

Inflation Fever Cooling?

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Sky High Inflation - How Did We Get Here?

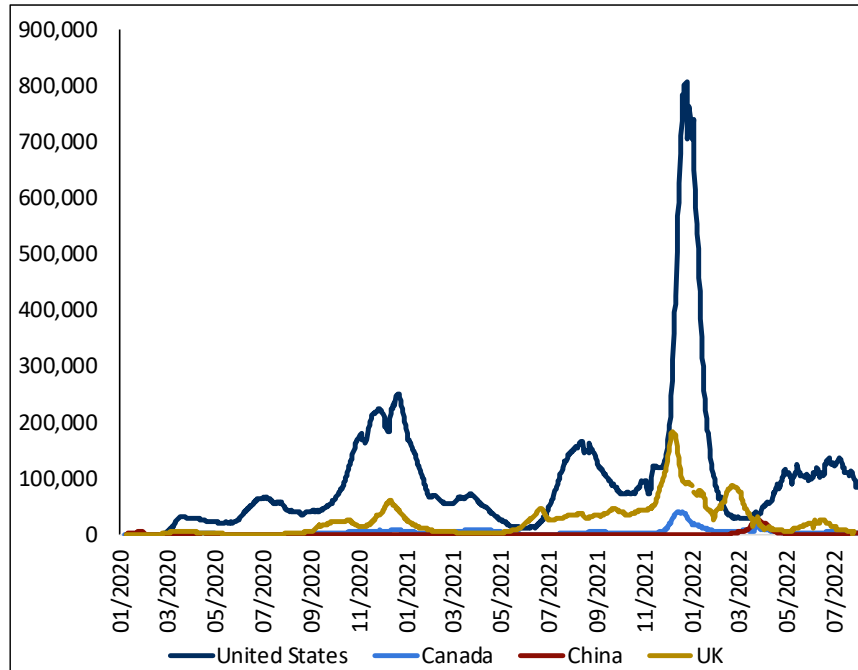
Discussed below:

- *The COVID-19 Pandemic*
- *Global Real GDP Growth*
- *The US & Canadian Unemployment Rate*
- *Record Stimulus - Monetary & Fiscal Measures*
- *Government Debt to GDP*
- *Inflation Today*

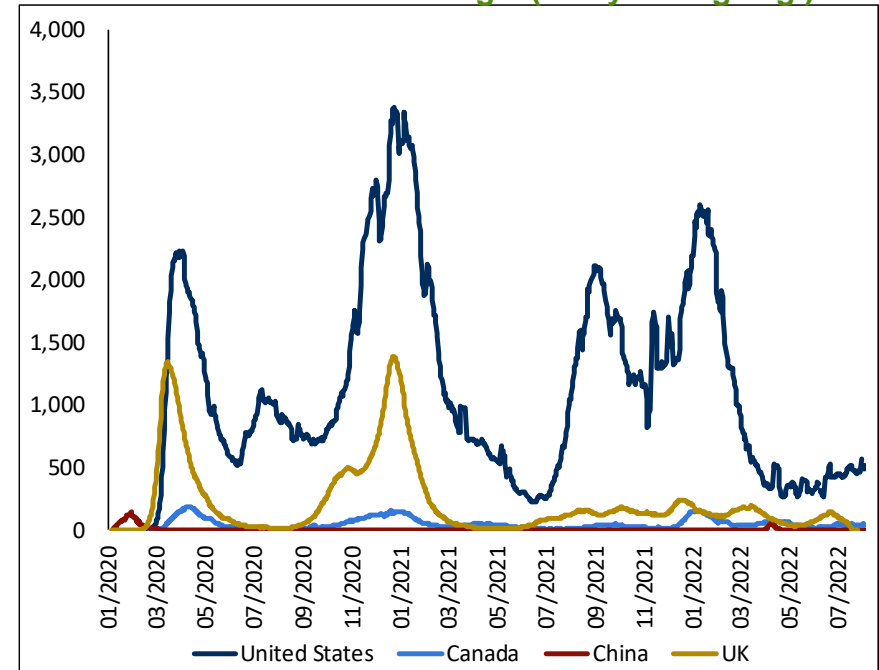
A Global Pandemic in 2020...The First In +100yrs

- COVID-19 was a black swan event for the global economy – nothing like it since the 1918 Spanish flu
- Aggressive measures followed, including global shutdowns, travel restrictions, stay at home measures including: WFH, SFH, etc.

The Evolution of New COVID Cases



The Loss of Life Has Been Tragic (7-day rolling avg.)

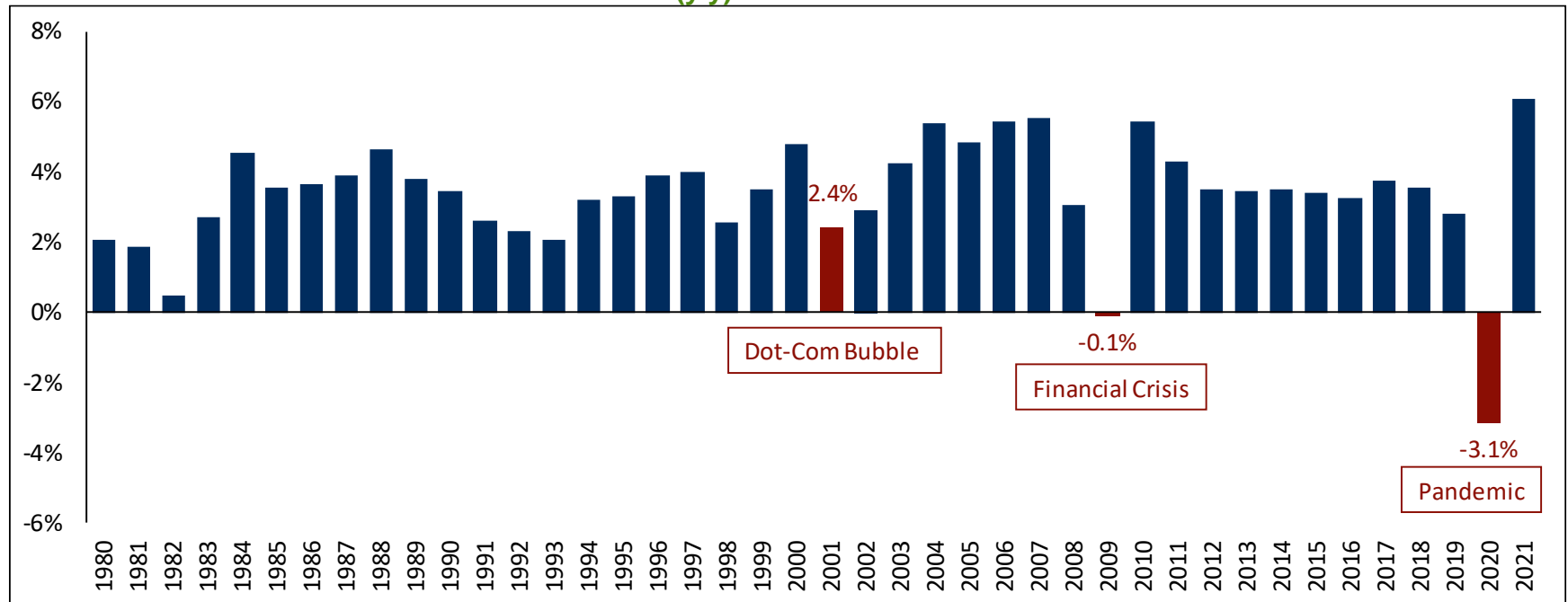


Source: Our World in Data; Raymond James Ltd.; Data as of August 26, 2022

Global Restrictions = A Material Drop in Global GDP

- Global economic growth collapsed as a result of strict stay at home measures and resulted in the WORST contractions in global GDP on record

Global Real GDP Growth Contracts 3.1% in 2020 (y/y) – The Worst on Record!

