



WATERMARK PRIVATE PORTFOLIOS JANUARY 2023 COMMENTARY

Markets stormed out of the gate in January with both stock and bond markets rallying on expectations that central banks will reverse course in Q4 2023 and cut rates. The S&P500 in CAD rallied 4.3% and the TSX Composite Index increased 7.4% on strong moves from banks, oil companies, and miners. The bond market also had a strong month gaining 3.0% as it appears that longer-term interest rates have peaked. We expect bond volatility to compress in 2023 as central banks complete their hiking cycle, which should also result in lower volatility in stock and currency markets.

Markets

With another weaker inflation number in the books in January, it reconfirms that inflation has peaked at least in the short run, with market participants now expecting central banks to reverse course and cut interest rates in Q4 2023. This has led to gains in both stocks and bonds and should result in lower bond volatility in 2023 as the rate hiking cycle ends. However, with economic reports on manufacturing and the service sector coming in weaker than expected, growth will likely fall in combination with inflation, meaning stock market volatility likely picks up sometime this year.





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On the technical trading front, the S&P500 (our global bellwether) appears to have moved above the downtrend line (below in blue) that was holding the index down in 2022. It will be a promising sign if the index is able to stay above this line over the next few weeks and should bring back buyers who've remained on the sidelines, likely resulting in those investors/traders chasing performance higher:





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With inflation peaking and the technical trading picture improving, we have put cash back to work. However, it remains a tricky investing environment:

- Higher interest rates are causing pain for borrowers (auto loans, mortgages, lines of credit, etc.).
- A geopolitical environment that appears to be worsening with Western countries delivering further shipments of arms to Ukraine.

As such, we'll take profits when they arise and continue to be tactical throughout 2023, moving in and out of cash when opportunities present themselves.





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