

Easton Wealth Management

August 2022 Client Letter



'The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee is strongly committed to returning inflation to its 2 percent objective.'

- Implementation Note Issued July 27, 2022 - The US Federal Reserve, Federal Open Market Committee

'First, inflation is too high, and more people are getting more worried that high inflation is here to stay. We cannot let that happen. Restoring price stability—low, stable and predictable inflation—is paramount.

Second, the Canadian economy is overheated. There are shortages of workers and of many goods and services. Demand needs to slow so supply can catch up and price pressures ease.

And third, our goal is to get inflation back to its 2% target with a soft landing for the economy.'

- Monetary Policy Report Press Conference July 13, 2022 - Tiff Macklem, Governor of the Bank of Canada

Dear Clients,

Despite worries of slowing economic growth, actions by central banks globally (the Bank of Canada, US Federal Reserve, European Central Bank and the Bank of Japan) to lower inflation was on balance, well received by both equity and bond markets.

Over the month of July;

- › our Canadian equity market was up 4.66% (S&P/TSX Composite Index)
- › the US equity market returned 8.49% (S&P 500 Index in Cdn\$s)
- › International equity markets were up 4.52% (MSCI EAFE Index in Cdn\$s) and emerging market equities were down just 0.68%(MSCI Emerging Mkts Index in Cdn\$s)
- › Bond rates declined slightly and the Canadian bond market returned 3.90%% (FTSE Cdn Universe Bond Index)

A focus on inflation

Given the importance of inflation to both equity and bond markets as well as the actions that central banks will take to curb it, I thought a brief review would be helpful. I have also included a schedule of release dates of important inflation data for Canada and the US as well as upcoming meetings and announcements on interest rates of the Bank of Canada and the US Federal Reserve.

We have reason to be more confident in the united effort by central banks to address inflation. However, if inflation remains high and does not 'role over', policy makers are willing to inflict a measure of pain to the economy in the short-term in order to address it.

Over the next few months tracking the direction of inflation is going to be important for investors as well as borrowers.



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The preferred inflation measures of the Bank of Canada

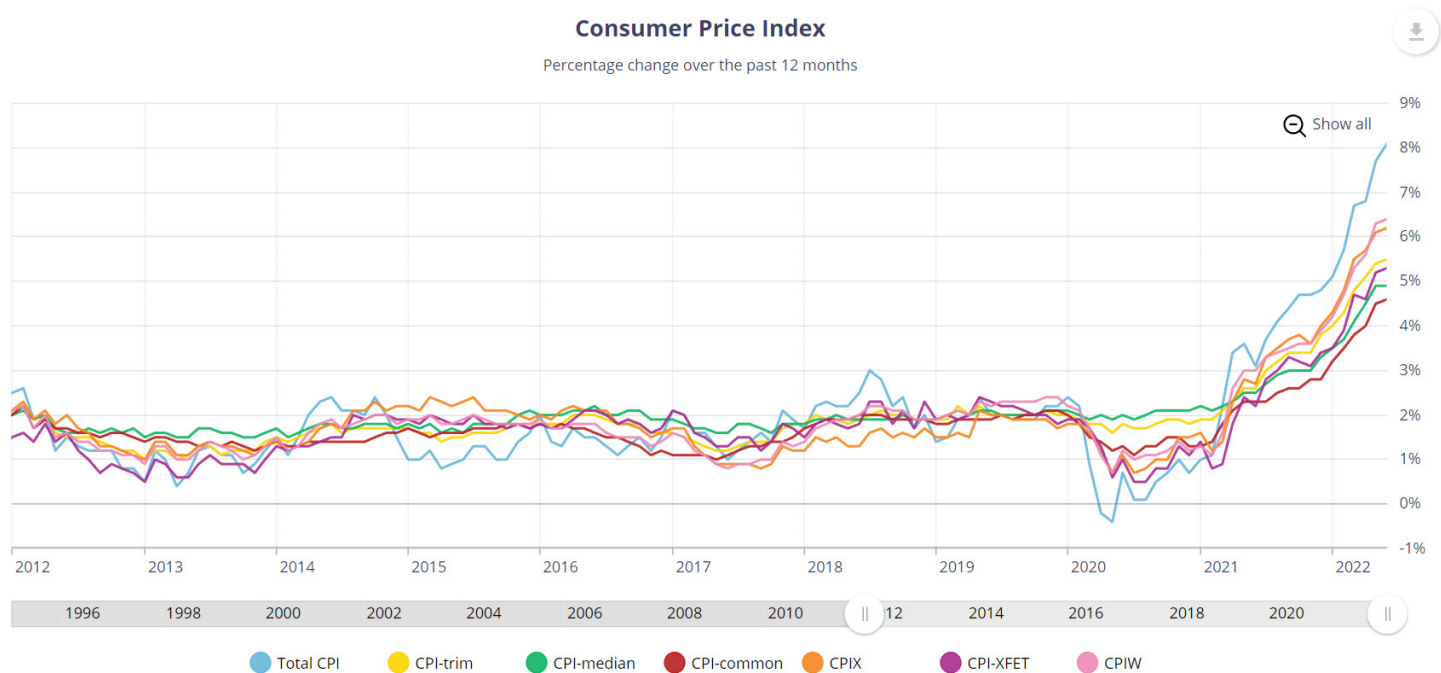
There are 'top line' and 'core' inflation measures. Top line measures include everything that is representative of the economy. Core inflation tends to eliminate items that are more volatile that can distort inflation in the short term and cloud the how prevalent and extensive inflation is throughout the economy.

