Optimize Wealth Management

April 20, 2023

# Monthly Market Update - March

## MARKET SENTIMENT GROWS OPTIMISTIC AS VOLATILITY CONTINUES TO DECLINE.

March certainly presented investors with much to digest. The month started off with the majority of equity indices rallying, followed by volatility brought about by SVB and Credit Suisse, then closing out the month and the quarter on very solid footing. Inflation continues to moderate downwards globally, with some geographies proving to be stickier than others with regard to core CPI, but the long-awaited disinflationary trend continues to establish itself.

| North American Markets | Last | Change | % Change |
|---|---|---|---|
| S&P/TSX 60 | 20,099.90 | -121.30 | -0.60% |
| Dow Jones | 33,274.15 | 617.45 | 1.89% |
| S&P500 | 4,109.31 | 139.16 | 3.51% |
| NASDAQ | 12,221.91 | 766.37 | 6.69% |
| Russell 2000 | 1,802.48 | -94.51 | -4.98% |

| Commodities / FX | Last | Change | % Change |
|---|---|---|---|
| Crude oil WTI | $75.67 | -$1.38 | -1.79% |
| Natural Gas | $2.22 | -$0.65 | -22.60% |
| Gold | $1,986.20 | $149.50 | 8.14% |
| CAD / USD | $0.741 | $0.009 | 1.23% |
| CAD / EUR | €0.680 | -€0.012 | -1.73% |

| Overseas Markets | Last | Change | % Change |
|---|---|---|---|
| FTSE 100 | 7,631.74 | -244.56 | -3.11% |
| DAX GERMANY | 15,628.84 | 263.70 | 1.72% |
| NIKKEI 225 INDEX | 28,041.48 | 595.92 | 2.17% |
| HANG SENG INDEX | 20,400.11 | 614.17 | 3.10% |