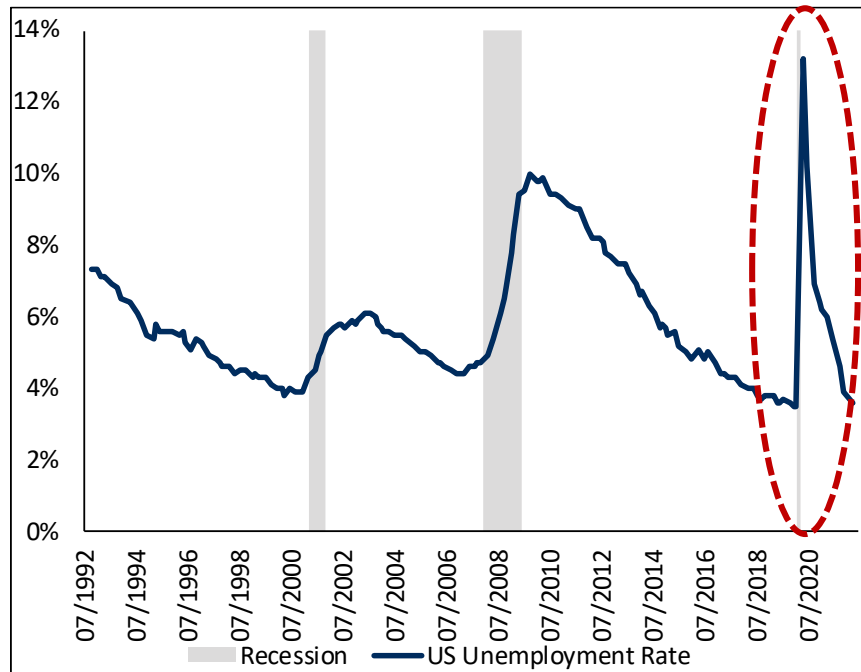


Source: IMF; Raymond James Ltd.; Data as of December 31, 2021

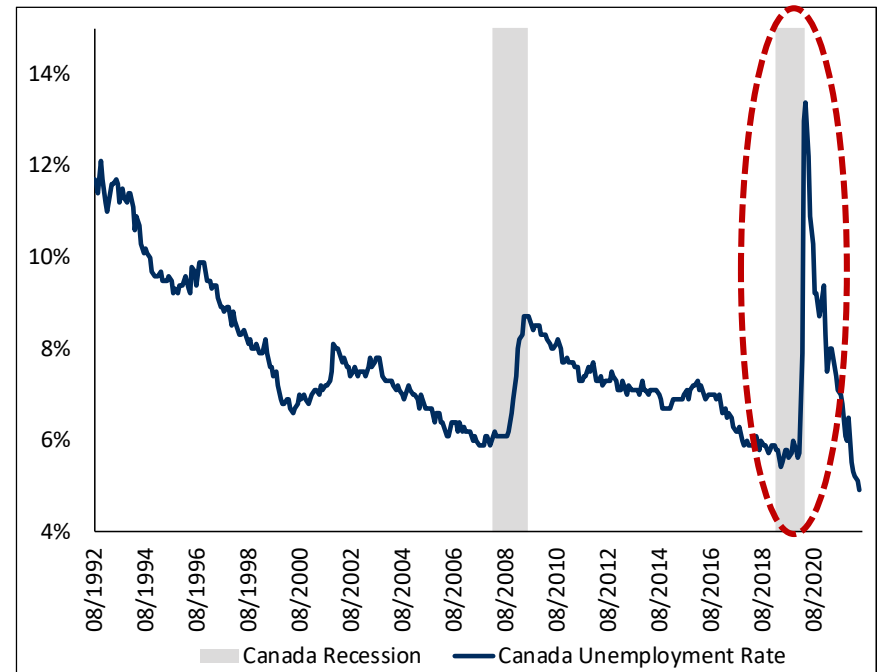
Unemployment Rates Spiked During the Pandemic

- The U.S. unemployment rate peaked @ 13.2% (May 2020) while Canadian unemployment peaked @ 13.4%
- The historical unemployment rate (i.e., 20yr median): U.S. (5.5%) Canada (7.3%)

U.S. Unemployment Rate Soars to 13.2%



Canada Unemployment Rate Rises to 13.4%

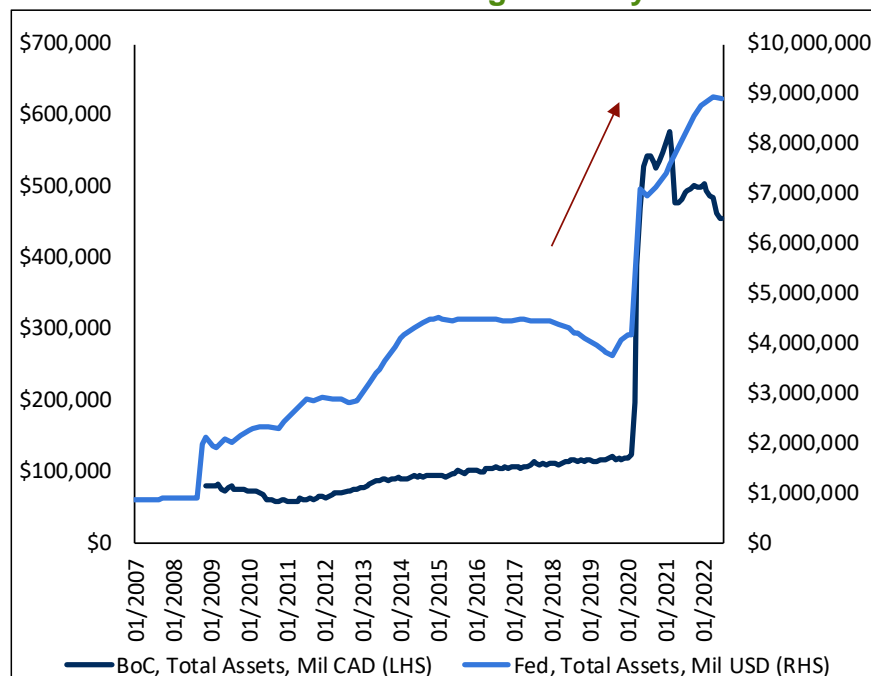


Source: FactSet; Raymond James Ltd.; Data as of July 31, 2022

But.....Record Stimulus Was Unleashed!

