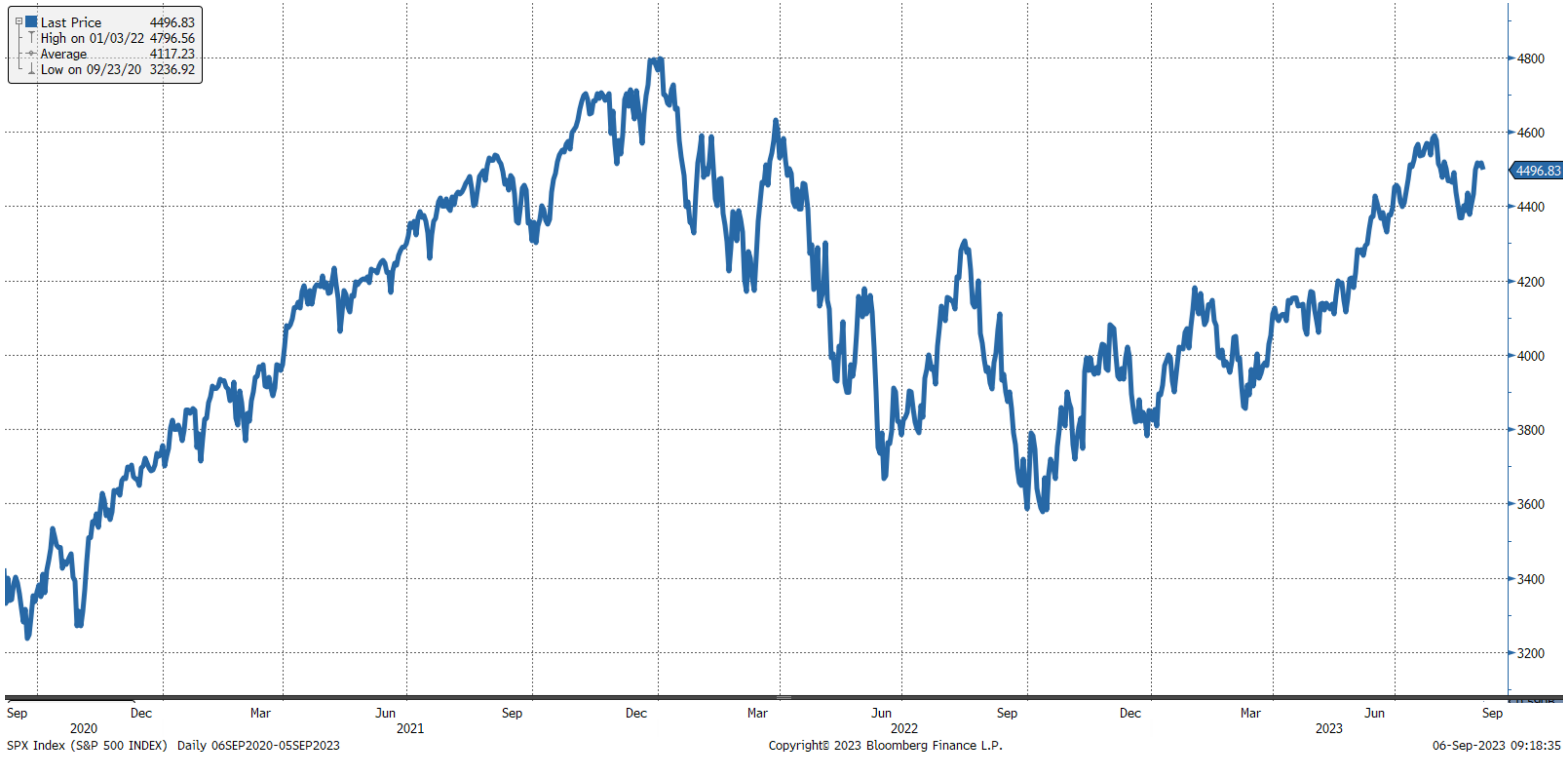
# S&P500 Index




After the low in sentiment in June 2022, the S&P500 staged a significant rally, then declined to a brief lower low in October before rallying back to where it is today, approaching the all-time high of December 2021/January 2022.

