# SV Wealth - Newsletter

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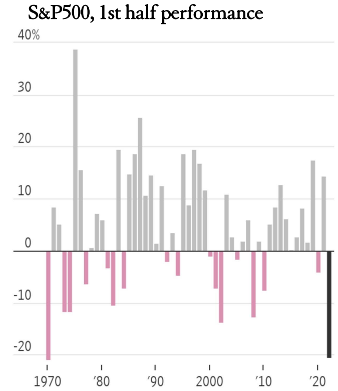
## Dr. Jekyll and Mr. Hyde

What a difference six months can make. The markets started the year as the friendly Dr. Jekyll, setting fresh records in January, but ended the first half as the evil Mr. Hyde, posting the worst performance since 1970. The selling was broad, with everything except commodities down so far this year.

| | YTD | 1 Yr | 3 Yr | 5 Yr |
|---|---|---|---|---|
| **Canada** | | | | |
| S&P/TSX Comp TR | -9.9% | -3.9% | 8.0% | 7.6% |
| **United States** | | | | |
| S&P 500 Comp TR | -20.0% | -10.6% | 10.6% | 11.3% |
| NASDAQ Comp | -29.2% | -23.4% | 12.2% | 13.5% |

**Source:** Raymond James Ltd.

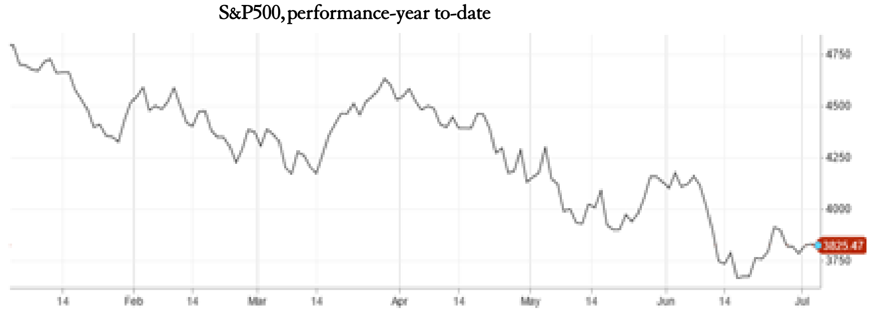
S&P500, 1st half performance




**Source:** WSJ

The mood began to sour in March but got bad in May before getting terrible June. In June we saw a three-week losing streak that featured back-to-back weekly declines of 5% or more in the S&P500, something that has happened only seven other times since WWII.

S&P500, performance-year to-date




**Source:** CNBC.

## So, what happened?

It turns out after insisting for almost the entirety of last year that inflation was "transitory", a fancy word for temporary, central banks around the world have woken up to the fact that inflation was rampant and stubborn. The Federal Reserve might've been late to notice but once they agreed inflation wasn't going anywhere, they started talking very hawkishly.

To catch up, the Fed started raising rates in 50 basis point increments and even did a 75 basis-point interest rate hike at its June meeting, its biggest in 28 years. The result has been a doubling of interest rates since the beginning of the year. More importantly, the central bank has announced its intention to keep raising rates, even doing another 75 basis-point hike at their next meeting.

## The recession risk

The fear pushing the markets down this year is simply that the central bank might raise rates too far, too fast and cause a serious slowdown in the economy. While this is indeed the purpose of hiking interest rates, to reduce demand by making borrowing more expensive, it takes time for the effects of monetary policy to appear in the real economy. This is the source of the fear: that the Fed might tighten too much, too quickly and the impact causes a bigger recession than need be.

If all this wasn't enough to worry about, the war in Ukraine, now in its fifth month, is turning into a war of attrition, showing no sign of ending anytime in the near future. Europe is already facing record energy prices because of sanctions levied against Russia and is likely to have its own recession soon as the effects of high energy costs take a toll. In fact, export-powerhouse Germany just had its first monthly trade deficit since 1991.

## Structural shifts afoot

The pace at which the economy has gone from easy money and low inflation to the current situation has been swift and dramatic. The shift has caused structural changes in corporate spending plans and changes in household budgets. For example, more families are choosing variable rate mortgages in an effort to keep monthly costs down. These changes will have a big impact on the economy over the next 12-18 months, likely leaving markets unsettled and volatile.

## New environment, new opportunities

The doubling of interest rates in the last six months was much faster than many market participants anticipated. As a result, nearly every asset class, including bonds, declined.

| | 2 year | 5 year | 10 year | 30 year |
|---|---|---|---|---|
| Gov of Canada Bond Yields (Jan 1, 2022) | 0.91% | 1.23% | 1.37% | 1.73% |
| Gov of Canada Bond Yields (July 1, 2022) | 3.04% | 3.02% | 3.15% | 3.09% |

**Source:** Raymond James Ltd.

Going forward, as interest rates continue increasing and the market adjusts to the new higher rate environment, we anticipate there will be opportunities to earn yields of 5-6% in bonds and preferred shares.

## Upcoming webinar: Mid-year 2022 Market Review


To help you navigate these times of turbulence, you are cordially invited to join us for a webinar discussing the recent market events. The webinar will be on **Tuesday, July 12, 2022 at 7pm** and will include a live Q&A session at the end.

Be sure to join us by registering today (use your camera app to open the QR code on the left).

We hope to see you there!