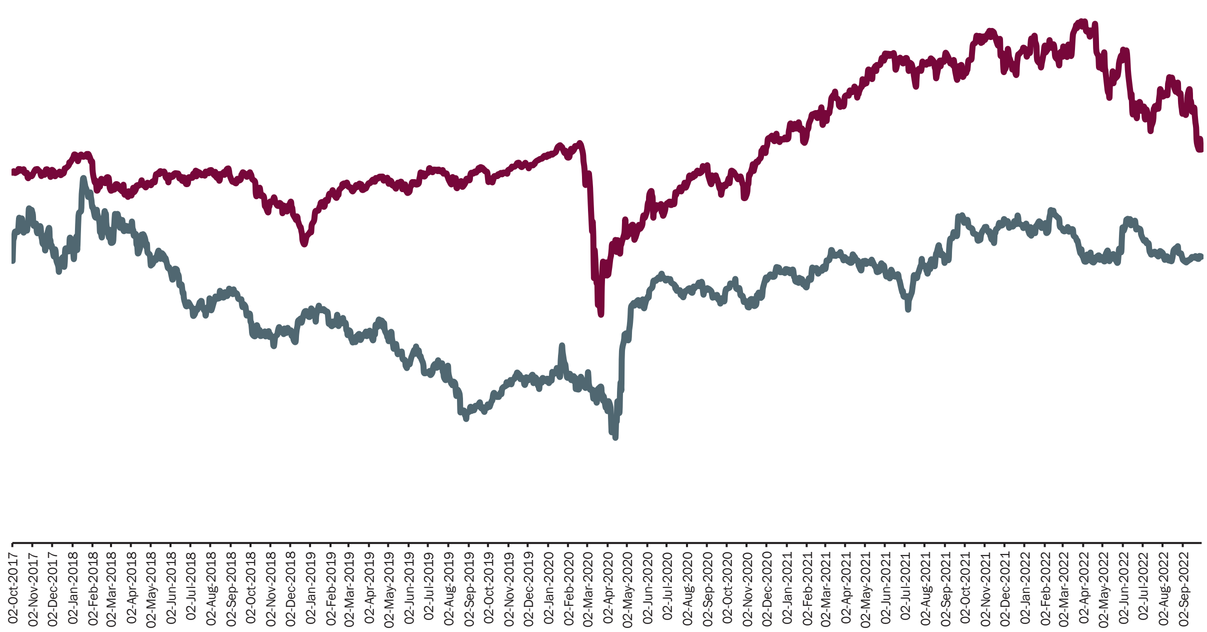
The Dip that Keeps on Dipping

A major question at present is if we have reached the *absolute* bottom of this current economic downturn? With the recent market drops and deceitful rallies, there is little consensus on whether we are finally entering a bull market or still promoting bear market rallies. Whilst there is no clear accord among analysts, there are still a variety of factors to consider when evaluating this inquiry.

For one, the Canadian TSX index will continue to benefit from higher commodity and energy prices: factors that investors believe will keep the market afloat whilst other sectors take a hit from rate hikes and high inflation levels. Below you can see how commodity and energy prices (measured by the GSCI index) bring the TSX upwards with it:

