



2022.05.25

We're closing in on the end of May and Markets remain in Bear territory (down more than 15% for the year). The forward price-to-earnings ratio on the S&P 500 has fallen meaningfully to around 17 from 22 at the end of 2021. This is the result of the higher cost of capital following Central Banks rate hikes.

This invites the question as to whether stocks are cheap and whether it is a good time to buy? Complicating the answer to this question is the recession outlook. A drop in equity prices that is not accompanied by a near-term recession is generally a buying opportunity, while the opposite is true if a recession is imminent.



"I recommend the trout."

There is a saying -*the stock market has correctly predicted nine of the last four recessions*, meaning that Markets are anything but reliable indicators as to whether the economy is about to shrink. That said, Markets are leading indicators and the downward trend in Markets year-to-date is understandably worrisome.

Our position is that the odds of recession is somewhere around one in four (25%) and until the picture is clearer, investors best course of action is to remain patient and let the Bear market play out, with its high volatility and constrained returns.

With all the doom and gloom, it's important to revisit the positives, which include a U.S. consumer in great shape and overall the U.S. economy remains strong. Canada is in great shape too, with strong exports to our U.S. neighbour and high commodity prices producing record corporate profits. Both observations allow us to conclude that it is too early to position portfolios for a recession. As has been written here many times, we remain confident in our portfolio allocations and our partnerships with **Dimensional**, **EdgePoint**, **Guardian Capital** and **Mackenzie Investments**. Their combined wealth management expertise is well established, as in their ability to navigate challenging Markets.

Markets will settle down eventually, and it is our view that they will resume their upward momentum. A century of capital Markets supports this position, and while past performance is not a guarantee of future results, we believe that the current Market conditions are the exception, not the rule. Stay focussed and stay invested, this is the best course of action going forward.

Call me anytime and thanks for reading!

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