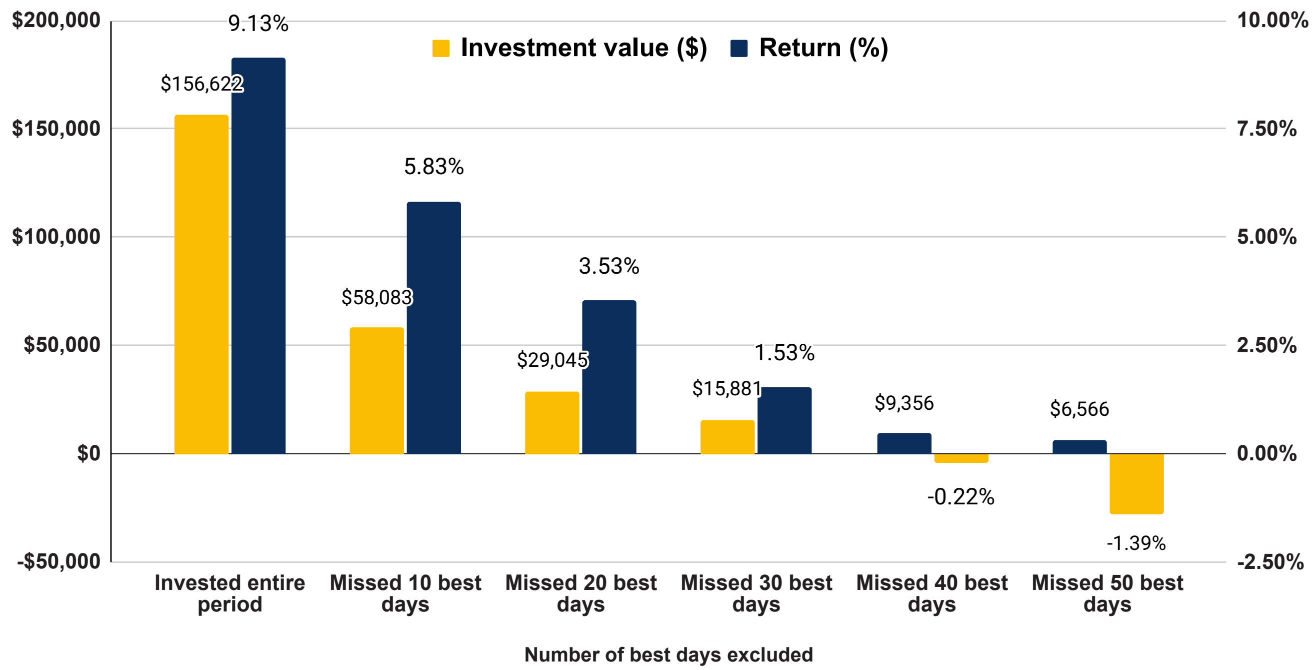
## The Month in Review

- **Canada's Inflation Rate Hit Fresh Lows:** Canada's inflation rate fell to 5.2% in February of 2023, the lowest level since January 2022, below market expectations of 5.4% and slowing from the 5.9% in the previous month.
- **The Fed Raised Rates:** The U.S. Federal Reserve lifted its benchmark fed funds rate by 0.25% to a range of 4.75%-5%, in line with analyst expectations.
- **The Financial Sector Recovered After a Volatile Month:** The U.S. Financial Sector faced volatility last month following volatile trading surrounding Silicon Valley Bank. Markets recovered throughout the month as the Federal Reserve stepped in to provide liquidity to depositors, easing any concerns of contagion.

## Market-timing can Impact Portfolio Returns Over the Long Term.

It is important for investors to keep in mind that remaining invested, especially during times of market volatility or economic instability, has historically yielded positive results over the long term. Instead of attempting to time the market and making frequent entries and exits, investors have benefited from staying invested over their time horizon. The chart below demonstrates that missing out on the top 10 market days over the last three decades can reduce the value of an investors portfolio by more than 50%.

PORTFOLIO PERFORMANCE IF THE BEST DAYS ARE MISSED



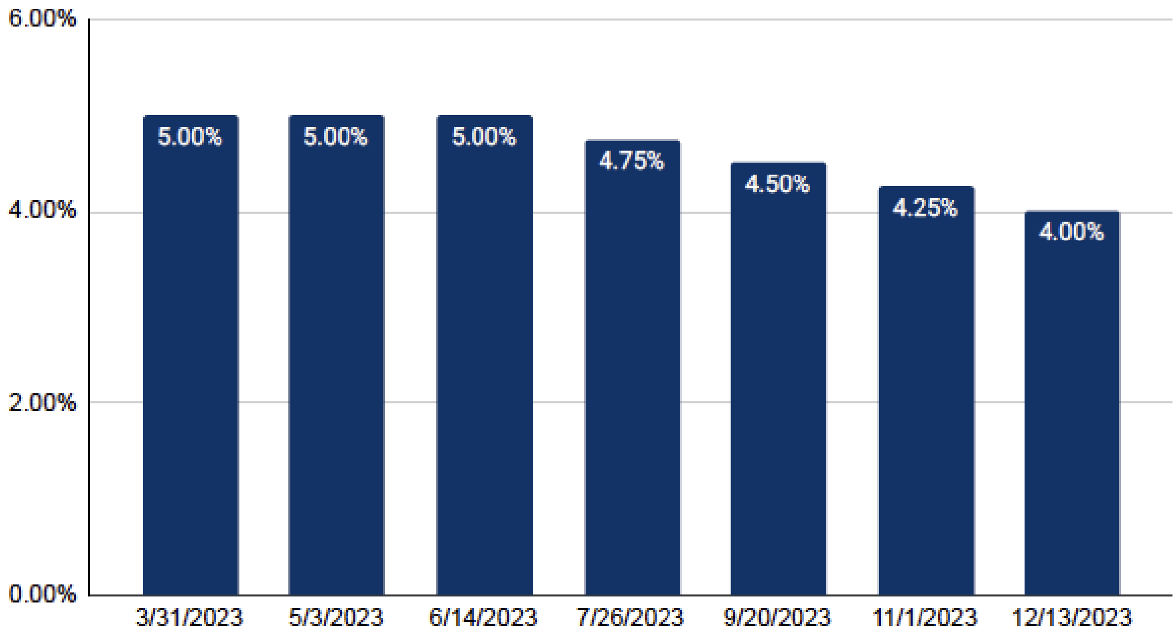

Refinitiv. Optimize Calculations. Performance values are used to reflect daily returns since 1992. Stocks are represented by the S&P500. The S&P500 is unmanaged and cannot be invested in directly. Past performance is no guarantee of future returns.