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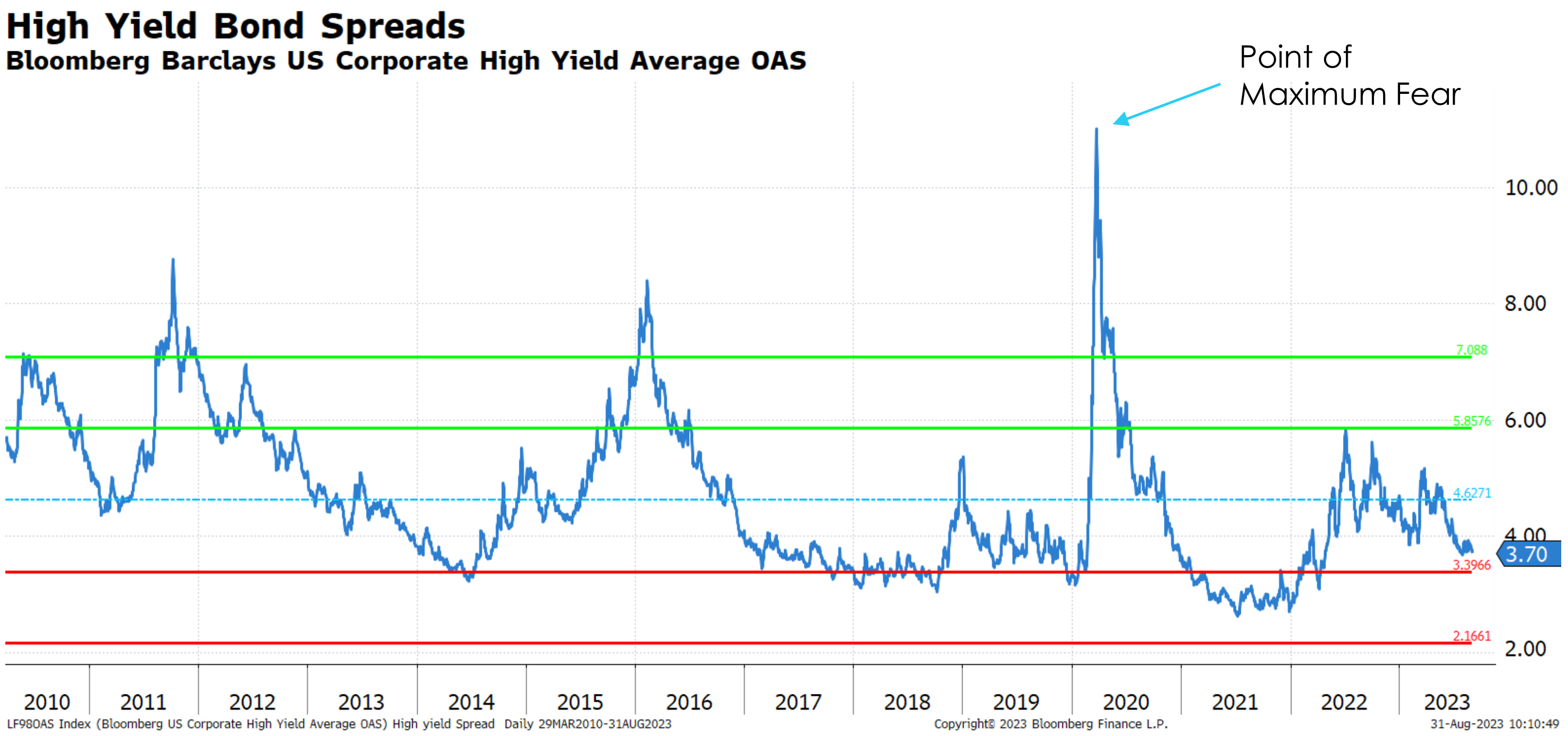
Source: Bloomberg, OceanFront Investment Counsel Inc.

# High Yield Bonds

High Yield Bond spreads (the additional yield earned on these riskier bonds compared to government bonds) currently sit somewhat lower than their 10-year average, suggesting they are slightly expensive relative to recent history.

This metric is also a good indicator of financial market stress and tends to spike prior to or during recessions. As of yet, we are not seeing indications of stress or economic weakness here.

During times of stress, there are often excellent opportunities to buy these bonds cheap and earn extra yield, like during early 2020. Like the sentiment chart in an earlier slide, times of stress and fear often present opportunities to buy and earn strong returns.