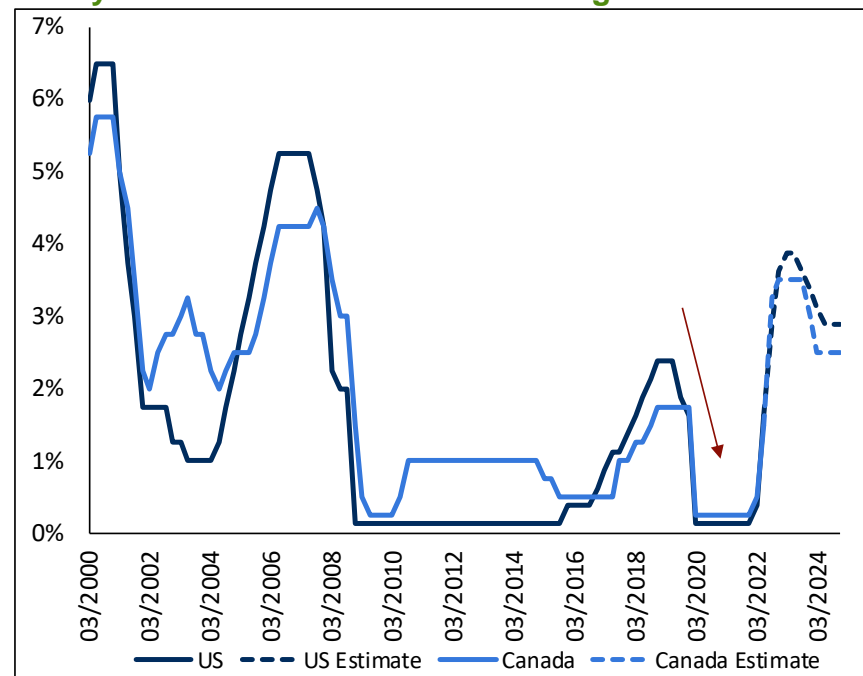
- The BoC began an asset purchase program (\$400bln)
- Policy rates slashed to zero
- CERB, CEWageS, CERentS, etc.

Total Assets of Fed And BoC Significantly Increased



Source: FactSet; Raymond James Ltd.; Data as of July 31, 2022

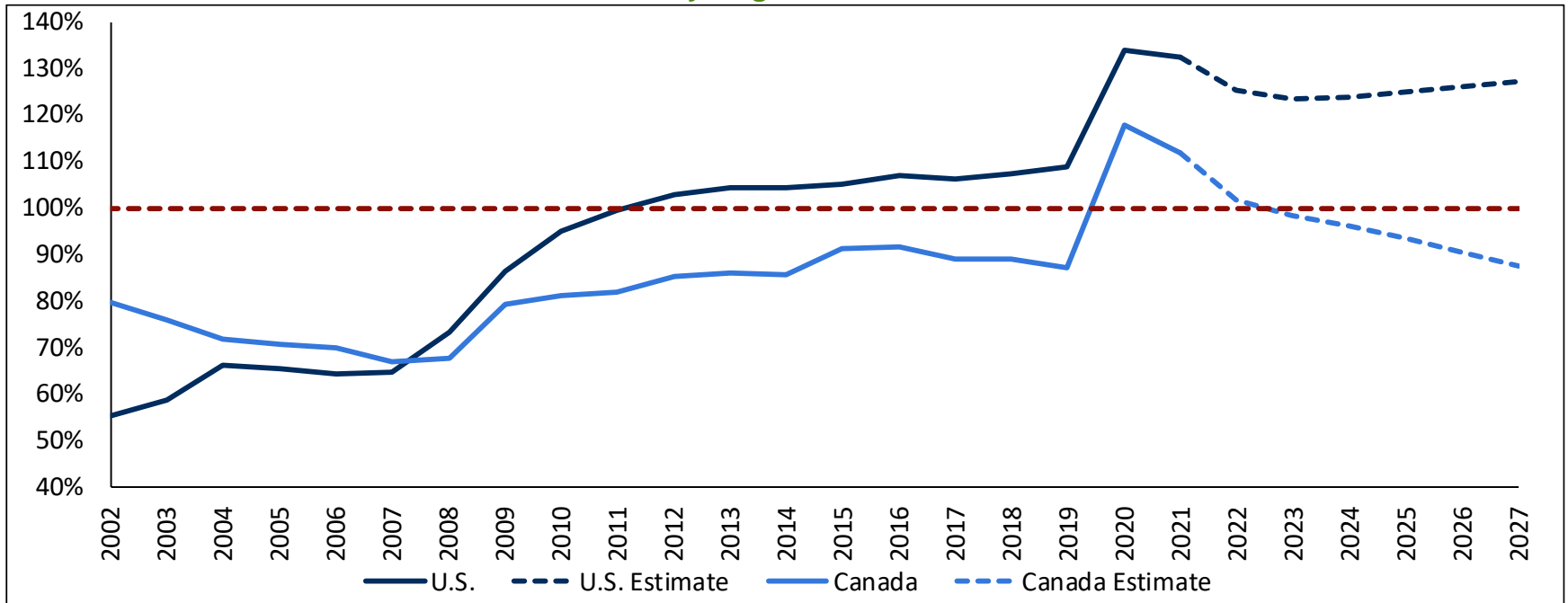
Policy Rates Hovered Near Zero During Pandemic



Source: Capital Economics; Raymond James Ltd.; Data as of July 31, 2022

Debt-to-GDP Soared – Printing Presses on High

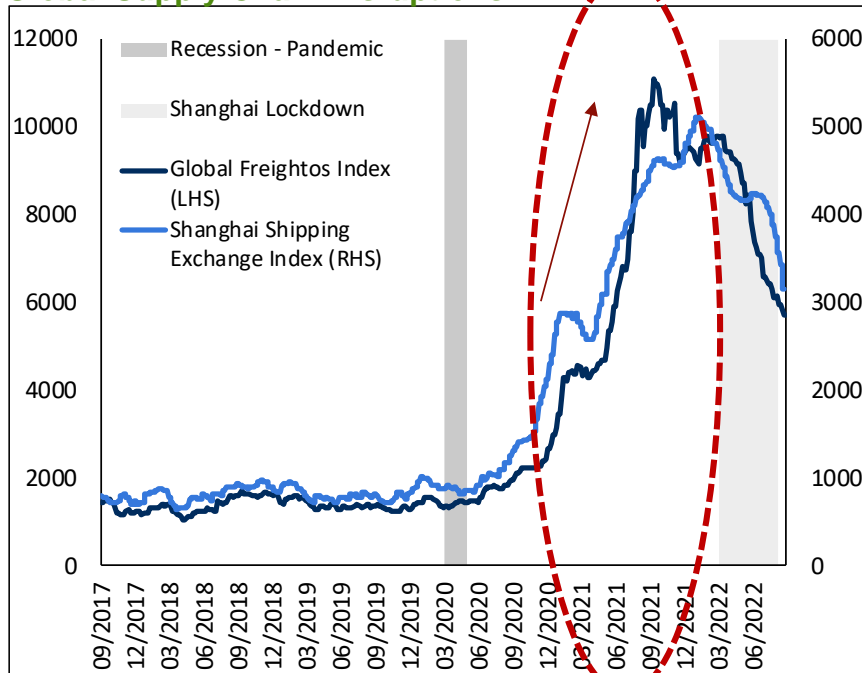
Government Gross Debt-to-GDP Ratio Soars to 20yr High