- This chart depicts the value of a $10,000 investment if invested in the S&P500, and how missing the best days would have impacted returns.
- Historically, remaining invested through periods of market volatility has benefited investors. Of the 50 best days over the last 30 years, 38 of the days (76%) have occurred during periods of significant volatility.
- **Looking Forward:** Looking to the past, it has been prudent for investors to remain focused on their long-term goals. Based on where we are in the current monetary policy cycle, the probability of upside surprise is greater than down-side surprise at this juncture. Historically, patience and staying focused on an investors long-term asset allocation as it relates to their goals will result in better long-term returns, particularly in volatile markets.

## Markets are Beginning to Price in Interest Rate Cuts Later in 2023

Since the beginning of the Federal Reserve's current rate-hike regime, the tone has remained very focused on bringing down inflation. The markets however are pricing in rate cuts much sooner than what the Fed would be suggesting in their commentary. However, recent events in March seem to have shifted the Fed's interest rate policy towards a near-term conclusion to rate increases, with a high probability of only one more increase this year. Although unlikely that rates will move lower in a significant way this year, the trend is moving in a favorable direction.

MARKET EXPECTED FED FUND RATE FOR 2023



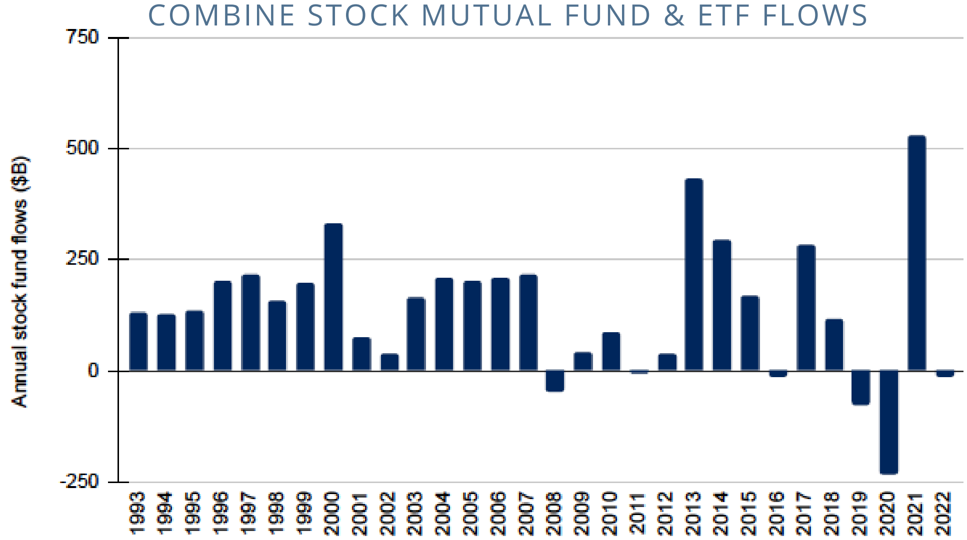

Source: Optimize, CME Group Fed Watch.

- This chart displays the market's consensus interest rate through the remainder of the year, with the expectations of interest rates moderating downwards in the second half of the year.
- **Looking Forward:** Our outlook for the remainder of the year suggests both inflation and interest rates are moving in a favorable direction. The current level of inflation and strong labour market do not provide sufficient scope for significant rate cuts this year. The Fed is more likely to consider reducing rates or signaling such a move only if inflation meaningfully approaches the Fed's 2% target or if the economy and labour market experience a significant downturn, neither of which appear to be the case at present. Overall, the data suggests a more optimistic trend as we approach the conclusion of the Fed's monetary tightening policy.

