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**Subject:** VALUED CLIENT MAIL LIST: Economic Outlook - Mid Year 2023



**IS IT BETTER? YES**

**IS IT OVER? NO**

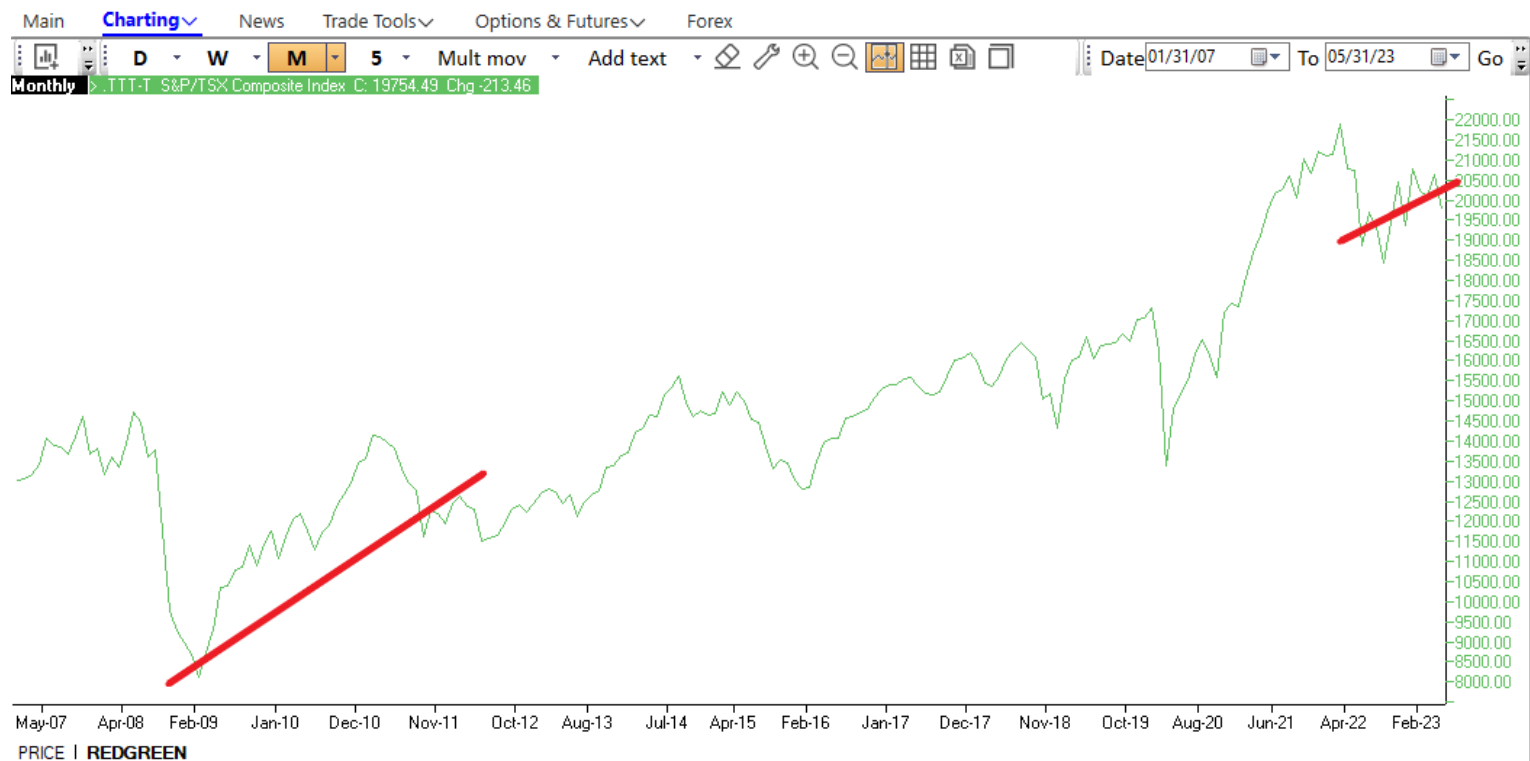
***“PATIENCE IS A VIRTUE” William Langland, poet, 1360***

**WE CONTINUE to be operating in a post-Covid world that is different than the pre-Covid one. Some things have improved but others remain a burden creating a mixed reality which is likely to become the new normal at least for the foreseeable future.**

**I think its reasonable to expect we won't be seeing a 1.75% 5 year mortgage rate for a while.**

**IN TERMS** of timing the current pain has not likely run its economic course yet. The 2008 recession required two years before returning to long term recovery trend. Those post recession years were primarily the pre-Covid times. However, we're about a year into the current economic stagflation that we should expect to last into 2024 assuming a characteristic 2 year correcting cycle.