Source: IMF; Raymond James Ltd.; Data as of August 30, 2022

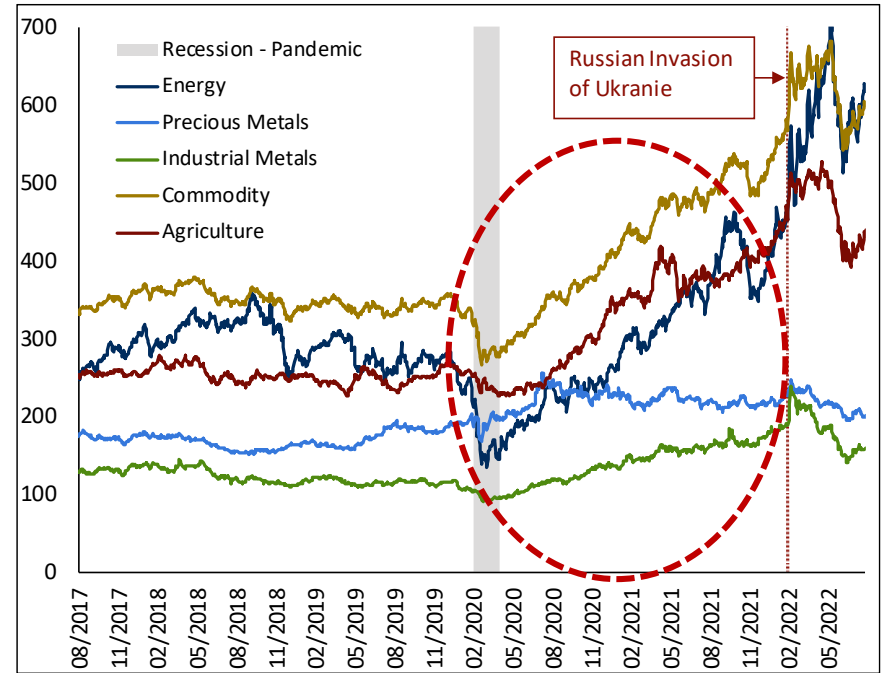
Record Stimulus = A Record Rebound in Demand!

Global Supply Chain Disruptions



Source: FactSet; Bloomberg; Raymond James Ltd.; Data as of August 29, 2022

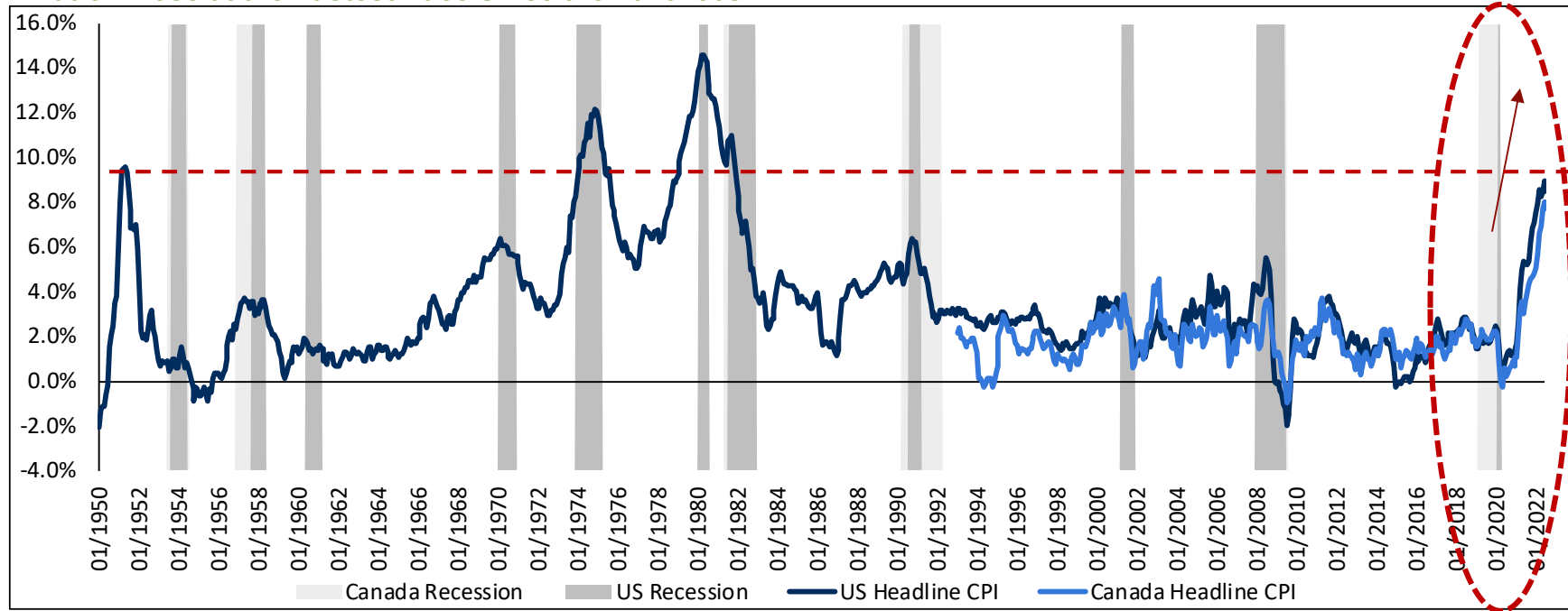
Surging Commodity Prices



Source: FactSet; Bloomberg; Raymond James Ltd.; Data as of August 29; Bloomberg Spot Sub Index (Energy); Bloomberg Precious Metals Sub Index (Precious Metals); Bloomberg Industrial Metals Sub Index (Industrial Metals); Bloomberg Commodity Spot Index (Commodity); Bloomberg Agriculture Spot Index (Agriculture)

Peak Inflation? How Soon Until We Return to 2%?

Inflation Rose at the Fastest Pace Since the 1970/'80s



Source: FactSet; Raymond James Ltd.; Data as of July 31, 2022



Where Are We Now?

