

In 2022 the Interest Rate Party is Over

Financial Highlights 2021

Life for the most part improved in 2021 as people around the world got vaccinated to protect them from Covid 19. This has been no quick fix however, variants and the reluctance of some to get vaccinated has caused some starts and stops for a return to normal life. Recently the Omicron variant has spread like wildfire around the world, yet so far, the severity of the cases have been far less for this variant. Using the Spanish Flu as a historic example eventually it evolved into a variant that was also less severe. Many hope that this is the case, and we can take further steps to get on with our lives.

Financially, stock markets surged in 2021 with both the Canadian and world stocks market gaining over 20% (See below chart). This was due to the optimism of economies opening up along with the implementation of vaccines. This also benefited the energy sector with a \$76.99 oil price and Canadian energy stocks gaining 41.8% for the year. Along with the re-opening however, inflation was still a problem with a 1 year number of 4.70% until the end of November (source Morningstar). Part of this was due to supply issues from Covid and certain items being in very high demand. As we continue to work through Covid some of these inflation pressures will subside, but the government is also set to raise interest rates to curb inflation. The forecast for this is subject to change but in 2022 the U.S Federal Reserve is targeting 3 rate increases and the Bank of Canada may have a similar trajectory. With this as companies and consumers pay more interest they will have less to pay for goods and in turn reduce inflation. This will be important for borrowers to note as well as investors in interest bearing investments.

Speaking of interest bearing investments, bonds were the big loser in 2021 by losing -2.71% for the year (see below chart). Not only was the yield lower than inflation but the prices dropped by a good portion. One of the things about bonds is when rates are set to rise, prices drop for the resale of lower yielding bonds. With our recent move to Bellwether, we have taken action in this area by diversifying our income investments into preferred shares as well as alternatives. This will raise the yield on our safer investments so we can at least match inflation in the future.

Outlook for 2022

Here are some key highlights we expect for the upcoming year.

- **Rates Set to Rise-** As mentioned interest rates are set to increase to curb inflation. The US. Federal reserve has forecasts 3 0.25% rate increases this year, 3 next year and 2 the year after that. This can vary depending on inflation and the state of the economy and Canada could have a similar increases. The Bank of Canada has hinted at also raising rates this year to curb inflation. The impact of this will also slow down the economy by impacting everyone's borrowing rate.

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- **Inflation to be held in check-** With interest rates set to rise and government support set to pull back it will help reduce inflation for 2021. In addition, as we work through Covid the supply chain should improve and demand for specific items like lumber will continue to subside.
- **Stocks Could Have a Bumpy Ride-** Stocks pretty much went up in a straight line in 2021 based on the reopening. This could change in 2022 with interest rates set to rise and government stimulus being reduced. This in turn could slow down the economy while also hurting stock prices. Stocks also appear to be a bit expensive using traditional measures. Looking at the U.S Market (S&P 500) it currently trades at 30 times earnings(multpl.com) where the historical average is around 15. If the economy hits a rough patch some of the excess value in the stock market could fall.

Key Dates

- **RRSP deadline March 1st.**
- **TFSA room for 2022 \$6,000.**
- **Tax reporting deadline April 30th, non- registered tax packages due out 1st week of April.**

Market Performance

Below is a snapshot of the market performance for our major markets in 2021.

Canadian Stock Market (S&P TSX)	3 Months +6.47%	2021 +25.09%
MSCI World Index	3 Months +7.55%	2021 +21.31%
Fixed Income (B of AML Cdn Broad Market)	3 Months +1.67%	2021 -2.71%

Source: Morningstar Canada, all returns are total returns as of December 31st, 2021.

Should you have any questions or wish to schedule an appointment please contact me. For web meetings we are currently using Zoom to share our desktop remotely.

I wish you and your families good health and prosperity through 2022.

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