### TSX: Duration of recovery Cycle



Source: Thomson Reuters

THERE are winners and losers in the current new normal due to the persistence of higher interest rates as the chief tool against inflation. There has been an improvement in economic productivity in many sectors. However, there are so many moving parts in an economy which are not undergoing expense deflation at the same rate.

As a result we're in a state of persistent overall inflation and prices against which central banks are committed to maintaining and even increasing interest rates (yes, it remains a real possibility in the near term) until they consider there has been sufficient progress to begin lowering them.

TAKING a closer look at major areas where we experience the impact of stagflation we can see an operational tug of war occurring acting to benefit or inhibit improvement:

	Negative	Positive
REAL ESTATE	<ul style="list-style-type: none"> <li>• HIGH INTEREST RATES CONTINUE TO DEPRESS DEMAND AND THE ABILITY TO BORROW TO OWN REAL ESTATE.</li> <li>• IN SOME CASES OWNERS ARE UNABLE TO SELL WITHOUT INCURRING A LOSS. THIS IS CREATING A SUPPLY SIDE ISSUE.</li> <li>• A LACK OF BUYERS WHO CAN QUALIFY HAS ALSO SIGNIFICANTLY REDUCED LIQUIDITY AND UNDERMINED THE SECTOR AS A SPECULATIVE COMMODITY.</li> <li>• THE NEED TO MAINTAIN REAL ESTATE INTERESTS IS DRAINING THE CONSUMER'S OTHER SOURCES OF INCOME AND LIQUIDITY. RECENT RESEARCH INDICATES NEGATIVE VALUE IS OCCURRING PARTICULARLY IN THE CASE FOR NON-OWNER</li> </ul>	<ul style="list-style-type: none"> <li>• REAL ESTATE AND CONSTRUCTION IS CONSIDERED ONE OF THE THREE MAIN PILLARS OF THE CANADIAN ECONOMY WHICH CREATES SIGNIFICANT EMPLOYMENT NEXT TO THE ENERGY AND FINANCIAL SECTORS.</li> <li>• GRADUAL DEFLATION IS LEADING MATERIALS SUPPLIERS TO INCREASE PRODUCTION CONTRIBUTING TO LOWER CONSTRUCTION COSTS AND GREATER AFFORDABILITY.</li> </ul>

	<p align="center"><b>OCCUPIED AND SPECULATIVE PROPERTIES (FINANCIAL POST MAY 30/23).</b></p>	
<p><b>ENERGY</b></p>	<ul style="list-style-type: none"> <li>• OIL PRICES CONTINUE TO BE SENSITIVE TO GEO-POLITICAL FACTORS.</li> <li>• ACTUAL PRICES ARE ALSO UNDERSTATING THE AVAILABILITY OF GLOBAL PRODUCTION AS MUCH OF THE RUSSIAN OIL IS BEING PUMPED BUT SOLD TO INDIA AND CHINA DIRECTLY RATHER THAN THROUGH THE OPEN MARKET.</li> <li>• THERE IS A DEGREE OF EXPLOITIVE PRICING AT THE PUMPS AS THE DEGREE OF DECLINE IN GLOBAL PRICES HAS NOT BEEN FULLY REFLECTED IN CONSUMER PRICES. THE ACTUAL GLOBAL PRICE FOR OIL HAS DECLINED APPROX -38% OVER THE PAST YEAR VERSUS -29% AT THE PUMP IN THE U.S.</li> </ul>	<ul style="list-style-type: none"> <li>• THERE CONTINUES TO BE AN ABUNDANT SUPPLY OF OIL ENERGY GLOBALLY TO SUPPORT THE RECOVERY TREND.</li> <li>• THIS REPRESENTS A CONTINUED SOURCE OF WEALTH TO THE CANADIAN ECONOMY.</li> </ul>