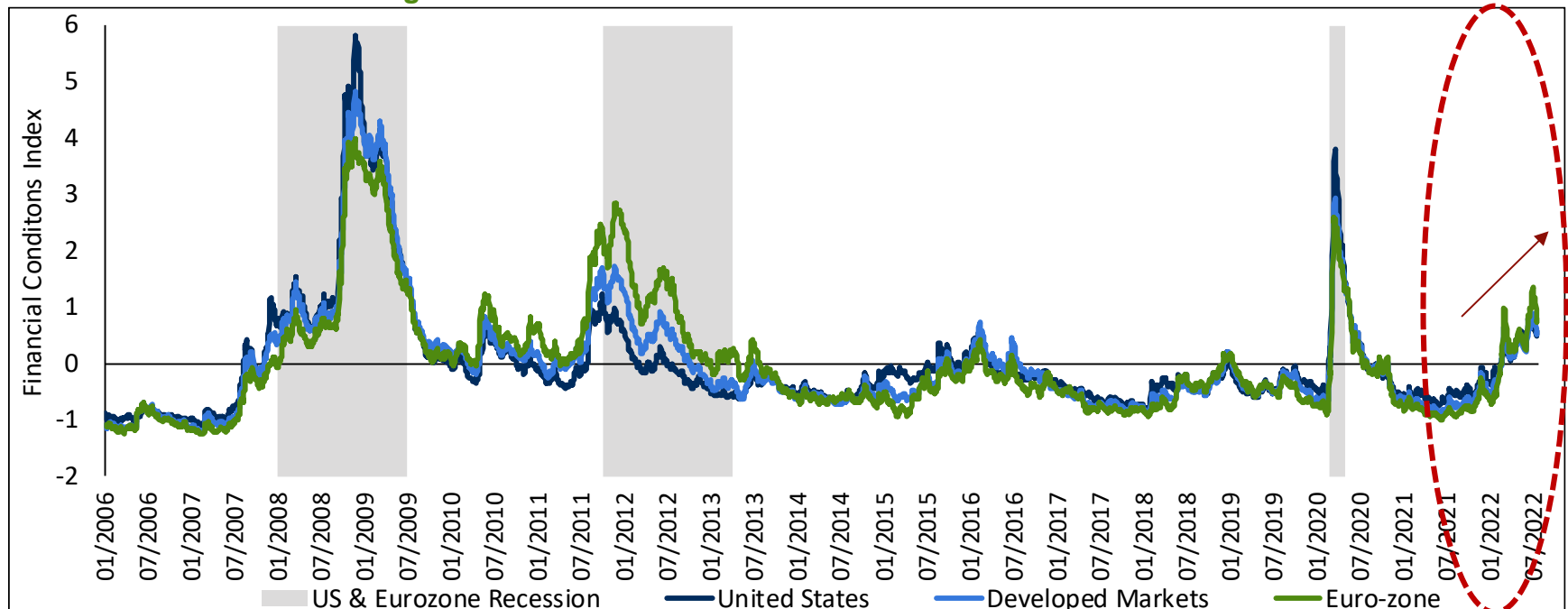
Discussed below:

- *Global Financial Conditions Index*
- *US & Canadian Real GDP Growth*
- *Current Inflation Levels*
- *Structural Challenges*
 - I. *Labour Supply*
 - II. *Energy Supply*
 - III. *Housing Supply*

Financial Conditions Have Tightened in 2022

- The BoC ended its asset purchase program (\$400bln)
- Policy rates have been increased aggressively from zero
- CERB, CEWS, CERS – have now ended

Financial Conditions Have Tightened Considerable Since Mid-2021

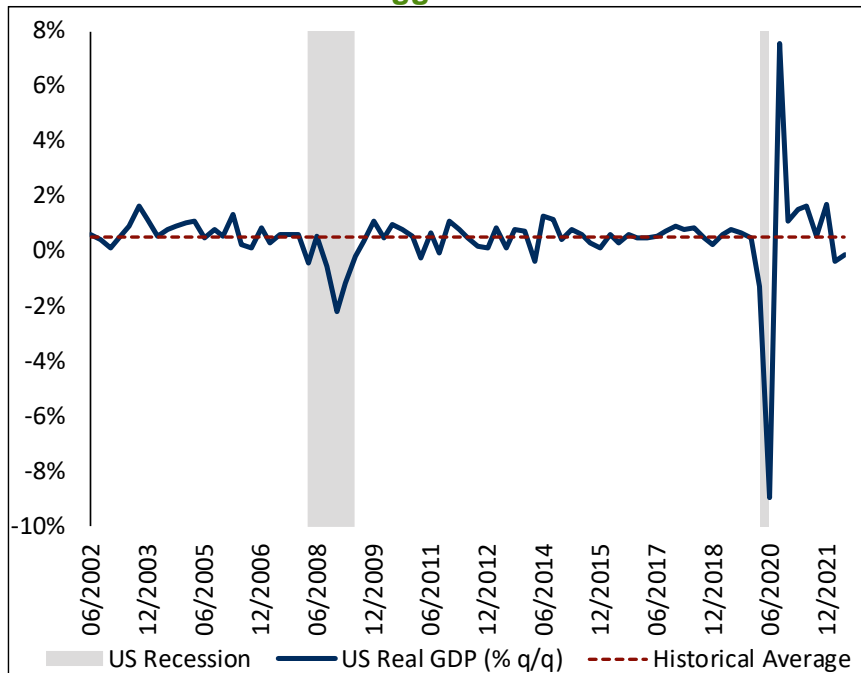


Source: Capital Economics; Raymond James Ltd.; Data as of July 27, 2022

Real GDP Growth Has Fallen from the Peaks

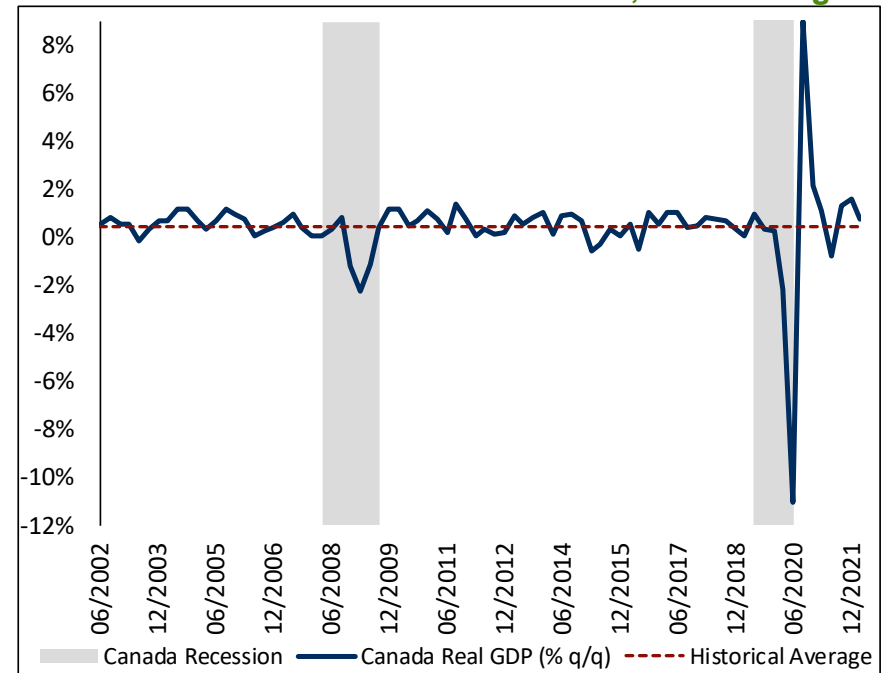
- Real GDP peaked in Sept 2020: US at +7.6% & Canada at +9.0% vs. the 20yr median of ~2.0%
- Current expectations for 2023 real GDP growth for the U.S. is +1.1% & for Canada it is 1.6%

U.S. Real GDP Growth Suggests Technical Recession



Source: FactSet; Raymond James Ltd.; Data as of June 30, 2022

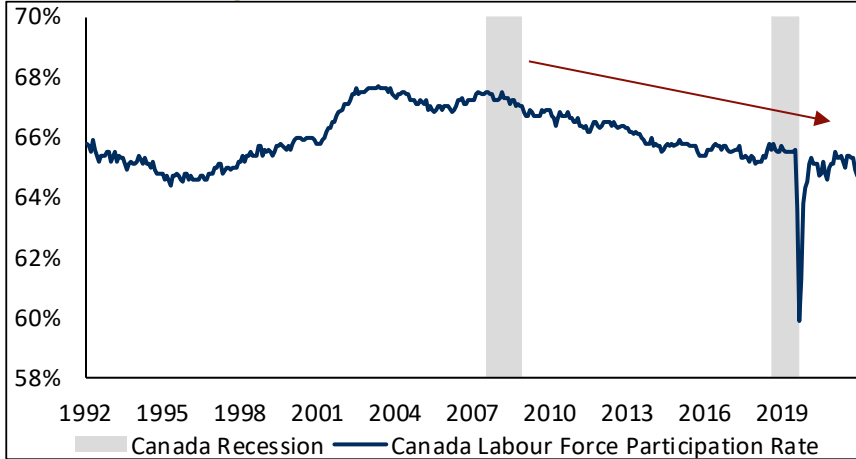
Canada Real GDP Growth Positive in Q1, but Slowing..