TSX Performance Relative to GSCI Index: Oct. 2017 - 2022

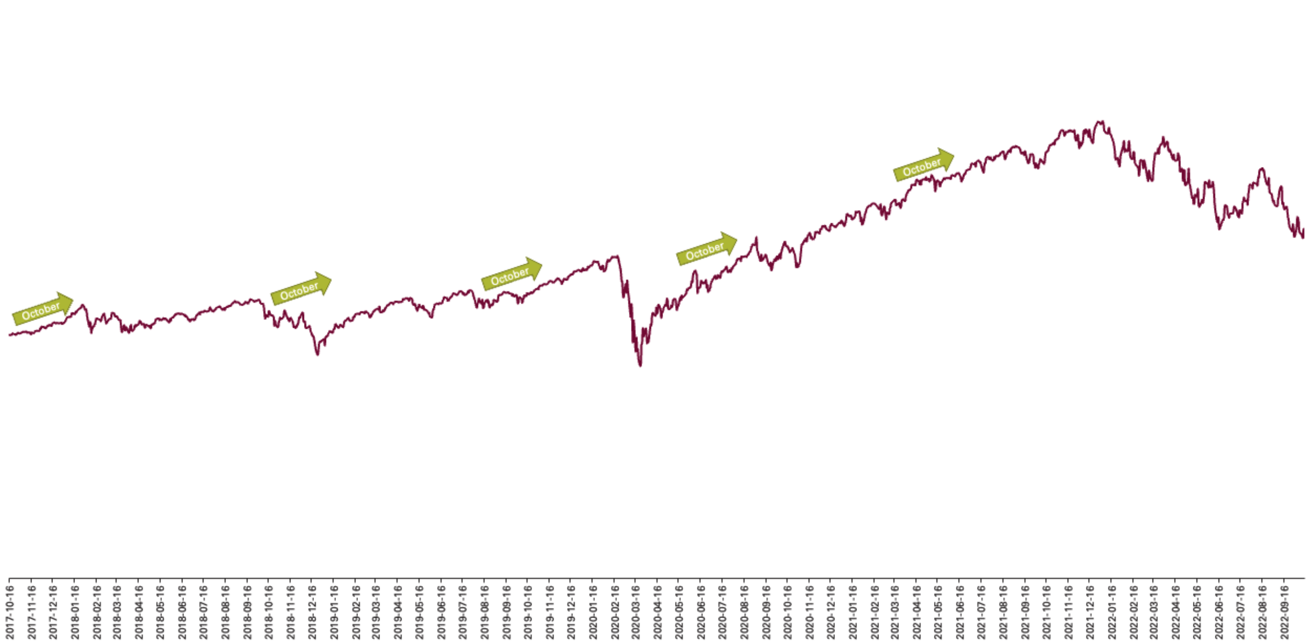


Should these prices remain elevated for long enough, the index could be relieved from further drops and remain robust throughout any further market contractions.

Moreover, Stifle analysts are looking to major calendar dates as their justification behind a more bullish forecast. They list a few prominent factors:

- October is known as the 'bear-killer month' - being the highest returning month in the S&P index since 1950 - and the majority of market returns usually occur from November to April. This bullish period could potentially stifle any further drops whilst the economy grapples with increasing rates.

S&P 500 Index: Oct. 2017 - 2022



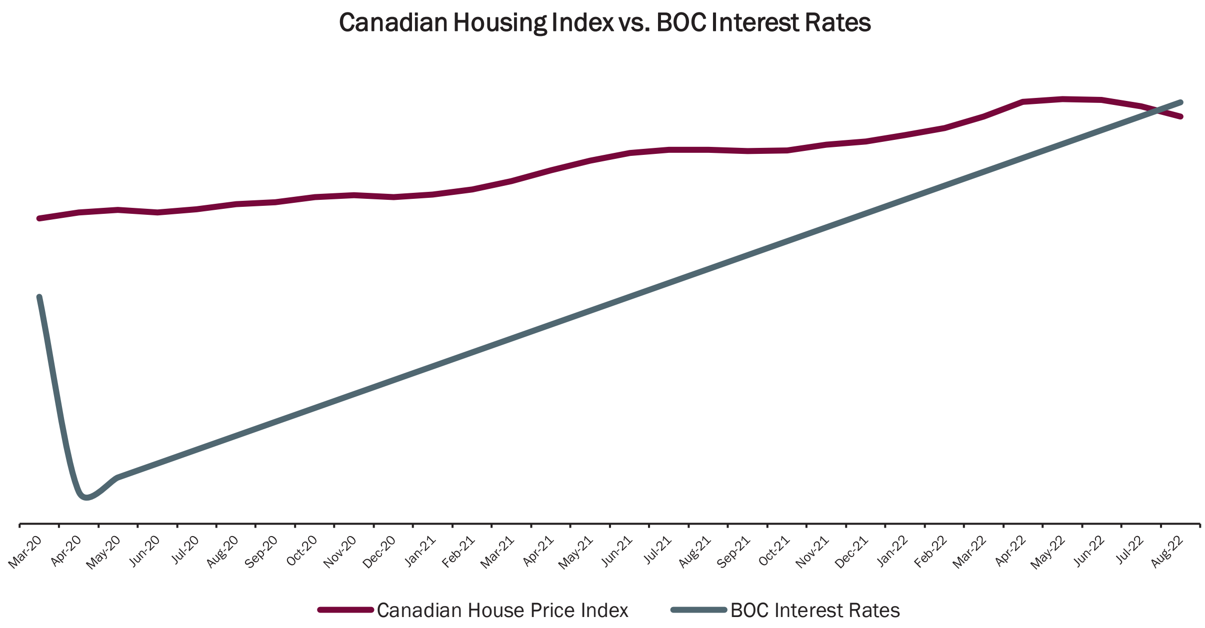
- The Chinese Congress and American Midterm elections will decrease trepidation due to uncertainty in the market: potentially motivating investors to take more concrete positions.
- Upcoming economic data (CPI, PPI, employment, etc) will provide further data and clarity on the economy's current state: furthermore, decreasing market ambiguity.