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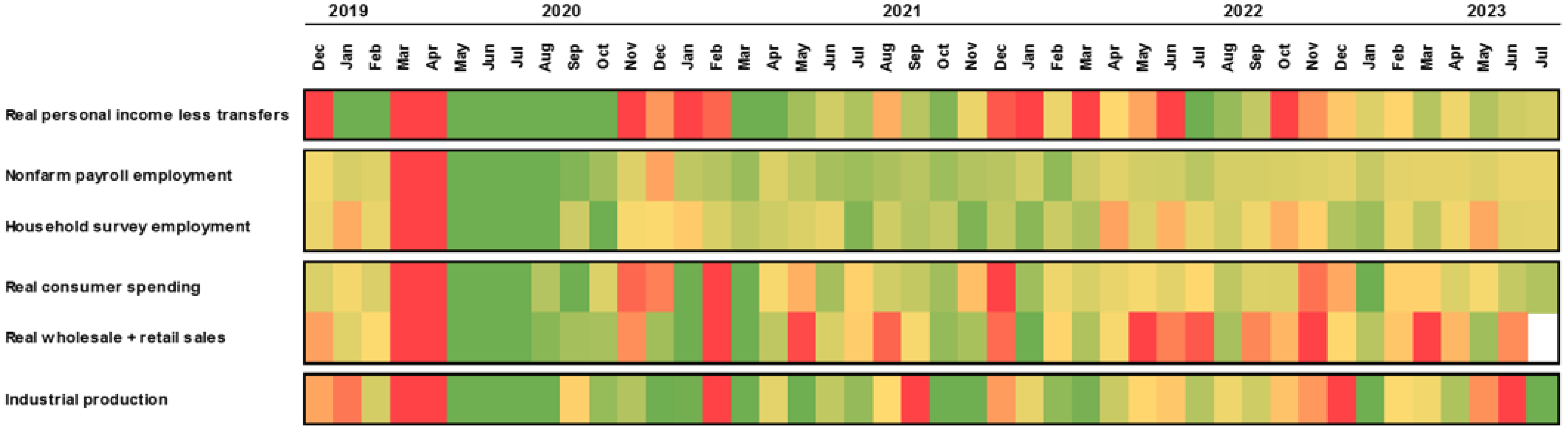
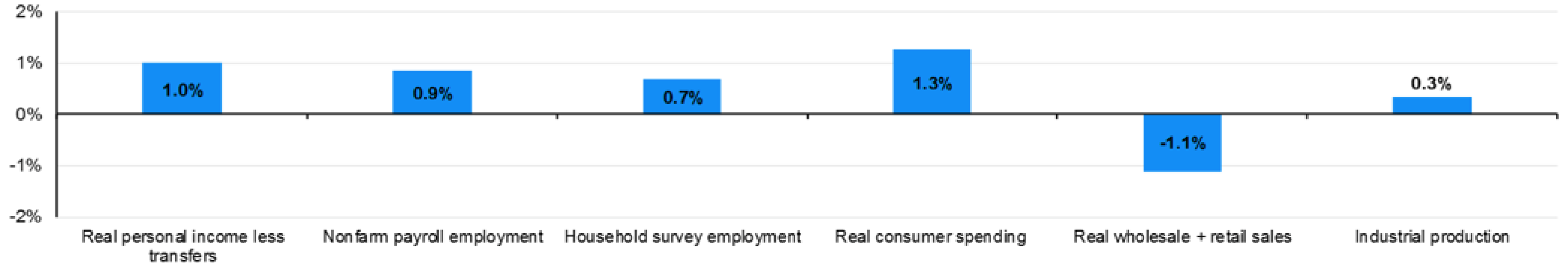
# Recession Indicators

**Variables used by the NBER in making recession determination***

% change month-over-month




% change, last six months




Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Census Bureau, NBER, J.P. Morgan Asset Management. Heatmap shading reflects 10 years of data, with green and red reflecting a range of +/- 0.5 standard deviations from a baseline of 0% monthly growth. *The NBER's definition of a recession involves a significant decline in economic activity that is spread across the economy and lasts more than a few months. Specifically, they consider real personal income less transfers, nonfarm payroll employment, employment as measured by the household survey, real personal consumption expenditures, wholesale-retail sales adjusted for price changes and industrial production. There is no fixed rule about which measures contribute to the process or how they are weighted, but the committee notes that "in recent decades, the two measures we have put the most weight on are real personal income less transfers and nonfarm payroll employment".
*Guide to the Markets – U.S.* Data are as of August 31, 2023.

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The National Bureau of Economic Research in the US is the organization which officially declares the beginning and end of US recessions. They look at 6 factors to determine whether the US economy is in recession or not.

You can see that in the recession of early 2020, all 6 factors registered red in this chart. Currently, none of the 6 are showing a red flag for an upcoming recession.

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