2022 in Review

Our last two annual reviews began with commentary about COVID. While it remains a concern, it is no longer a preoccupation. variants are serious but with multiple inoculations available, the dangers from infection have diminished. Even China, which has had a zero-tolerance policy, appears to be willing to concede that COVID and its various derivations are impossible to beat. Gradually, we are moving forward.

A new threat emerged in 2022 with Russia's invasion of Ukraine. Russian rhetoric regarding nuclear force has dire and unfathomable consequences if engaged. Concerns over the ineffectiveness of Putin's strategy to date are mounting, leaving many to wonder whether the conflict can be resolved without a significant escalation. The effects of this conflict extend well beyond Ukraine's borders. The impact on inflation- particularly food prices is significant – given Ukraine is one of the largest exports of wheat. Energy prices are skyrocketing in Europe where monthly heating bills, in some countries, exceed monthly rents. Coal prices were up over 120% in 2022. Crude oil prices, though down significantly from the peak when the conflict started, remain high and are likely to increase if China's economy continues to open.

Major stock markets struggled last year but 2022 may be most remembered for the historic reversal in the fortunes of the world's richest tech moguls. HUFFPOST reported that Elon Musk, the second person in history to amass a fortune of over $200 billion, was the first person in history to lose as much. This is based primarily on the price of his Tesla shares which lost 65% in 2022. Jeff Bezos's Amazon stock fell 50% as Mark Zuckerberg's Meta (Facebook) fell 65% both losing closer to $80 billion dollars. In total, estimates of losses to the net worth of U.S. billionaires topped $1 trillion dollars. Add to this the implosion in crypto currencies. CNBC reported that by the close of 2022, roughly $2 trillion dollars of value had been erased from peak prices over a year ago.

Our predictions for 2022;

1) Defensive stocks will outperform growth again. More importantly we would emphasize defensive investing- invest primarily lower priced stocks relative to earnings and companies that pay dividends.
2) Equities will outperform mid to long term bonds. Interest raises will rise again in 2022 putting pressure on high priced growth companies.
3) Canadian equities will outperform U.S. equities. U.S. mid-term elections later this year will likely increase volatility in global equities markets, particularly in the U.S.

…2

Stodgell Investment Management Limited • 40 St. Clair Avenue West • Suite 405 • Toronto • Ontario • M4V 1M2 • Tel: (416) 214-6767 • Fax: (416) 214-6778

Canadian equities did out perform U.S. securities as measured by the broader benchmarks we follow. In constant dollars, the U.S. SP 500 index lost 18% (total return) while the SP TSX lost just over 5.8% (total return). The TSX The outperformance of the Canadian index was largely due to Energy and Consumer Staples sector which posted relative strong annual gains of just over 30% and 10% respectively. As highlighted in past reviews, major indices in North America are market capitalization weighted so the highest valued companies have the most influence on the index. Though Information technology was the second weakest performing sector, next to Health Care, in the SP TSX index, it is not as influential as in the SP 500. Shopify (-73% in 2022), the most influential stock in the index over a year ago, now resides at number 11. Alternatively, the SP 500 index remains heavily influenced by technology with Apple as the most influential and Tesla, Amazon, Microsoft and Google (Alphabet) rounding out the top 5.

Another prediction for 2022 which was that defensive stock would outperform growth stocks in 2022. Clearly evident in the SP500, defensive stocks in Canada followed suit though mainstay sectors in defensive investing, Utilities and Financials, posted negative returns for the year. Interest rates increases, initially, punish all equities including more defensive dividend paying stocks however, the advantage of owning them is not only the regular return of income (dividends), but they are also lower priced relative to earnings. In the case of Energy stocks dividends and share buy backs have been increased. It is likely energy prices will remain high for the foreseeable future. Even if the conflict were to be resolved amicably, which is quite a stretch given Russian leadership, sanctions will likely be extended. Much of Europe is dependent on Russian resources and it will take a considerable amount of time before suitable alternatives from alternate sources can be properly scaled to supply present demands. Let’s hope for a relatively mild winter.

Interest rates did rise in 2022 as expected however our expectations were that inflationary pressures and economic growth would exhibit enough signs of slowing in the closing quarter that the U.S. Federal Reserve might moderate their strategy or possibly pause hiking interest rates. Despite a smaller increase in interest rates at the recent Federal Reserve meeting, the comments from Chairman Powell did little to suggest they were any less determined in their fight against inflation. This unsettled equity investors. The U.S. and Canadian economies remained strong in 2022 however the big question is whether these economies will have a recession in 2023.

Our last prediction of 2022 was that equities would outperform mid- and long-term bonds. This was clearly demonstrated in the Canadian markets as the SP TSX outperformed the Canada Long Bond (30 Year) by over 20% and the Mid Term (10 Year) by just under 7%. The US equities as measured by the SP500 outperformed the 30 Year Treasury by just over 15% but lost marginally to the 10-year Treasury by 1.6%.

Beside the ongoing geo-political risk in Europe our other major concern is the potential dysfunction of the U.S. Congress. Presently a rogue group has created a stalemate in the election of the House Speaker. This Republican group seems bent on disruption which could lead to an impasse passing major legislation including the extension of the debt ceiling. If either event transpires, the markets will have another difficult year.

Our 2023 predictions;

1) Growth stocks will return to favour in 2023. As interest rates stabilize investors will return to growth stocks. We do believe that defensive names will continue to perform well in 2023.
2) Given our first prediction, US equities will outperform Canadian equities, in constant dollars, as measured by the SP500 versus SP TSX.
3) Oil prices (Light Crude) will average above $70 bbl.
4) U.S. Interest rates will peak by the fourth quarter 2023.
5) At worst, North American economies will experience a mild recession in 2023

Best wishes for good health and prosperity in 2023.

Stodgell Investment Management Limited • 40 St. Clair Avenue West • Suite 405 • Toronto • Ontario • M4V 1M2 • Tel: (416) 214-6767 • Fax: (416) 214-6778