North American Inflation Levels

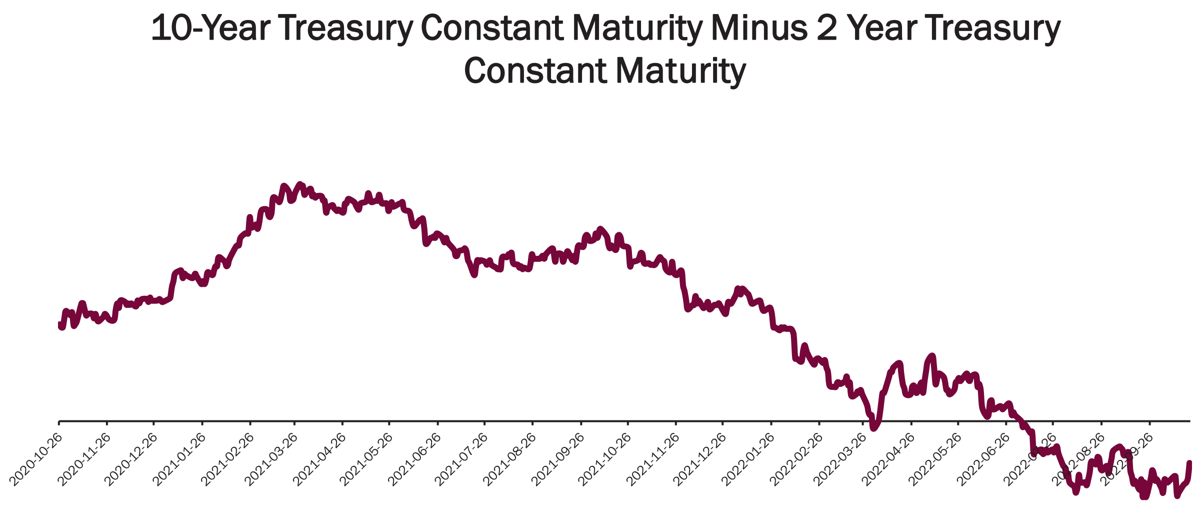
	USA	Canada
Mar '22	8.5%	6.7%
Apr '22	8.3%	6.8%
May '22	8.2%	7.7%
Jun '22	8.1%	8.1%
Jul '22	8.5%	7.6%
Aug '22	8.2%	7.0%
Sep '22	8.2%	8.2%

Yet, there is *also* reason to believe that markets could see far more significant drops before any potential recovery.

