



# WATERMARK PRIVATE PORTFOLIOS DECEMBER 2022 COMMENTARY

The market reversed course in December after hitting the upper band of the channel (just above the 200-day moving average) that it traded in during 2022. The S&P500 finished down 5.2% (in CAD) and the TSX Composite Index fell 4.9%. The Canadian Universe Bond Index also came in weaker in December than the previous two months, finishing down at 1.5%. Once again, the volatility of bonds remains high. Every economic newsprint is being over-analyzed to try and game central bank policy and the impact on interest rates. Furthermore, while inflation is coming down in the short run, it may persist at higher levels over the long run as two structural headwinds remain in place: limited oil supply (and refining capacity) and tight labor markets in the service sector.

## Markets

As mentioned last month, we felt caution was warranted due to the technical set-up of the S&P500 being right at its 200-day moving average and some macroeconomic headwinds still in place. That view proved correct, with the S&P500 hitting its upper trend line and reversing lower. While technical analysis can give insight into potential moves in the future, it doesn't explain why. The why became clear during December when the European Central Bank unexpectedly increased interest rates by 0.5%, followed by the Bank of Japan allowing its interest rates to move higher by 0.25%, seemingly in a coordinated effort to stamp out inflation.





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Providing further weakness to equity markets later in the month was higher-than-expected US GDP and Core Personal Consumer Expenditure reports. Both reports coming in higher than expected likely means that the US Federal Reserve (FED) will continue to remain restrictive with its monetary policy, providing a headwind to the economy and stock markets and therefore, leaving the FED in a pickle. While GDP and core inflation remains high, other economic reports are coming in weaker than expected, as we can see below with the US Leading Economic Indicators (blue line) continuing to decline into recessionary territory:





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We continue to remain cautious so long as central banks remain restrictive in their policy decisions and will respect trading ranges that the market continues to trade within. We'll be heading into 2023 with a hefty amount of cash, looking forward to investing it in dividend-paying companies with strong balance sheets that are growing their earnings and that have lower valuations than today. Once again, we'd like to reiterate that your portfolios have held up well in 2022, experiencing less volatility than public equities and bonds, giving us more capital to redeploy in the near future. We thank you for your continued trust in us and wish you and your families the best in 2023.







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