Justwealth 3Q 2021 Market Commentary

The third quarter of 2021 marked another positive quarter for most investors as the strength of July and August performance outweighed the decidedly negative results of September. Aided by a strengthening U.S. dollar, the S&P 500 topped performance with a quarterly return of 2.90%, followed by the MSCI EAFE Index up by 1.85% and Canada's S&P/TSX Composite which rose by 0.17%. Bonds suffered another negative quarter as speculation mounts regarding the inevitability of rising interest rates. For the quarter, the FTSE TMX Canada Universe Bond Index fell by -0.51%.

It's not too often that our focus is on Canada in our commentaries as Canada's influence on the global economy is quite small, but there are a few interesting developments that are worth mentioning this quarter. Firstly, the federal election held in September may have been the most ineffective election in Canada's history – at least in terms of affecting the balance of political power. No significant impact was felt in the markets as a result of the election and any proposals or promises made by the Liberal party will likely have to be passed with the assistance of support from other parties, as was the case before the election.

Canada's housing market continues to go higher – is that a good thing or a bad thing? From a purely economic standpoint, higher prices equate to higher wealth, which would be a positive for the economy (think of it as "credit expansion"). Borrowing against the higher wealth for consumption, however, creates higher household debt, as does larger mortgages used to finance more expensive homes. Indeed, alongside Canada's higher house prices has been a rise in household debt. The risk is that an increase in interest rates will likely do two things: 1. It will reduce house prices 2. It will make servicing debt (mortgages or other indebtedness) more difficult. Although some might point out that sounds a lot like the conditions that caused the financial crisis in the late 2000's, it is not even close to the same degree of risk.

Canada's central bank, which is responsible for setting/influencing interest rate policy, employs some pretty smart people. They would be keenly aware that increasing interest rates could have negative implications for not just house prices, but also for financial assets including stocks and bonds, in addition to hurting consumer's pocketbooks due to higher interest servicing costs. Although central banks have a responsibility to contain inflation, driving an economy into recession via higher interest rates can be equally problematic (deflation is not good either!). Recent employment data and inflation data in Canada would suggest that tightening action may happen sooner rather than later, but our expectation is that actions will be modest and drawn out over potentially a very long time.

Leading up to, and subsequent to quarter end, has been a sharp rise in oil prices. Glass half empty, or glass half full? Higher fuel and energy prices are like a tax on consumers, but it will likely benefit publicly traded companies (and Canada has a disproportionately high amount!). Canada is a net exporter of oil, and higher energy company profits will generate higher tax dollars to help government's finances which have been severely weakened by the pandemic. Generally, higher oil prices have resulted in a stronger Canadian dollar. That is positive for consumers to purchase foreign goods which become cheaper, but negative for exporters whose prices become more expensive. A more pronounced spike in oil prices, can cause an economic crisis for countries who are dependent on importing oil, which weakens the global economy while at the same time, potentially causing inflationary pressure – a conundrum for any central bank.

If by this point, you have no idea what to think in terms of market direction, then you have correctly learned the moral of the story. There is no easy answer, clear direction, or certainty given the myriad of factors and stabilizing mechanisms within the context of a deeply intertwined global economy. We persistently stress the importance of long-term thinking, and now is as good a time as any to reinforce this message. Public comments regarding forecasts, predictions or other short-term speculation can be dangerous information and should not be acted upon in our humble opinion.

In the forthcoming quarters, we hope to produce a number of educational messages (video and/or written) to help with investor knowledge and patience as we believe it is both good for your wealth and your peace of mind. Stay tuned!

Here is a recap of market performance as of September 30, 2021*

Asset Class	Market Index	Quarter	1 Year	3 Years	5 Years	10 Years
Fixed Income	FTSE TMX Canada Universe Bond	-0.51%	-3.35%	4.32%	2.29%	3.33%
Canadian Equity	S&P/TSX Capped Composite	0.17	28.02	11.07	9.64	8.84
U.S. Equity	S&P 500 ($Cdn)	2.90	23.30	15.22	16.04	18.93
Int'l Equity	MSCI EAFE ($Cdn)	1.85	19.25	6.90	8.02	10.23

** Source: Morningstar Direct. Performance annualized for periods greater than 1 year.*

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