## Stock Fund Flows Suggest a Potential Buying Opportunity

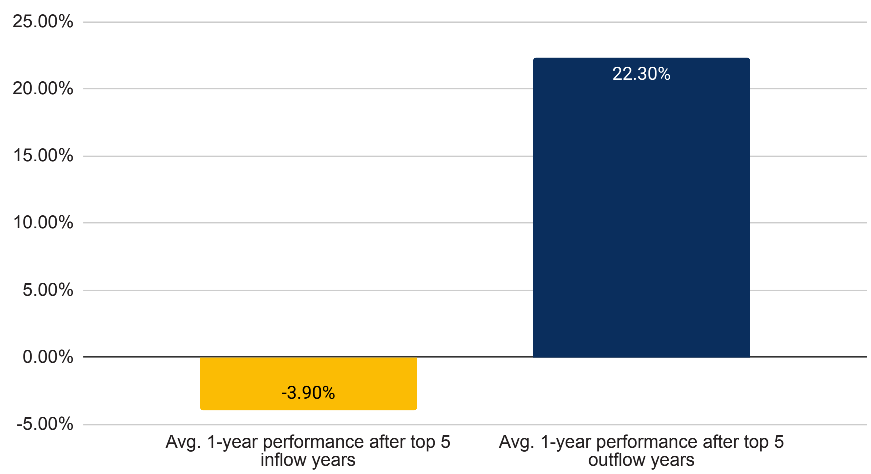
With the expectation that volatility will continue for the near term, it is worth examining investor sentiment and corresponding fund-flows. Some investors are experiencing 'volatility fatigue' and choosing to deviate away from their financial plan, and strategic asset allocation, towards money market funds or GICs as a short-term solution to volatility. Historically, this tactic can be detrimental to investors long-term goals, as there is a negative correlation between net fund flows, and the following one year performance. All to say that in years where many investors are cashing out, the following year's performance tends to be strong, and in years where many investors are buying in, the following year's performance tends to be weaker.

COMBINE STOCK MUTUAL FUND & ETF FLOWS




Source Refinitiv. Optimize. Stocks are represented by the S&P500 TR Index. Past performance does not guarantee or indicate future results.

STOCK PERFORMANCE FOLLOWING STOCK FUND INFLOWS/OUTFLOWS




Source: Refinitiv. Optimize. Stocks are represented by the S&P500 TR Index. Past performance does not guarantee or indicate future results.

- The above charts describes the relationship between annual fund flows and the returns over the following 12 months.
- Historically, stock fund flows and performance have been inversely correlated. In the year following outflows, as we experienced in 2022, performance tends to be strong.
- Further, the one-year performance after the last five years of outflows is 22.3% on the S&P500 on average.
- **Looking Forward:** It is always to the investors benefit to focus on their long term goals, and not to act or make rash decisions based on headlines or short-term market volatility. The above chart shows that although some investors may be pulling out, patience is historically rewarded in the years following market volatility.

## The Optimize Perspective

Despite continued volatility, global growth was quite strong during Q1 of 2023 with a surprise on the upside. This was driven by the rebound of the U.S. and European composite purchasing managers' index (PMI) since inception. Lower oil and energy prices, along with China's reopening, have likely spurred the improved business sentiment. Developed market stocks have performed well year to date, generating strong average returns across equity markets.

While headline inflation has continued to soften throughout the quarter, driven by low energy prices, core inflation has remained sticky, compelling central banks worldwide to tighten monetary policies further. In Canada, recent inflation print for the month of February came in at 5.2%, the lowest level since January 2022. In the U.S., the February consumer price index (CPI) report printed year-over-year headline inflation at 6%, marking an eighth consecutive monthly drop and substantially lower than its peak of 9.1% in June.

It is worth noting that shelter costs are now the dominant factor influencing inflation, constituting over 70% of the increase in prices as a proportion of U.S. CPI. Changes in rent and house prices tend to impact shelter inflation with a delay, and much of the current inflation data reflects prior rent gains. However, more recent data reveals that rent increases have generally slowed, and house prices are facing downward pressure.

With the aforementioned in mind, and headwinds waning, we continue to see great opportunities for the year ahead. As we approach the summer months and interest rate policy becomes more clear, market pricing mechanisms should be less myopically focused on short-term inflation print, and begin looking further out in the business cycle. This presents an optimistic backdrop for both equities and fixed income markets over the near term.

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