

MARKET REVIEW

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MARKET COMMENTARY

Hindsight is 20/20. The fiscal and monetary policy responses to the pandemic imparted outsized imbalances to many economies. The resurgence in demand for goods and services in conjunction with constrained supply caused inflation in many countries to spike to multi-decade highs, with many central banks underestimating its enduring impact.

Central banks have embarked on a rapid pace to raise interest rates to ensure that elevated inflation does not become entrenched. The trade-off between inflation reduction and excessive tightening that could lead to a recession overhangs financial markets.

The Federal Reserve's dual mandates of price stability and maximum employment will be tested next year. Chair Powell has emphasized numerous times that a strong labour market cannot be sustained without price stability, suggesting a willingness to accept higher unemployment and tighter financial conditions to restore price stability. The labour market remains stubbornly robust and requires additional restrictive policy measures to weaken it. That said, it appears increasingly likely that we are closer to the end of this hiking cycle. However, an outright pivot to monetary easing remains farther off and dependent on how quickly inflation recedes back toward 2% and how much economic pain is induced during the process.

Higher interest rates are achieving the desired impact of slowing economic growth whilst the full impact is yet to be fully felt. History has proven that the ability to accurately forecast the timing, depth, and duration of a slowdown is low.

Instead, we focus on analyzing incoming data, interpreting their potential impacts on companies, assessing the extent to which they are reflected in their stock prices, and respond only if there will be long-term consequences. Owning a diversified portfolio of quality income and growth stocks equipped to withstand economic cycles will create wealth over the long term.

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