THOMLINSON
INVESTMENT COUNSEL

RAYMOND JAMES®

October 22, 2022

Dear clients,

Our circumstances answer to our expectations and the demand of our natures.
– Henry David Thoreau

It feels like we are being conditioned to expect the worst in every area of life these days. In fact I don't remember a time when our collective anxiety has been higher. Some of our fears are legitimate of course. But many are stoked for clicks and ratings. My job is to separate the signals from the noise, and help you have a secure financial future. Below are my thoughts on some of our current fears, and how I am positioning portfolios at this moment in time.

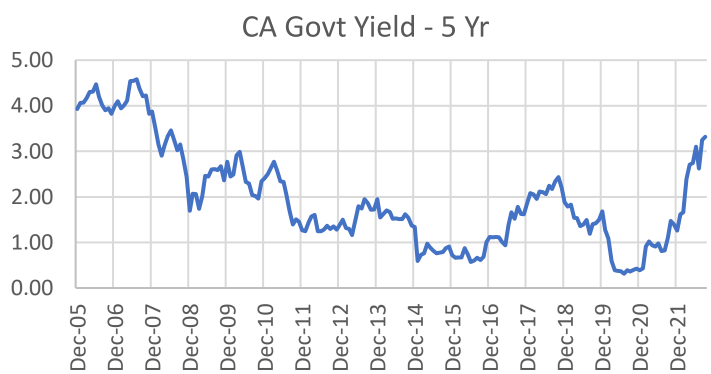
Inflation

Prices have gotten rapidly more expensive, and today's question is: when it will stop? Central banks are using the only two tools they have to fight it: interest rates, and messaging. Rates have risen faster than any time in history.[i] And their message is caustic and severe: rates will be raised as high as it takes to contain inflation.

This inflation was created by two choices made by governments globally: they 1) lowered the cost of borrowing to zero and printed money, and simultaneously, 2) crippled supply networks with COVID policies and incentives for labour to remain idle. In other words they stoked demand and squelched supply, the classic recipe for higher prices. I don't believe labour and supply networks will recover any time soon. Inflation will be with us for longer than people expect.

Interest Rates

There is still room for central banks to raise rates. Rates are not yet high when compared to the recent past. Even a 75 basis point raise on October 26 will only lift rates to the level they were at in 2007: [ii]



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But there is a limit to central banks' political will; middle class variable rate mortgage-payers are already feeling the pain. Banks will feel obligated to slow the pace on increases soon, and rates will not be raised so high as to push homeowners into default. It's possible though that policymakers will realize high rates aren't effective anyway in fighting our supply-driven inflation. Either way, rates are not likely to skyrocket in my view.

What to do

I believe inflation will be with us for a while, and that rates will not be allowed to rise to damaging levels. High interest rates are historically bad for certain stocks, especially technology and other high-growth sectors. But certain sectors tend to do well in inflationary environments, for example energy, commodities, chemicals, precious metals, and infrastructure. All of these are currently considered undervalued because they are tied to economic cycles, which are perceived to be under threat due to the rising rate environment. I have positioned your portfolios to benefit from some of these themes, while at the same time investing in certain high-growth, beaten-up growth companies and arbitrage opportunities that could see gains regardless of the market environment. Banks, too, could be a source of returns as they tend to benefit from higher rates by realizing bigger spreads between deposit interest and loan revenues.

Personal notes

Some of you are aware that I recently had a "laundry incident". I got too close while pouring bleach and a drop splashed in my eye. The emergency doctor at Langley Memorial Hospital was excellent and I will "see" a full recovery. (The eye is close to 100% already, just six days later.) But I don't recommend that mistake, it was a painful ordeal!

Our expectations, of the world and of ourselves, can get us down sometimes. It's important to show grace for our inevitable mistakes in daily life. I hope your autumn season is full of mercy and peace.

Best regards,

Bill

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[i] Source: tradingeconomics.com / Statistics Canada
[ii] Source: FactSet

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