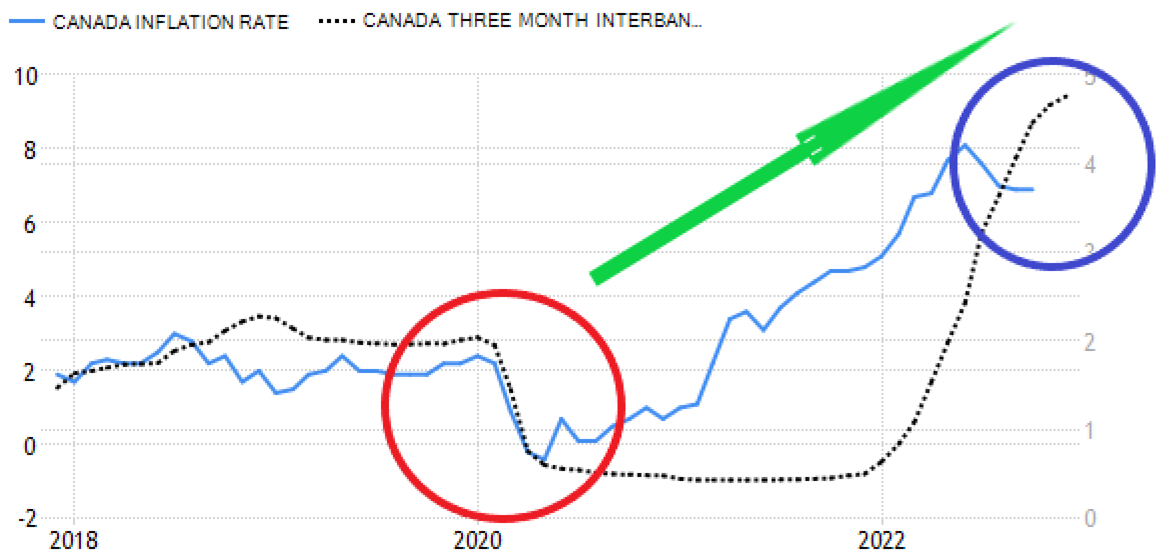
From: Ermes Monaco <e.monaco@iaprivatewealth.ca>
Sent: Wednesday, December 7, 2022 5:02 PM
Subject: VALUED CLIENT MAIL LIST: Economic Outlook - 2022 END of YEAR
Importance: High

LOOKING FOR CLARITY AHEAD

Author's adaption from Google Image

WITHOUT A DOUBT 2021 HAS BEEN a confusing financial year. In 2020 Covid created a major global economic disruption that barely lasted a few months before market recovery quickly occurred. Yet a year later we now find ourselves in a grinding "stagflation" environment where high inflation and interest rates have carried on for half the year despite the previous issues of supply chain and Covid restrictions no longer responsible for the current conditions.

LOOKING BACKWARD, it is clear now that this was predictable and also avoidable.



Source: Tradingeconomics.com

COVID is a human not economic condition for which we administered the economic medicine of government assistance and historically low interest rates to heal. They did indeed prevent social economic disaster although we've now overdosed on the cure and have created a new condition from which we have to heal! A human equivalent is like having a fever where we go from the chills to a high temperature.

WE CAN SEE that following the Covid event (red circle) inflation abruptly rose with recovery (green arrow) although we kept applying the same treatments until this year when the central banks finally began raising the interest rates (black dotted line).

A RETURN TO STABLE RECOVERY is likely to take into 2023 as both inflation and interest rates gradually work themselves down. Higher interest rates have been in place for most of 2022 with further increases are expected this month and likely in early next year.

Therefore, what is it about inflation that has the central banks so committed to maintaining the pressure on interest rates?

INFLATION is broadly being driven by three key components. They have been demonstrating incremental although not consistent improvement so that overall the rate of inflation remains stubbornly high.

Author's rendering

ALL MAJOR INDICATIONS ARE THAT INFLATION AND INTEREST RATES WILL REQUIRE MORE TIME TO RETURN TO NORMAL LEVELS AND RANGES. THIS EXTENDED PERIOD OF THE RECOVERY CYCLE IS WHAT IS KNOWN AS STAGFLATION.

DURING THIS TIME we should expect the financial markets to reflect this slow turnaround process. Continued volatility and defensive strategies will remain characteristic of this part of the cycle.

AND YET, DESPITE ALL MANNER OF NEGATIVE ECONOMIC EVENTS THE FINANCIAL MARKETS HAVE ALWAYS CONTINUED TO GROW. OUR JOB IS TO LOOK BEYOND AND MANAGE THROUGH THE ROUGH PATCHES IN THE MEANTIME.

TSX AND DOW JONES OVER PAST 30 YEARS

Source: Thomson Reuters

THE MONACO CAPITAL MANAGEMENT TEAM WISHES ALL OUR VALUED CLIENTS THE BEST FOR THE HOLIDAY SEASON.

WE LOOK FORWARD TO WORKING WITH YOU FOR SUCCESS IN THE NEW YEAR AND BEYOND.

Best Regards

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