Balanced

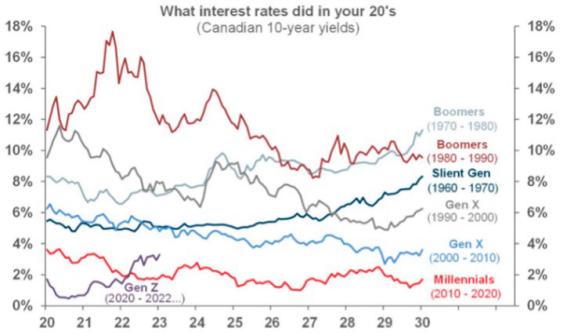
October 2023 Edition

Inflation and Interest Rates ~ Laurel Hickey & Garth Bluekens

What's Inflation and Interest Rates Got To Do With It?

The last time we had interest rates as our What's Blank topic was February 2022 and quite a bit has transpired since then. We wish that we weren't still in an uncertain interest rate environment close to 2 years later, but since that is the reality of the current economic environment, we want to be there to shed some light on the situation. To begin, we can't talk about interest rates without discussing the reason we are in this situation- inflation. Despite the multiple interest rates hikes since last year, inflation and consumer spending have proven to be resilient. This goes against the historical reason that federal banks increase interest rates in the first place, to discourage spending. In National Bank Investments CIO Office October Asset Allocation report, they look at consumer spending a bit further. Since August 2021 there has been a trend of households saving significantly less than usual. When households are saving less, it is inevitable that they are in turn spending more. Inflation does play a role in these trends as inflation figures are not the same this year as they were in 2020. When adjusting consumer spending and saving data for inflation, it becomes a bit clearer that households are not necessarily consuming more goods and services than before 2020, but they are continuing their same spending patterns without much regard for prices.[1] We are seeing this with some of our clients as well. We have discomfort with the higher prices we are seeing at the grocery store or the cost of a flight, but we are still buying the same food that we normally would or still booking the trip. This is not without saying that a large portion of Canadian are still feeling the effects of inflation and interest rates and this remains at the core of why we need to bring these numbers down.

Another interesting item to note is each demographic has a different level of interest rate sensitivity. A Millennial for example has seen interest rates less than 4% since their early 20s. This could mean they have built their adult lifestyle on this and why they have felt the fast-paced increase in interest rates more strongly. Boomers on the other hand were in an interest rate environment of close to 18% in the early part of their 20s. Boomers now are also coming into retirement meaning they may have less debt on their balance sheets and higher savings where they benefit from these higher interest rates.



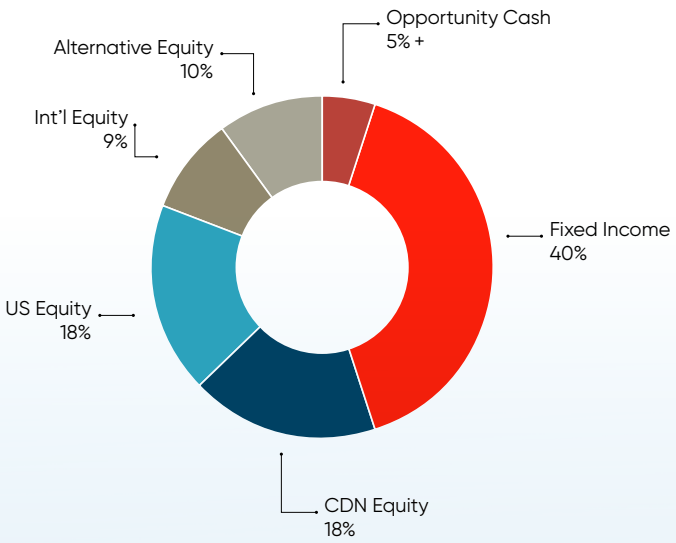
CIO Office (Data via Refinitiv). As of December 20, 2022.

In recent months we have felt a flight sigh of relief. We are beginning to see some cooling, as after two consecutive months of inflation exceeding estimates, September's inflation numbers came in lower with Consumer Price Index (CPI) decreasing 0.1%. This translates to an annual inflation rate of 3.8%, down from 4.0% in August.[2] The Bank of Canada has also paused on increasing rates at both the September and October meetings.[3] This doesn't mean that future rate hikes are off the table or that we are in the clear of avoiding a recession, but it does potentially suggest we are on the right track. Whether you have debt and are struggling with higher interest rates, are feeling the effect of inflation on your cash flow or if you are in a situation where you want to take advantage of higher rates with your savings, we are here for you. Interest rates and inflation go hand in hand with your investments and financial plan and discussing these items are part of our service offering!

[1] asset-allocation-strategy.pdf (nbinvestments.ca) | [2] Economic News - Canada: Sigh of relief on the inflation front in September (nbc.ca) | [3] Policy interest rate - Bank of Canada

Balanced Investment Model Sleeve Goal Allocation

Your Investment Policy BALANCED PROFILE: You give equal importance to achieving growth in your investments and receiving income. You can tolerate moderate changes in market value to ensure growth, but you prefer having a mix of fixed income investments and equities for reasons of stability. If you feel that your risk tolerance is shifting, please let us know!



Source: This information is for illustration purposes and subject to change. Your portfolio may not hold all of these positions. We enhance the composition of your portfolio with additional equity solutions that are not illustrated. The weightings change with market fluctuations and model rebalancing.

Laurel Marie Hickey, CFP®, CIM®, FCSI®
Wealth Advisor & Portfolio Manager
239 8th Avenue SW, Calgary, Alberta T2P 1B9

Garth Bluekens, CPA, CA, PFP®, CIM®
Senior Wealth Advisor & Portfolio Manager
404 6th Street S, Lethbridge, Alberta T1J 2C9

Tel.: 403-531-8429 | **Toll Free:** 1-877-506-7900 | **Email:** laurel.hickey@nbc.ca

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