Legacy Partners of London Inc.

The Investment Highway

June, 2022

In February 2021, we commented on Central Banks' plan to run hot (higher inflation) before raising our record low interest rates. A sound strategy for putting Covid economic challenges behind us, yes, but this left little room for other surprises. Enter Russia Vs Ukraine. While I could spend hours speaking of my frustration with bully-like geopolitical games, my focus today is on inflation and how grain supply (Ukraine is a top 10 producer worldwide) and oil supply (sanctions on Russia) have confounded global inflation. Today's inflation is a worldwide problem, and no single country or political party will solve this on its own. So let's “buckle up” and look closer at what’s going on... via an analogy.

On the crowded Investment Highway, slowing an economy and then lowering inflation, is like putting the brakes on your car, while in the fast lane, to avoid an accident on the horizon. Touch the brakes too slowly, and you won't stop soon enough to avoid the pileup ahead. Stomp them too hard, and you could cause a rear-end collision. It's a delicate process. You must be diligent, mindful of all traffic lanes, and make regular adjustments if you are to successfully move to the safer slow lane and avoid trouble.

Markets don't wait to the last minute to avoid an accident; they proact by lowering share prices today to match what they predict will be reduced corporate earnings in the future. It's a guessing game, yes, but one based on detailed analysis and deep knowledge of all the moving parts. Typically, markets will overshoot and reduce share prices too far (a safe driver move), as that is the nature of the markets (at this stage of the journey).

Interest rates are now heading up, as expected, but faster than originally planned. Steep increases are impacting Bond funds that live safely in the slow lane of our highway. Typically, the fast lanes slows down gradually and traffic in the slow lane smiles and casually takes the lead. However, when traffic slows suddenly, even the slow lane is forced to break to avoid an accident. Picking the right lane is challenging. Currently, the middle lane (large, stable Canadian companies) appears to be leading the way, but this will be a short-lived result.

As of today, broader North American stock markets have given back gains made in 2021. Canadian Dividend funds have fared better (Value-styled mutual funds), as companies with solid balance sheets and low debts tend to weather inflation better. Meanwhile, American tech companies have struggled along with Growth-styled mutual funds. The free fall of cryptocurrencies should not be surprising (no substance/support to fall back on); however, this experiment has help prove blockchain technology's value to be of significant long-term value (a key component of future highways).

Right now, the road ahead is fuzzy but if we look at past events, here's what we expect to see next. Government interest rates will continue to rise to the 3-4% range (significant braking), and the speed of this change could cause some problems (fender benders) but likely not a full-blown recession. Bond funds will soon benefit from higher rates (the slow lane will take the lead) and fulfill their role as the source of safety in a bear market. Before interest rates peak (brakes at max), Markets will move ahead (hitting the accelerator) even before the economy starts to rebound (before tow truck clears the road).

Analogies aside, that last point is important. Bear and Bull Markets lead the economy. Markets go down before the economy sinks and go up before the economy rebounds. Today, Markets are SIX-months into the slowing process (pretty much a Bear market), The economy just now starting to slow (housing prices have started to fall). While the economy will struggle for months, the Markets have already priced in those struggles.

This will continue to be a volatile year in the Markets. A diversified portfolio will continue to position your savings for the future. Our exit strategy, complete financial plans, and regular reviews will help keep your retirement plan on track. As always, we're here for you and will manage any pothole the highway of life puts in your path.

<u>In other news</u>, as you may have heard, there are some exciting changes instore at Legacy Partners of London. Call it rebranding if youõd like, but we are reviewing and revamping our website to ensure it speaks to who we are and what we do. Working together with our clients, we can do many things! But we specialize in quality, caring service. Product knowledge is definitely a strength, but that is expected in this industry.

So, what sets us apart from the competition? **Our open and honest relationship with you!** Itõs times like today, when we donõt shy away from the storm, but lean into it and stand with you, side-by-side. Itõs working WITH our clients, that makes the difference.

As we reviewed our past articles and brochures, here are the words that dominated the pages. I hope youõll agree, these speak well of the relationships we build with our clients. Weõll keep you posted as this process unfold.

Weõre in this together, take care.

Tim Laskey, CFP
Financial Planner and founder
Legacy Partners of London.

PS. If you enjoy informative and lighthearted views on the world, you can find more updates like this on my Instagram feed (LaskeyTim).