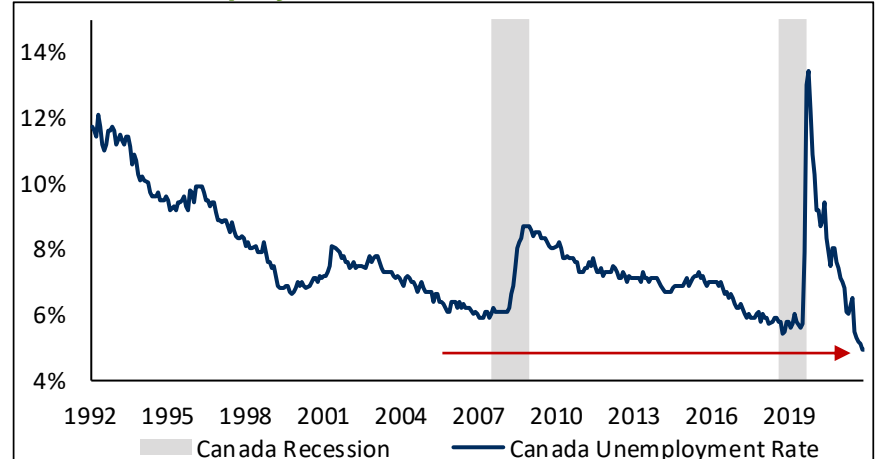
Source: FactSet; Raymond James Ltd.; Data as of March 31, 2022

Structural - Job Markets Remain Tight

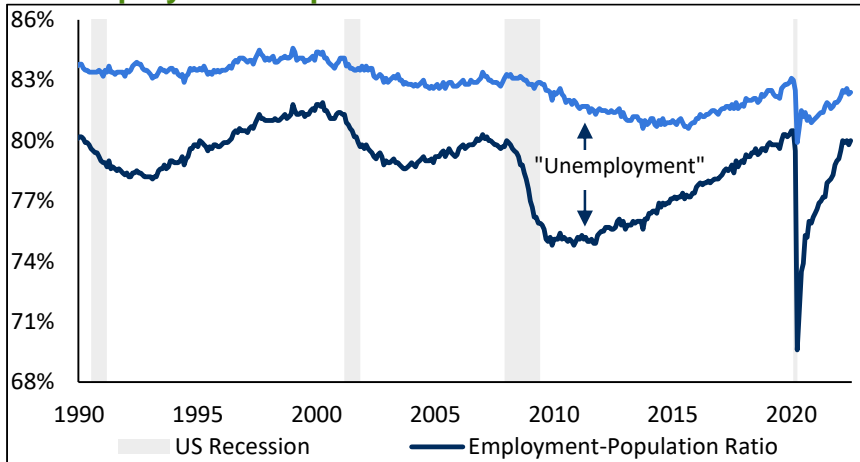
Canada Participation Rate



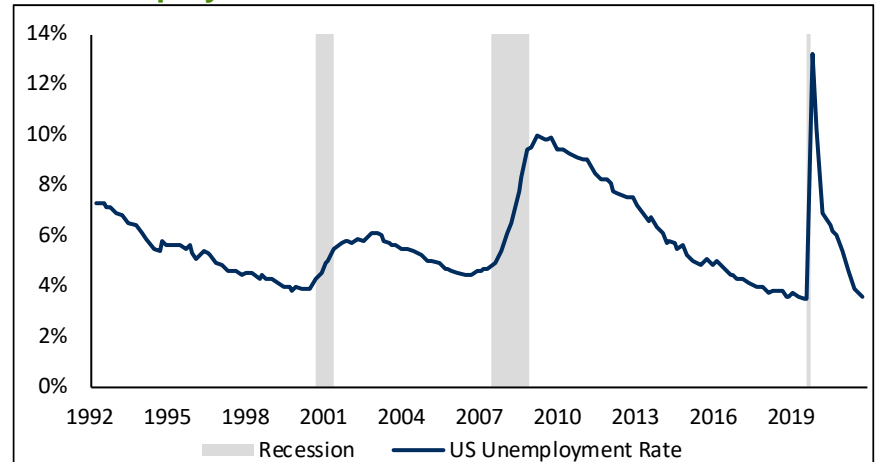
Canada Unemployment Rate @ Historical Low



US Employment Population Ratio & Labour Force Part.



