THE PLAYBOOK

CI ASSANTE WEALTH MANAGEMENT

MONTHLY COMMENTARY

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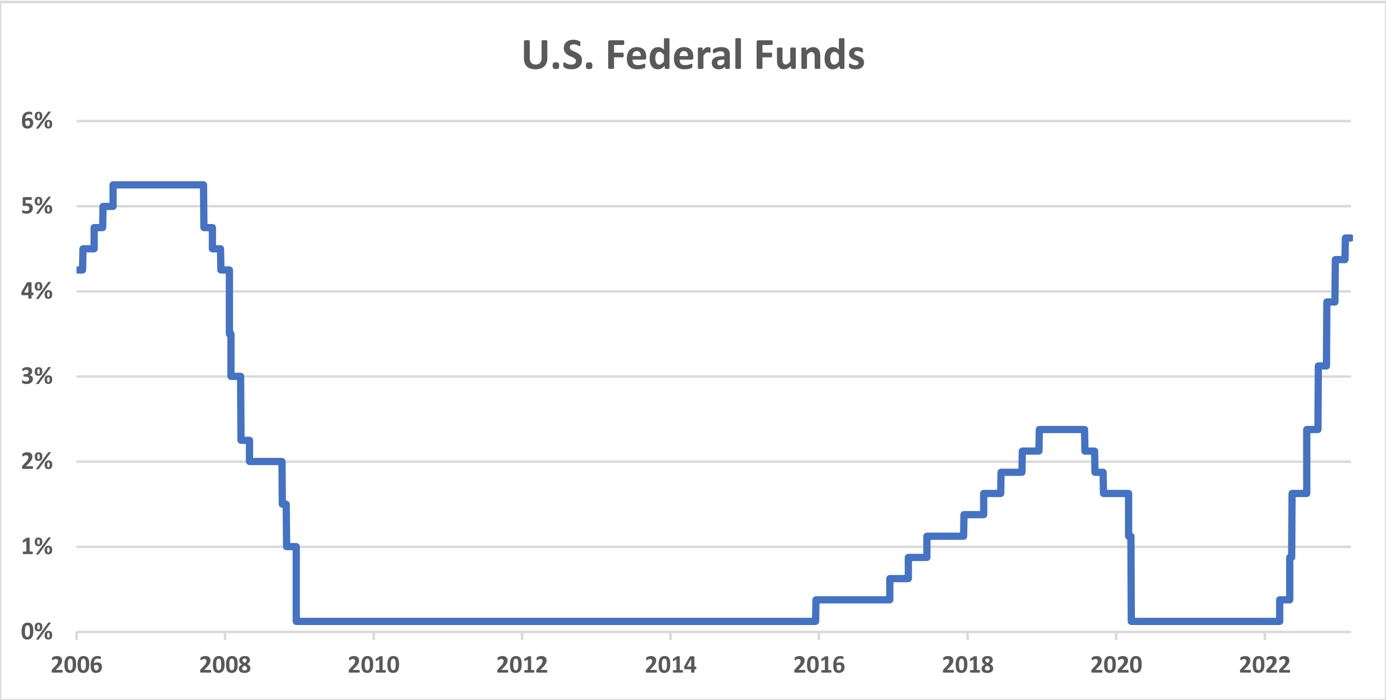
Fed tightens rates further



Source: U.S. Federal Reserve Board

MARKET FOCUS

Inflation fight continues

Following its latest two-day monetary policy meeting, the U.S. Federal Reserve Board (the "Fed") raised administered interest rates by 25 basis points (a basis point is 1/100th of one per cent), moving the target range for the federal funds rate to 4.50% to 4.75% (from 4.25% to 4.50%). This takes the cumulative rate hike to 450 basis points from the first move of the tightening cycle on March 16, 2022. This is now the largest total increase since interest rates on federal funds rose 1,525 basis points from 4.75% in November 1977 to a record high of 20.00% in May 1981. In the press release that accompanied the announcement, the Fed specifically stated once again that the Open Market Committee (FOMC) "anticipates that ongoing increases in the target range will

be appropriate." The 25-basis point move matched market expectations, with some participants anticipating that the Fed would next move to hold rates steady despite the apparent clarity of their statement. In addition, news that the Consumer Price Index (CPI) had increased 0.5% in January revived market expectations of further tightening of monetary policy. While the annual pace of CPI has eased to 6.4% (unadjusted) from the 40-year high (9.1%) reported for June 2022, it remains well above the Fed's 2.0% target. The next Fed policy meeting is scheduled for March 21 and March 22.

Canadian housing market continues to soften

The Canada Mortgage and Housing Corporation announced that housing starts toppled 13.3% lower in January to a 215,365-unit annualized pace. This is the lowest level since September 2020 (214,476) and is the fourth consecutive decline. The new level represents a 33.0% drop from the cyclical peak of 321,284 recorded in March 2021. Similarly, even though Statistics Canada's new housing price index posted an annual gain of 3.9% in December, this represents a considerable deceleration from the 12.2% growth rate reported for August 2021, which was the fastest pace since August 1989 (12.8%). The general softening of the domestic housing market has mirrored the string of interest rate increases seen at the Bank of Canada. The cumulative 425-basis point hike (from the first move on March 2, 2022) is now the largest set of interest rate increases since November 1987 to May 1990, when the reference Bank Rate was moved from 8.09% to 14.05% (596 basis points). Like the U.S. Fed, questions remain with respect to the timing of any additional interest rate increases domestically.

LONGER VIEW

The Federal Reserve has raised rates aggressively in 2022 and that is expected to cool inflation. The side effect of this strategy is a slowing economy and rising unemployment. Until we know how bad these side effects will be, the markets will remain a "guessing game". Over the long term, we expect rates to average 2.25 to 2.5%; this means the 10-year bond at 3.7% yield today is oversold. Stocks will likely continue to benefit from low long-term interest rates and technology advancement. Economic cycles have been short and volatile as they are heavily influenced by dramatic policies. Therefore, investors should not be overly excited or concerned about what they see in the immediate term.

For more information, we encourage you to speak to your advisor or visit us at assante.com