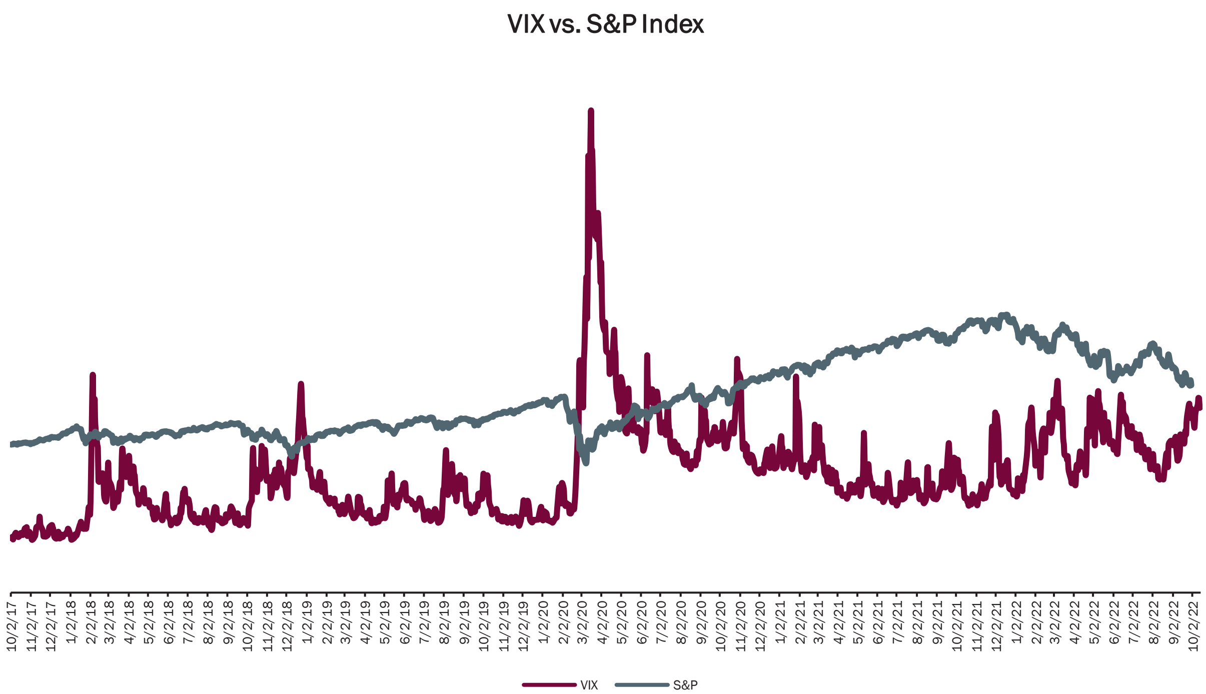
RBC is projecting a Canadian recession early next year, with jobless claims up to 7% and interest rates settling around 4%. This would mean two more 75 basis point rate hikes by the Bank of Canada, which could essentially throw the housing market out the window.



Furthermore, the VIX (Volatility Index) index has a negative correlation with major indices, and is therefore often used as a gauge for market performance. Projected increases in the next few weeks, paired with an inverted yield curve, could continue to push the market towards new lows.