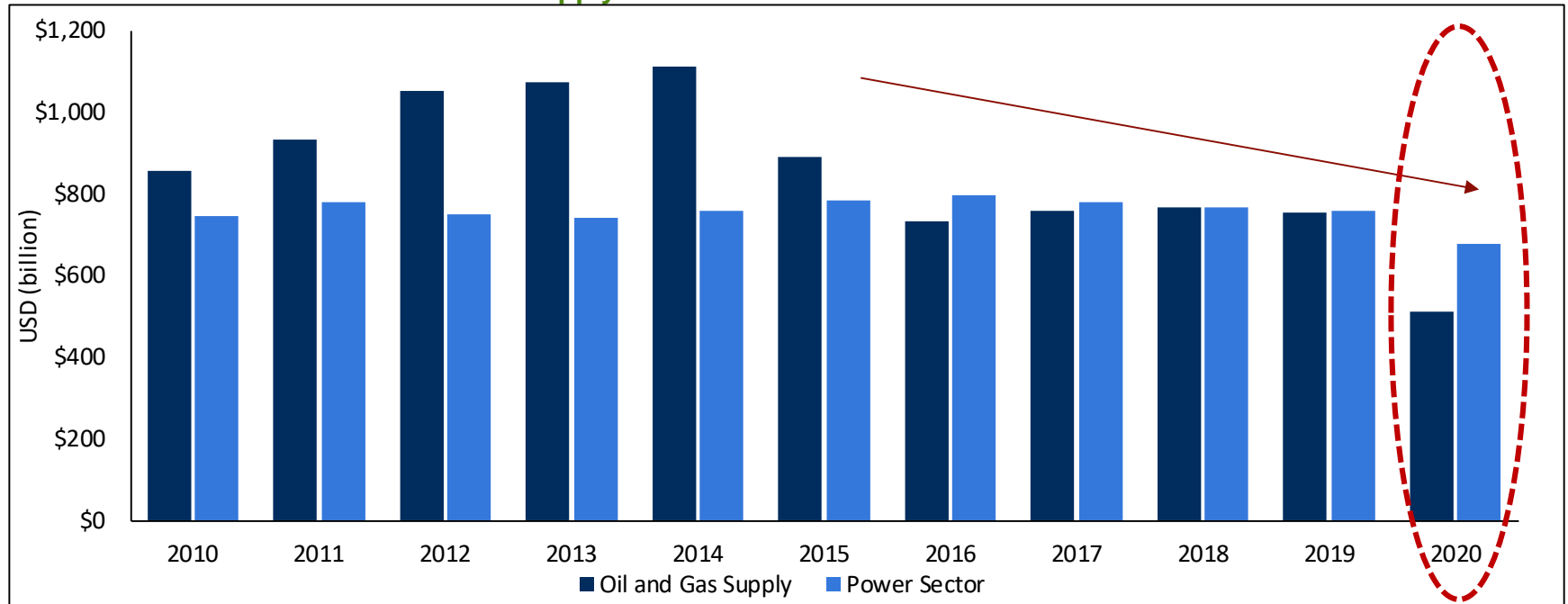
US Unemployment Rate



Source: Statistics Canada; Raymond James Ltd.; Data as of July 31, 2022. Bureau of Labour Statistics; Raymond James Ltd.; Raymond James Financial; Employment/Population: Aged 25-54 Years, data as of July 1, 2022; US unemployment, data as of July 31, 2022.

Structural - Underinvestment in Energy Supply

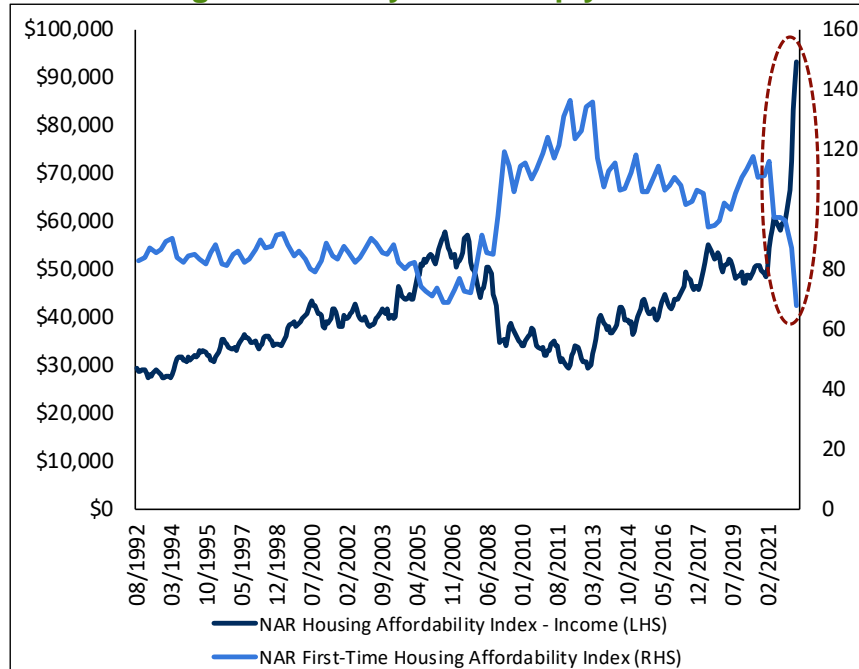
Global Underinvestment in Oil & Gas Supply



Source: International Energy Agency; Raymond James Ltd.; Data as of December 31, 2020

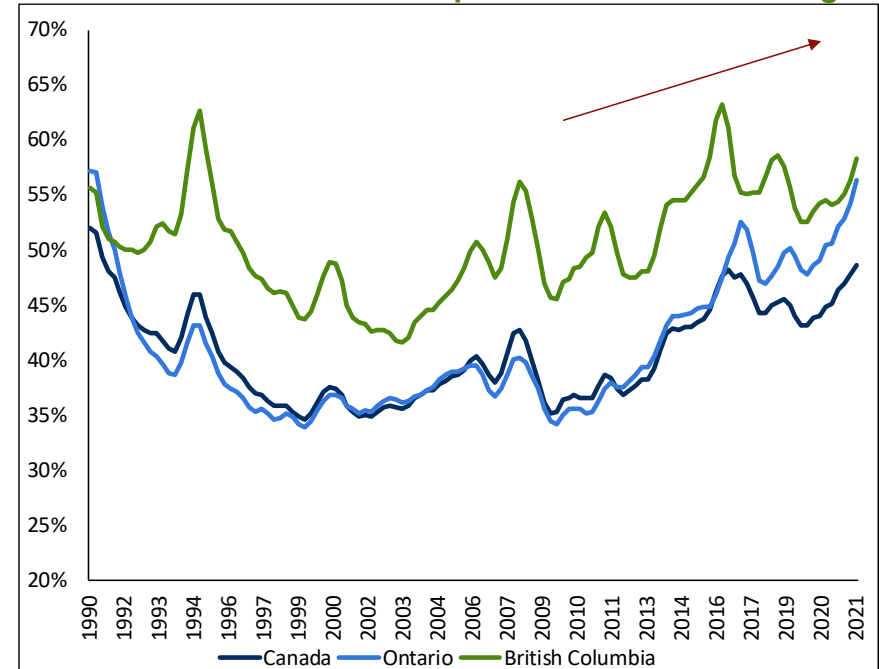
Structural – A Housing Supply Issue

U.S. Housing Affordability Has Sharply Declined



Source: FactSet; Raymond James Ltd.; Data as of July 31, 2022; NAR First-Time Housing Affordability Index: a value > 100 signifies that the family earnings the median income has more than enough income to qualify for a mortgage loan on a median-priced home, vice versa.

Canada's Shelter Cost to Disposable Income % Rising



Source: CMHC; Raymond James Ltd.; Data as of December 31, 2021



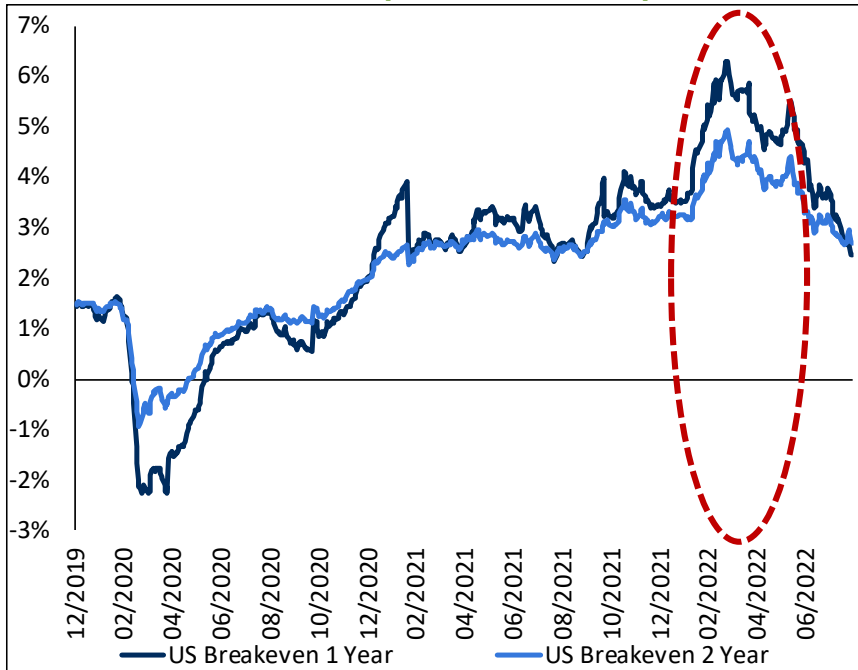
Final Thoughts for Investors

Discussed below:

