FIRST CAPITAL FINANCIAL

WORLDSOURCE FINANCIAL MANAGEMENT INC.
Sponsoring Mutual Fund Dealer

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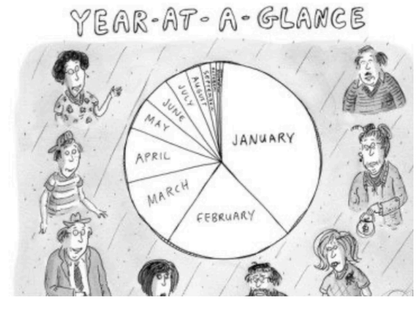
Despite a surge in Covid-19 infections driven by the Omicron variant, strong economic conditions and inflation mean U.S. interest rates are set to rise. Growth is the result of well-above-average consumer spending, tightening labour markets and in turn has seen inflation return to the economy and the national conversation.

This backdrop of elevated inflation makes the case for higher interest rates -and sooner rather than later. This means the Federal Reserve is set to move from a neutral monetary stance at the end of Q1, and the expectation is for 3-4 interest rates hikes this year.



As recently as Q4 of last year, interest rate increases were expected to be half this, but this sentiment is data driven and responding to inflationary pressures that have the potential to become structural rather than short-lived.

While the prospect for higher rates has seen equity markets pull back from their year-end highs, the fact that the economy is on a solid expansionary path, should see stock market move higher as we move further into the year. Moody's (one of the big rating agencies in America) estimates U.S. GDP to grow by 4.4% this year, after rising 5.4% in 2021.

Our view is that inflation is a real concern, but one that is expected to moderate later this year as growth rates slow from current levels. A global supply chain that is also expected to work out a number of logistical issues (like too many container boxes in the wrong places around the planet), should help to ease supply constraints, and contribute to moderating inflation.

So all eyes are on the Fed this month and their announcement expected in the next two weeks will provide more concerted guidance as to when and at what pace it will being to raise the federal funds rate and reduce the size of its balance sheet. Our expectation is that the U.S. Central Bank will take a measured approach to withdrawing stimulus and is reluctant to move too quickly.

Ultimately, the effect of rising rates is a slowing economy, but one that continues to continues to grow in a non-inflationary way. Certainly higher rates will weigh on the valuations of risk assets, which is why we remain confident in our asset allocations -which notably are not predicated on high-flying tech stocks to generate returns in 2022. Our weightings continue to emphasize low-moderate risk asset classes and hold securities with lower average Price/Earnings multiples than the capital markets. Additionally our weightings in fixed income serve to protect portfolios from downside market risk in the short term. Q1 is expected to be a choppy quarter, but our view remains unchanged to-date, which sees equity markets finish 2022 higher than they started.

Thanks for reading!

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