February has come and gone, and it washed away much of the exuberance that January gave us. The momentum that propelled stocks higher in January faded away and all the major market averages moved lower and showed loses.

Inflation is still a problem and its subsequent impact on interest rates is starting to look like higher rates are coming and may last longer than what investors were hoping for. Clearly, this has prompted much selling across the board.

In the United States, economic data is showing that inflation is not going down quickly enough to satisfy the Fed, and they will likely continue raising interest rates. Now, the interest rate in the U.S. is expected to reach 5.5% by September. There has even been sentiment that the Fed won't stop before rates reach 6%.

The market does not like that, and investors have shown their dislike of the news by selling their stocks.

In my opinion, this is extremely shortsighted.

What investors have interpreted as bad news for the direction of interest rates, is in fact, indicative of the strength of the U.S. economy. The job market and consumers are proving to be quite resilient. Consumer spending may be less than it was last year, but it hasn’t ground to a halt. And while retail sales seemed to slow at the end of 2022, it bounced back in January. Gross Domestic Product (GDP) and wages are growing, with unemployment at historic lows.

I don’t believe we are headed towards stagflation (stagflation Is a combination of slow growth and high unemployment). A soft landing or maybe no landing (no recession) for the U.S. economy is becoming more and more likely.

What does this mean to you? We can expect volatility to continue as investors are forced to face their fears of higher interest rates hampering growth. How far will interest rates go? As high as they need to. How long will they stay up? As long as they need to. I really don’t believe that we will hit rates as high as we did in 1981 when the rate in Canada hit 20%.

In the long run, companies will adjust and learn to grow despite higher interest rates. If investors flee the market only to wait until the rates come down, then they will lose out on the recovery.

So here is the simple strategy for this year. We consider selling companies that are becoming overvalued, we look for established companies that are undervalued, we focus on dividend paying companies so that we still get paid while we wait for better times, and if what we are holding starts to fail and they are not achieving positive results, we kick them to the curb and sell them.

If you have any questions, please call me directly at 613-491-3344 or toll free at 866-860-4190.

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