Justwealth 1Q 2022 Market Commentary

There was no shortage of bad news for markets in the first quarter of 2022: a war in Ukraine that shows no clear signs of ending; a resurgence of the coronavirus which essentially shut down one of the largest cities in China; and inflationary pressures that continue to escalate globally. Not surprisingly, this had a profound negative impact on market returns with few exceptions. Bonds took the worst hit, continuing the trend from 2021, as the FTSE Canada Universe Bond Index dropped by just under 7% in the first quarter. International equities were also down close to 7% and U.S. equities did not fare much better falling by 5.66%. Canadian equities were the lone bright spot, rising by 3.82% on the strength of significantly higher oil prices.

Negative market returns can be unnerving – nobody like to "lose money". We remind our investors, however, that if you are a long-term investor, you likely have not lost anything as losses (or gains) are only realized when you take your money out of the investment markets. Panic selling, which commonly happens when markets go down, is one way to guarantee that you lose money and rarely results in improving financial results. Staying fully invested and allowing time to reduce risk is a far better strategy in our humble opinion. It is also worth pointing out that long-term does not mean 25+ years, there are very few instances in history when market returns remained negative for more than a few years. If you have a time horizon of less than a few years, then we most certainly would recommend that you invest in one of our more conservative portfolios – that is always our recommendation!

Currently, inflation presents the biggest economic problem for investors. Central banks erroneously declared the increase in inflation as transitory early on – yet another prediction from some of the smartest people in the world which ended up being 100% incorrect. The inflation problem was created by overly-easy monetary policies for too long, assisted by government stimulus spending, temporary supply-chain problems, and more recently, soaring energy prices. In all fairness to central bank policy makers, all of these contributing factors are likely to go away or reverse course, but it will take time. In the short term, expect aggressive actions from central banks to control inflation (read: 50 basis point rate hikes).

It is extremely important to point out, however, that just because central banks will be increasing interest rates, it does not mean that bond prices will go down. Bond prices have already gone down based on the expectation of future higher interest rates – they are forward looking in nature. As we communicated in our recent blog post: Bonds: They're not so bad. Part I, when interest rates (or bond yields) go up, it has an immediate negative impact on price, but it does not fundamentally alter the bond and in fact, locks in higher future returns (generally speaking of course).

Staying on the topic of interest rates, we have seen the dreaded inverted yield curve appear in the United States and it may be coming soon in Canada as well. An inverted yield curve is a very strong indicator for an impending economic recession. With unemployment rates near all-time lows, and very high rates of recent GDP growth, impending recession may not be front and center on most people's minds, but things can change in a hurry. A recession would most likely reverse inflationary pressure, thereby reducing the need for central banks to increase interest rates, or as some are speculating now, for central banks to **lower** interest rates. Yet another theory that supports the outlook for bond returns in the short-mid term.

The recent federal budget announced for Canada had a few items pertaining to investing that are worth mentioning. Firstly, the announcement of the Tax-Free First Home Savings Account as a way to help future home buyers save for a new home. Essentially, this initiative will replace the Home Buyers Plan (HBP) which can be used to borrow money from your RRSP. The proposed terms would seem to be more favourable compared to the terms for the HBP, but will not take effect until 2023. Secondly, there was no increase to the capital gains inclusion rate which was speculated by many, so this would be a very welcomed non-announcement for those with unrealized capital gains in their non-registered accounts.

We continue to expect high levels of volatility in markets right through to the beginning of summer. Large declines or large gains may happen on any given day, but as we often remind our investors, short-term market movements are almost completely irrelevant in the long term.

Here is a recap of market performance as of March 31, 2022*

Asset Class	Market Index	Quarter	1 Year	3 Years	5 Years	10 Years
Fixed Income	FTSE Canada Universe Bond	-6.97%	-4.52%	0.45%	1.58%	2.55%
Canadian Equity	S&P/TSX Capped Composite	3.82	20.19	14.15	10.34	9.08
U.S. Equity	S&P 500 ($Cdn)	-5.66	14.93	16.28	14.48	17.22
Int'l Equity	MSCI EAFE ($Cdn)	-6.96	0.54	5.39	5.33	8.67

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

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