

## How to survive a bear attack

*The best way of being kind to bears is not to be very close to them.*

– Margaret Atwood

Humans have 3 ways of dealing with conflict: fight, flight, or freeze. In this [bear market](#), many investors might be in freeze mode, keeping cash on the sidelines as global markets continue their rough ride. In the first 6 months of 2022, the S&P 500 was down -20.6% while the Nasdaq dropped -29.5%. The S&P/TSX, MSCI Europe, and MSCI EAFE also fell -11.1%, -15.5%, and -21.0%, respectively during this same period.<sup>[1]</sup> Investors holding on to cash may be waiting to see what will happen with the following issues.

### Inflation

U.S. inflation, as measured by the Consumer Price Index, rose 8.6% in May 2022 compared to 12 months earlier, but there are signs that we're getting closer to a peak. Core CPI (which strips out the more volatile components like food and energy) was 6.0% higher compared to the previous year.<sup>[2]</sup> Our model indicates that inflation will trend towards 4.0% as we end the year and fall below 3.0% in 2023. Lower inflation along with a slowing economy may prompt the U.S. Federal Reserve to be less aggressive with interest rate hikes—and this could be a boost for stocks and bonds.

### Recession fears

The possibility of a [recession](#) takes centre stage in many financial discussions. Economic activity peaked last summer and has since dropped. But a “real recession” (where unemployment skyrockets) is unlikely in 2022. The demand for labour is soaring in several industries, and market fundamentals, including valuation and earnings, remain decent.

### Supply chain issues

Global supply chain challenges have persisted, in part due to China's closing of major cities in the spring. But the reopening of Shanghai and Beijing, in addition to new stimulus, put the global manufacturing environment in a resilient position. We can expect some positive growth in the second half of the year.

### Consumer spending

During the COVID-19 pandemic, many employees were able to work from home and generally spent less due to restrictions. Others lost jobs and received support through government benefits, wage subsidies, rent relief, and other measures. Consumers are now making up for lost time and spending money on things that have been sitting on the backburner. As goods begin to move through ports more fluidly and people move about more freely, we should see a healthy normalization for consumers.

We believe these factors will support stronger equity and fixed-income markets in the second half of the year. And once investor sentiment shifts, the cash may move off the sidelines.

### Final thoughts—don't run

One of the key rules when coming across a bear in the wilderness is not to run away, and that applies to investments. In a bear market, the odds are overwhelmingly in the investor's favour. Once we have clarity on the challenges above, markets will have rallied, leaving many investors behind. The best advice? Take a step back, survey the environment, revisit the plan, and stay on course.

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<sup>[1]</sup> Bloomberg, as of June 30, 2022

<sup>[2]</sup> Consumer Price Index Summary – 2022 M05 Results <https://www.bls.gov/news.release/cpi.nr0.htm>

As always, if you have questions about the markets or your investments, I'm here to talk.

Regards,

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