One might easily suspect that excluded more volatile item like energy prices from an inflation measure is a conspiracy to under state inflation and the cost-of-living for Canadians. The reason however for central banks and policy makers to eliminate the more volatile items in measuring inflation is to avoid the risk of over-reacting to changes in prices, raising or lower interest rates unnecessarily, and cause disruption to the economy and to the capital markets. Temporary spikes in the cost of certain items are one thing, but it is how extensive and pervasive inflation is throughout the economy that central banks are concerned about.

The primary objective of the Bank of Canada is to maintain stable prices in the economy as well as stable and functioning capital markets.

The preferred core measures of inflation that the Bank of Canada follows closely are CPI-Median, CPI-trim and CPI-common. Each include and exclude specific items providing unique insights into how broadly based inflation is within the Canadian economy. If you are interested in learning more about what the Bank of Canada follows I would recommend visiting the Bank of Canada website.

Here is a chart from The Bank of Canada with all of the inflation measures (Consumer Price Index) that they follow;



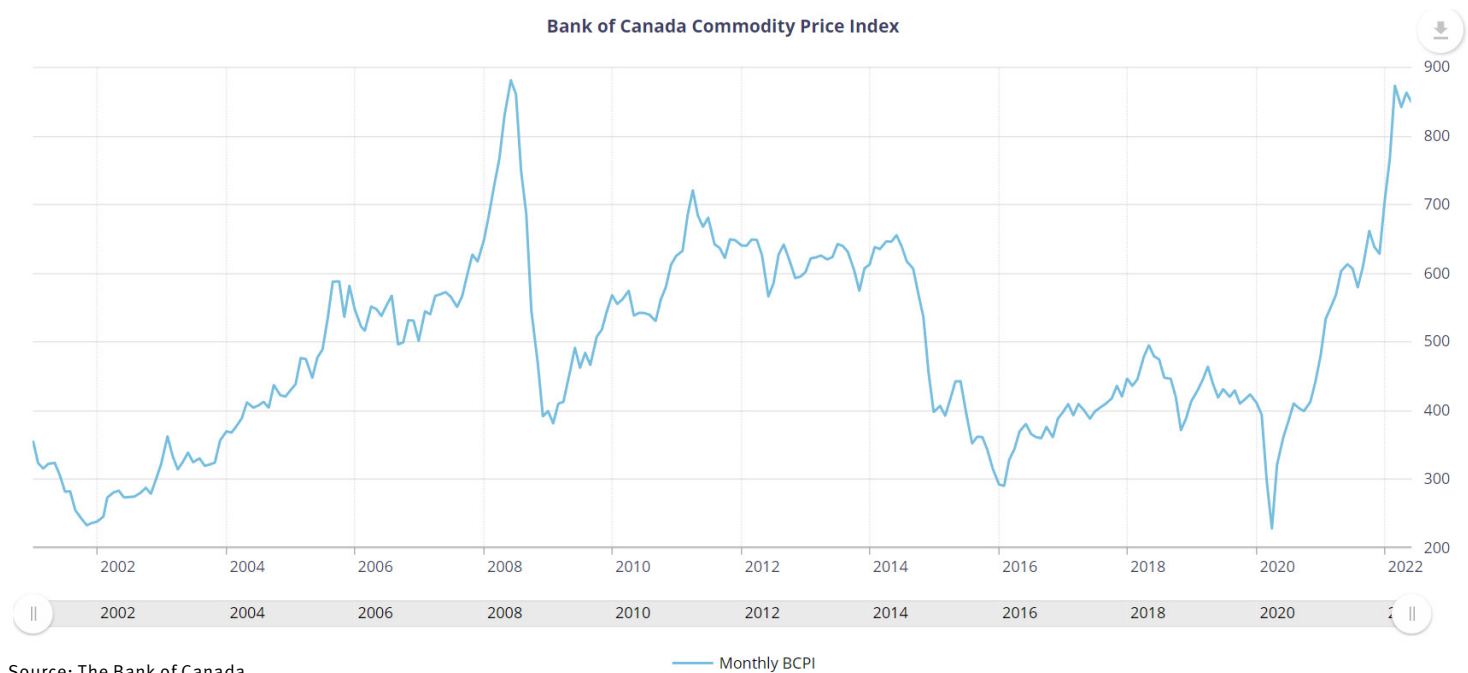
Source; The Bank of Canada



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As a follow-up, here is a chart from The Bank of Canada on commodities that they also follow closely. Note the recent decline in the Commodity Price Index recently. A positive sign that inflation should be rolling over soon.

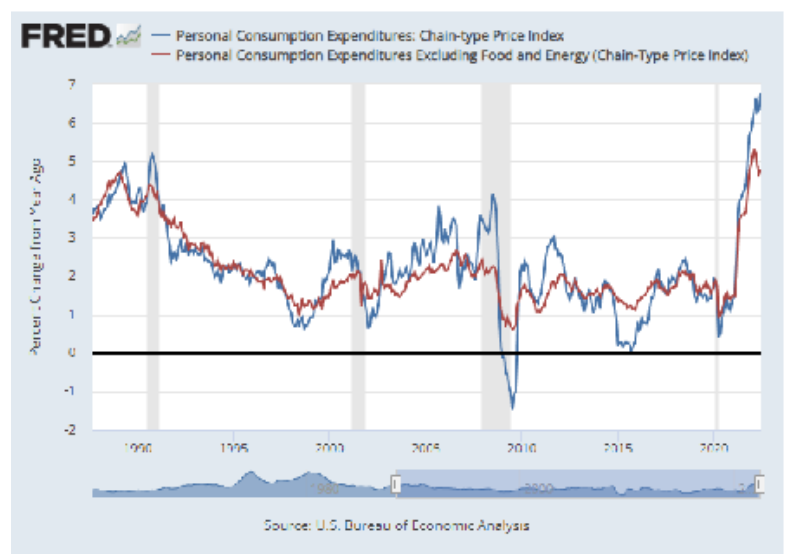


A word on Employment and Capacity

Integral to inflation is the level of employment and employment capacity. If employment is at full capacity than we are at greater risk of higher inflation as employers compete for employees raising wage prices. The relationship between inflation and employment was explained in the 60's with the Philips Curve though this relationship has been disputed more recently by economists. Wage prices and productivity does have an influence on inflation and something that central banks monitor closely.