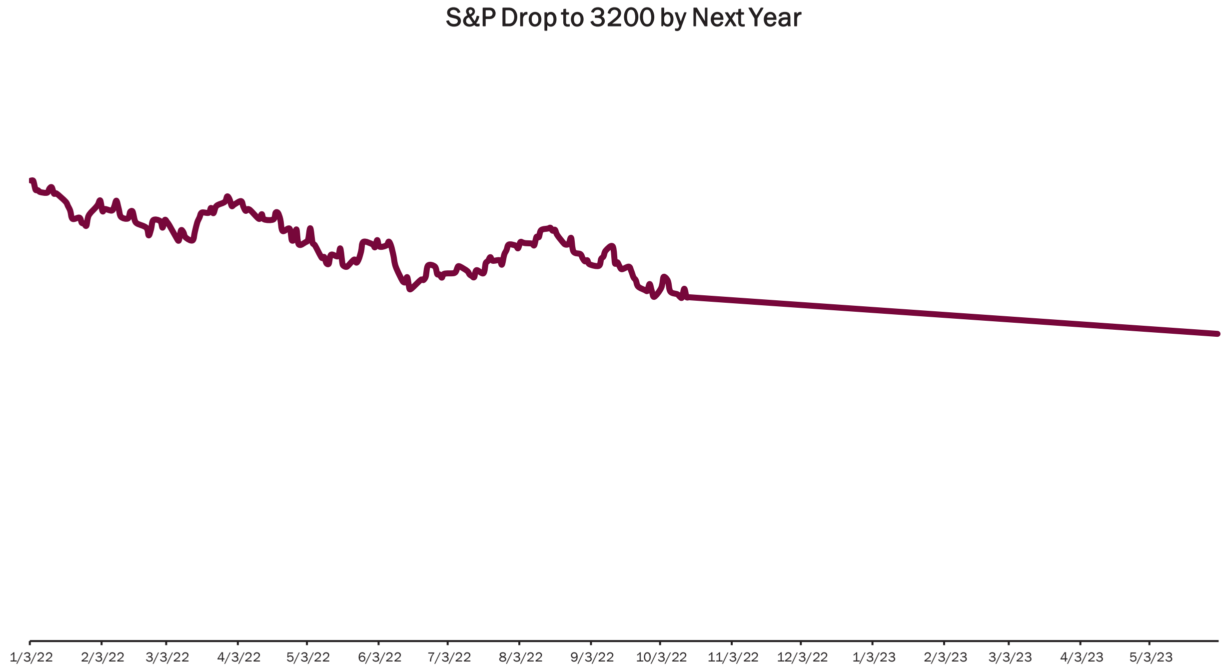


However, one should remain cognizant that the VIX was also quite high at the beginning of the pandemic when markets were abounding, meaning that there could be a possibility for another outlier situation.



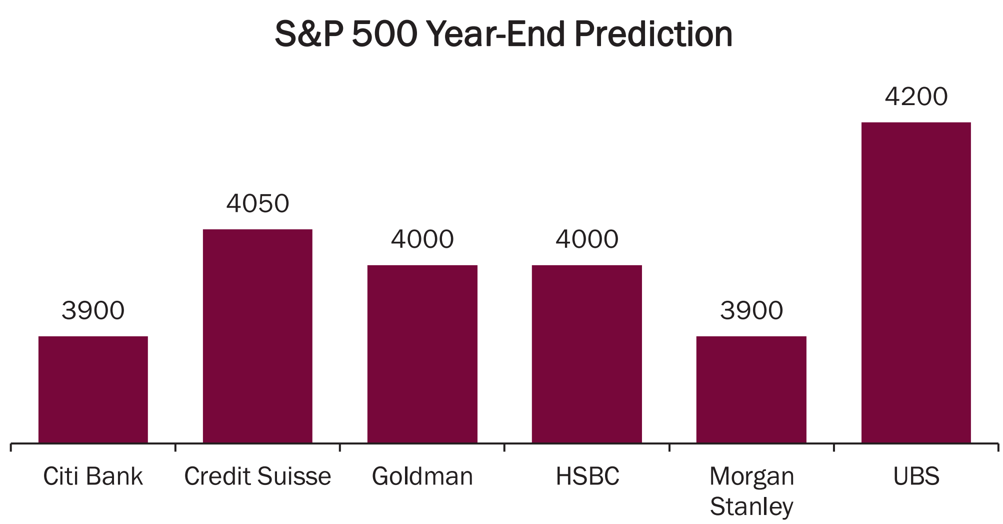
Two major economists also have grim projections for the next few months.

Sam Stovall predicts the S&P reaching ~3200, as the average market decline in a recession - which he predicts to occur early next year - is about 35%. His prediction is supported by volatile exchange moves and slowing economic growth, moving investors to “sell stocks, buy puts and be miserable” – sounds quite similar to the aftermath of super bowl betting season.



David Rosenberg reiterates Stovall's thoughts, though he doesn't predict that we will reach these lows and go through a formal recession until 2024 – essentially extending market pain and suffering. Instead, he claims that - since the Fed is still raising rates whilst the yield curve is inverted - there is yet a long way to go before we see any market stability. On the positive side, both do predict major market rallies once interest rate hikes are halted and there is more stability in the economy. In other words, one *will* be able to look at market indices without crying…at some point.

Lastly, though the major banks have varying consensus on if and when a recession will occur, their predictions for the S&P index paint a clearer picture of where they believe the economy will be by year-end.



Given that the S&P currently sits at around 3500, it appears that – for any potential reason – banks are bullish on a rebound before any potential recession is to set it.

Yet, do remain cognizant of the fact that timing the market is not the most prominent factor in investments. To quote Rubenstein, “it's a fool's errand to find the bottom in the market or the top in the market […] trying to wait to the absolute bottom is probably a mistake.” It is therefore most prudent to look for specific investment fundamentals whilst considering acquisition as opposed to solely the overall market state.

Overall, the main focus in predicting market performance should be in regard to the level of uncertainty we are currently facing. With inflation and rate hikes persisting, the labor market being slow too cool, and perpetual geopolitical factors at play, no sincere prediction can be made until driving factors become less ambiguous. Until then, maintaining cautious and long-term positions are one way to stay afloat throughout this current volatility.