February 2023 Market Newsletter

February 1, 2023

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Opening Comments

- Welcome to our inaugural monthly update! Going forward we will endeavor to send regular monthly market updates and occasional articles of interest to all clients who are interested.
- If you are interested in continuing to receive these emails please respond to this note or email Nathan at Nathan.leveille@td.com to be added to the email distribution list.
- 2022 was a challenging year for investors with both Equity and Fixed Income markets experiencing significant volatility. As we proceed through 2023 we will be keeping a keen eye on how inflation will continue to impact markets, and will look to take advantage of investment opportunities as they arise.

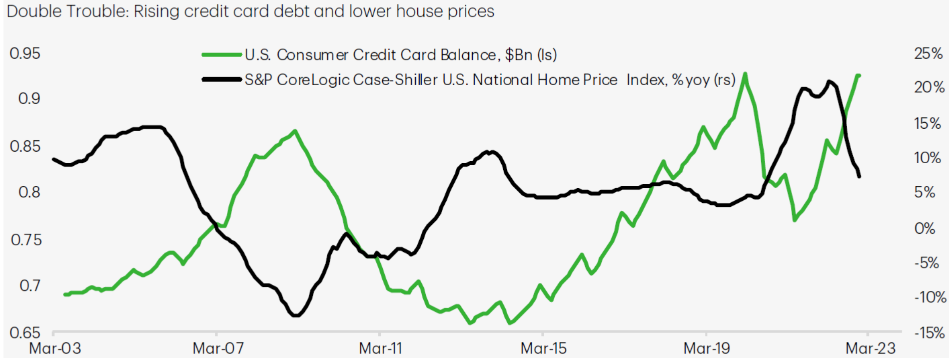
Noteworthy News

- The Fed delivered a 75-basis-point (bp) hike in November, a 50-bp hike in December and another 25-bp hike earlier today. Currently, the federal funds rate stands between 4.50% and 4.75%. In the most recent projection, the majority of Federal Open Market Committee members expect the Fed policy rate to settle between 5% and 5.25% by the end of 2023.
- The Bank of Canada, delivered two 50-bp hikes in October and December, and a 25-bp hike in January bringing the policy rate up to 4.50%. However, the Bank softened its tone regarding future rate hikes, stating it would evaluate whether the policy rate needed to rise further by taking into account how another hike might impact demand.

Looking Forward

- Higher mortgage rates have dragged housing affordability to 30-year lows. Average home prices are expected to fall in early 2023.
- Overall inflation may be slipping, but wage inflation remains elevated. If wages continue to inflate labour costs, the Fed will likely have no choice but to keep hiking in order to reach its 2% target.
- Yields across fixed income sectors are at multi-year highs and offer attractive potential returns. A healthy yield cushion also implies that bonds will be able to deliver positive returns and offset losses during volatile equity markets.
- We continue to expect global equity markets to experience headwinds as economic data deteriorates into 2023. Forward earnings estimates have been reduced broadly, but further deterioration is expected. Volatility will likely remain high through mid-2023.
- Consumer demand and business investment will likely continue to soften in the first half of 2023. Not only are consumers running through their savings, but their credit-card balances are rising and at the same time the value of their homes are falling (figure below). This negative wealth effect has the potential to really slow spending in 2023.

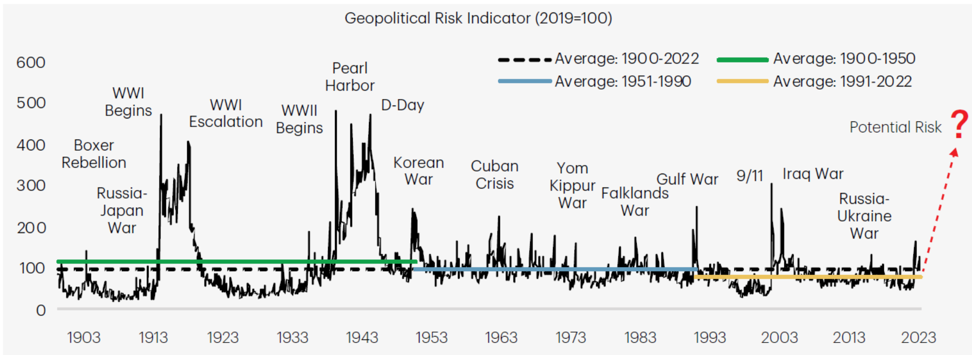
Double Trouble: Rising credit card debt and lower house prices



Source: Bloomberg Finance L.P., TD Wealth as of January 8, 2023

Geopolitical Uncertainty

- A potential continuing headwind is geopolitical uncertainty. It appears the tide towards a more peaceful world may be shifting as we enter a new period of heightened geopolitical risks.
- In the current environment where there is an active war that involves a nuclear power, Russia, war threats come into play.
- The forward-looking financial market could price in a higher geopolitical risk, even without any actual escalation of the current conflict. The higher risk premium could bring higher volatility and reprice all assets.
- Fear can have a profound impact on the market even before the onset of an event, even if the event never actually happens.



Source: Caldara and Iacoviello. Measuring Geopolitical Risk. American Economic Review 2022, 112(4): 1194–1225.
As of January 5, 2023.

Closing Thoughts

- As always, we continue to review how these economic trends will impact your individual portfolios and will make adjustments as needed. If you have questions about your specific portfolio, please do not hesitate to reach out to us Wishing everyone a great month of February! - Andrew & Nathan

Market Performance (Source: Bloomberg)		
	Feb. 1 2023	Dec. 31, 2022
Equity Index Update		
S&P 500	4119	3840
S&P/TSX Comp.	20751	19385
MSCI EAFE	2100	1944
Government Bond Yields		
U.S. 10-yr Treasury	3.39	3.88
Canada 10-yr Bond	2.85	3.30
Foreign Exchange Cross Rates		
C$ (USD per CAD)	0.75	0.74
Euro (USD per EUR)	1.10	1.06
Official Policy Rate Targets		
Central Banks		Current Target
Federal Reserve (Fed Funds Rate)		4.5% - 4.75%
Bank of Canada (Overnight Rate)		4.5%

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