The preferred inflation measure of the US Federal Reserve

The more widely followed measure of inflation in the US is the Consumer Price Index produced by the US Bureau of Labour Statistics. Though it is important for gaining insight into the direction of inflation, the inflation measure that is preferred by US Federal Reserve officials because of its broader base, is the Personal Consumption Expenditure Price Index. It is produced monthly by the Bureau of Economic Analysis of the US Department of Commerce and followed closely by the Federal Reserve. There is a measure that includes Food and Energy and one that excludes them. The following chart from the US St. Louis Federal Reserve shows these two inflation measures.



Source; US Bureau of Economic Analysis and the St. Louis Federal Reserve Economic Research



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Important Dates to Follow Regarding Inflation and actions by the Bank of Canada and US Federal Reserve

The Bank of Canada and the US Federal Reserve do not meet in August however the US Federal Reserve holds its Economic Symposium meeting in Jackson Hole, Wyoming in August each year. This year it is being held from August 25th through the 27th. Though no planned announcement on interest rates are expected the event will attract media attention and comments from Federal Reserve members will be scrutinized by the markets.

Date	Event
Aug 10, 2022	US Consumer Price Index for July at 8:30 am
Aug 16, 2022	Canadian Consumer Price Index for the month of July
Aug 26, 2022	US Personal Consumer Expenditures Price Index for July at 8:30 am
Sept 2, 2022	Canadian Labour productivity, hourly compensation and unit labour cost for Q2 2022
Sept 9, 2022	Canadian Labour Force Survey for August
Sep 20, 2022	Canadian Consumer Price Index for the month of August
Sept 13, 2022	US Consumer Price Index for August at 8:30 am
Sept 13, 2022	The Bank of Canada Meeting and Interest Rate Announcement at 10:00 am
Sept 22, 2022	US Federal Reserve FOMC Meeting and Press Conference at 2:00 pm
Sept 30, 2022	US Personal Consumer Expenditures Price Index for August at 8:30 am
Oct 7, 2022	Canadian Labour Force Survey for September
Oct 13, 2022	US Consumer Price Index for September at 8:30 am
Oct 19, 2022	Canadian Consumer Price Index for the month of September
Oct 26, 2022	The Bank of Canada Meeting and Interest Rate Announcement at 10:00 am
Oct 28, 2022	US Personal Consumer Expenditures Price Index for September at 8:30 am
Nov 2, 2022	US Federal Reserve FOMC Meeting and Press Conference at 2:00 pm
Nov 4, 2022	Canadian Labour Force Survey for October
Nov 10, 2022	US Consumer Price Index for October at 8:30 am
Nov 16, 2022	Canadian Consumer Price Index for the month of October
Dec 1, 2022	Canadian Labour productivity, hourly compensation and unit labour cost for Q3 2022
Dec 1, 2022	US Personal Consumer Expenditures Price Index for November at 8:30 am
Dec 2, 2022	Canadian Labour Force Survey for November
Dec 7, 2022	The Bank of Canada Meeting and Interest Rate Announcement at 10:00 am
Dec 13, 2022	US Consumer Price Index for November at 8:30 am
Dec 14, 2022	US Federal Reserve FOMC Meeting and Press Conference at 2:00 pm
Dec 21, 2022	Canadian Consumer Price Index for the month of November

Source; US Federal Reserve, US Bureau of Labour Statistics, The Bureau of Economic Analysis of the US Department of Commerce, and The Bank of Canada and Statistics Canada

I hope this helps and please reach out to me if you would like to discuss any of this and how it impacts your investments and strategy.

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