- *Market Implied - Inflation Expectations*
- *Our Expectations for Inflation*
- *Final Thoughts for Investors*

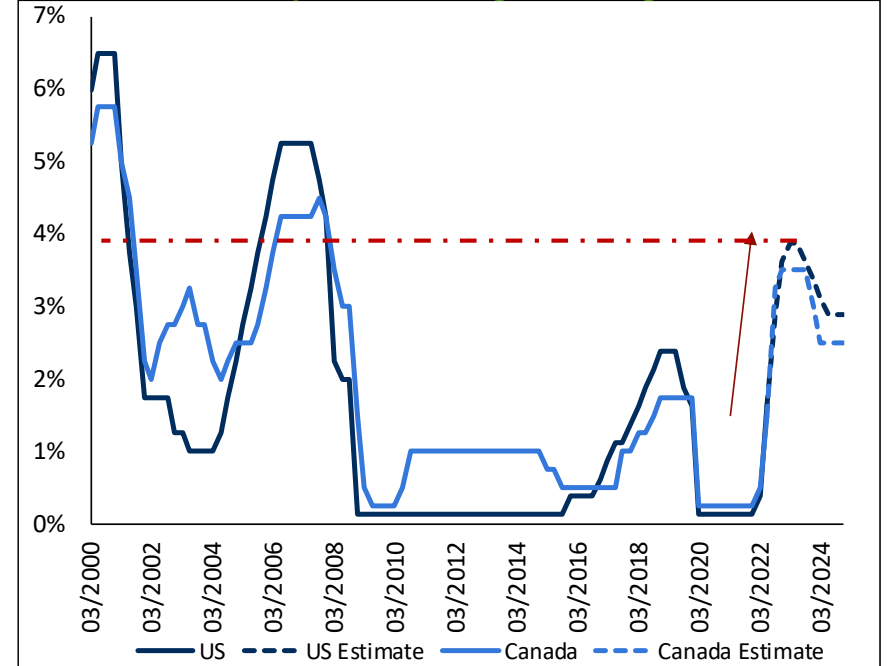
Investors Are Expecting a Return to 2% Soon...

U.S. 1Yr & 2Yr Market Implied Inflation Expectations



Source: FRED; Bloomberg; Raymond James Ltd.; Data as of August 29, 2022

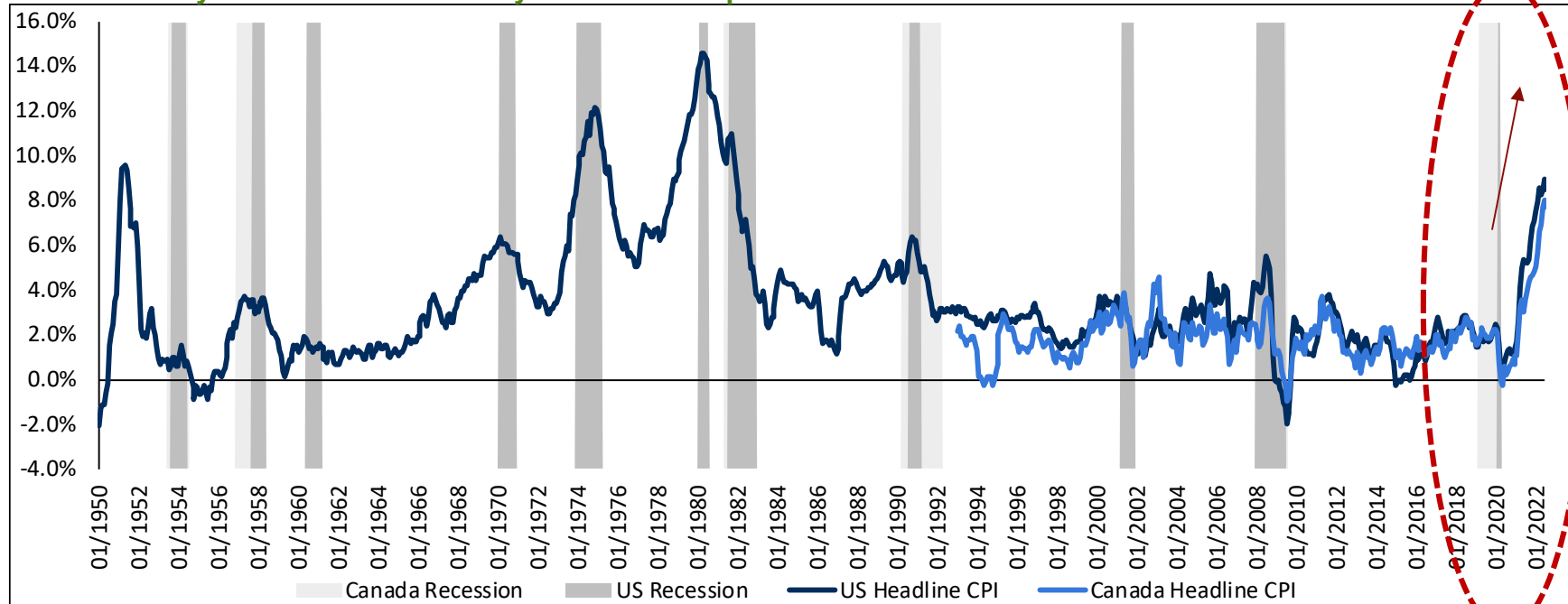
The Fed/BoC - Expected To Begin Cutting Rates in 2023



Source: Capital Economics; Raymond James Ltd.; Data as of July 31, 2022

Inflation Likely to Remain Elevated for Longer

Inflation Likely to Remain More Sticky Than Most Expect



Source: FactSet; Raymond James Ltd.; Data as of July 31, 2022

Final Thoughts for Investors

- Work with your advisor to ensure your portfolio is constructed to withstand an extended period of elevated inflation, higher market volatility, and economic uncertainty – **diversification remains critical at this juncture**
- Remain selective and focus on owning high-quality securities
- Equities – companies with pricing power/dominate market position - i.e., those which can raise prices without seeing a material change in demand (e.g., **Amazon Prime, Costco Membership, Netflix, Disney Plus, etc.**); Dividend stocks
- Valuation matters, especially as yields rise from record lows; securities trading at extreme levels with cash flows/earnings far out in the distant future (e.g., speculative stocks) will fare worse in this environment
- Focus on assets (stocks/bonds) with shorter durations (i.e., less sensitivity to changes in interest rates) all else equal
- Look for securities that offer floating rate coupons
- Consider alternative investments (e.g., private real estate)
- **Remain invested, think long-term, focus on the big picture and remember that this shall pass**

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