*Source: Trading Economics*

**FOOD**

- **CONSUMER FOOD PRICES CONTINUE TO REFLECT EXPLOITIVE PRICING AS THE COST OF ACTUAL COMMODITIES HAS DECLINED ON AVERAGE -22 TO -25% OVER THE PAST YEAR BUT NOT BEEN FULLY REFLECTED IN CONSUMER PRICES.**

- **GRADUAL AND SEASONAL PRICE DECLINES SHOULD STIMULATE INCREASED SUPPLY AND PRICE MODERATION.**
- **CONSUMERS ARE BECOMING MORE COST CONSCIOUS AND SELECTIVE ABOUT PURCHASES.**



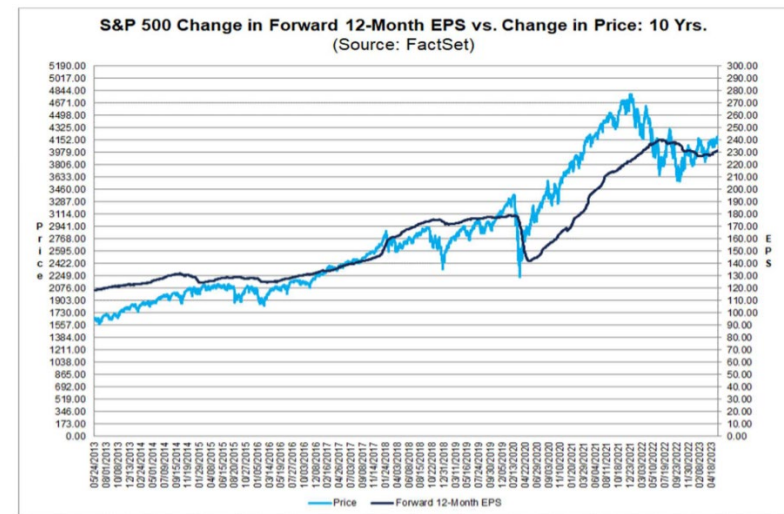
*Source: Trading Economics*

**CORPORATE EARNINGS**

- **INFLATIONARY PRESSURE CONTINUES TO WEIGH ON COMPANY OPERATIONAL COSTS AND EARNINGS PERFORMANCE.**
- **LAY OFFS ARE BECOMING A MECHANISM TO REDUCE OPERATING COSTS. IN PARTICULAR, THE TECH INDUSTRY, INCLUDING THE MAJOR IT FIRMS, HAS LAID OFF 198,098 EMPLOYEES SO FAR IN 2023 AS OF MAY 12 (SOURCE: COMPUTERWORLD MAGAZINE). THE FINANCIAL SECTOR ALSO CONTINUES TO REDUCE WORKFORCE.**

- **DESPITE BUSINESS CHALLENGES DURING THIS STAGFLATIONARY CYCLE COMPANIES ARE CONTINUING TO ACHIEVE EFFICIENCIES AND SUSTAIN PROFITABILITY RESULTING IN AN IMPROVING TREND IN CORPORATE EARNINGS.**

**THIS BODES WELL FOR INVESTMENT PERFORMANCE.**



- **MANY SKILLED PROFESSIONALS WILL LIKELY BE RE-HIRED AS RECOVERY INCREASES.**

### **WHAT CAN WE EXPECT IN THE MEANTIME?**

- The persistence of stagflation will sufficiently slow the rate of recovery to possibly trigger a modest recession in Canada as early as this summer. Real estate will be a potential trigger as high interest rates continue to create undermine the sector.
- Unemployment should show signs of increasing as companies continue to lay off employees and adjust to the level of demand they are able to service.

- The U.S. will be holding the next Presidential election in 2024 which should heighten political risk, investor uncertainty and higher market volatility.

***THE RECOMMENDED INVESTMENT STRATEGY should be to:***

- Recognize recovery is occurring but at a moderate pace
- Continue to manage interim volatility in portfolios
- Monitor emerging economic and market sector strength and adjust defensive strategies to systematically accommodate opportunity where recovery is demonstrated.

***Regards***

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