Episode 76 : Back to (still in) investment school

Macan Nia (00:00):
Commentary is for general information purposes, only clients should seek professional advice for their particular situation. What? Did I keep you, did I make you speechless?

Kevin Headland (00:09):
No. I just thought you were wrapping it up.

Macan Nia (00:12):
Welcome to our natural dynamic. It's The Most Wonderful Time Of The Year, Andy Williams. It's the most wonderful time of the year for parents that is, as they were dropping their kids off at school last week. This time of year always reminds me of the Staples commercial for many years ago. The commercial shows a very happy parent joyously going back-to-school shopping with It's The Most Wonderful Time Of The Year playing in the background. The children in the commercial don't show the same joy on the idea of summer ending.

(00:50):
Investors seem to be feeling the same as we start the month of September. The past week, hasn't helped with risk-off sentiment reappearing after Jerome Powell's Jackson's whole speech, which is perceived by markets as being hawkish. Add to it, yesterday's August core CPI print, which was higher than expected, which sent markets into a tailspin. Historically September has been a cruel month for investors in terms of seasonality. September is historically the weakest month in terms of both performance, and the odds of being positive for the S&P 500 and the S&P TSX.

(01:28):
The backdrop for this September remains challenging. A slowing global economy, resilient inflation, higher interest rates, and slowing earnings, all will likely add to September's notorious reputation. However, October to January has historically been a strong period for markets. There's little denying that market volatility is likely to continue, but history has shown that trying to time the peaks and valleys of equity markets is nearly impossible. In this Investments Unplugged, we walk through our view for not only the global economy, but inflation, equity markets, and fixed income for the rest of the year and into 2023. Listen on this is Investments Unplugged.

(02:19):
Welcome back to Investments Unplugged. I'm one of your hosts Macan Nia, co-chief investment strategist at Manulife Investment Management. And as always, I'm joined here with my partner in crime, Kevin Headland.

Kevin Headland (02:32):
How's it going, Macan?

Macan Nia (02:33):
Not too bad. How are you?

Kevin Headland (02:34):
I'm good. It's back to school this week. So I'm great.

Macan Nia (02:37):
Yeah, I think that's the optimism or joy shared by all parents across Canada or North America, wherever you are. So Kevin and I were talking, and we wanted to introduce a new section to the podcast, and we thought we'd start today. The idea is we spend three

to five minutes talking about a topic of conversation that is in the media. So examples of that, I think, a couple weeks ago, there was an article in the wall street journal about silent quitting, and that gained a lot of, I guess, media coverage. So we wanted to spend three to five minutes each podcast talking about something that is in the headlines. And we thought we'd start with a couple of natural disasters, specifically, that we're experiencing globally. And that is the Yangtze River. Also, and the Rhine River, and then also what's happening in Pakistan. So Kev, why don't we get started in terms of the news? So you start with the Yangtze and I'll follow up afterwards.

Kevin Headland (03:41):
Yeah, it's quite interesting. What's going on in the Yangtze River, one of the most important rivers in China, and it's the drought. So you're actually having areas of this river actually completely dry, which is essentially unheard of. And it's actually really causing a lot of issues with electricity production in some major cities, as well as shipping, as of course, a lot of rivers are used to export goods around the world. So this drought is really going to be affecting perhaps the near term economic environment in China.

Macan Nia (04:11):
And we're also seeing potential impacts on really the economy from a natural [inaudible 00:04:18] perspective in Pakistan as well, where right now that country is experiencing devastating floods, where it's crazy to think that one third of that country is underwater right now, and the challenges for their economic activity, and also carry-on effects is 40% of their cotton has been destroyed. Pakistan is the fourth largest producer of cotton in the world by tons. So one would think that may have impacts on really textile inflation in a near-term. And we're also seeing natural disasters impact economic activity in Europe as well with the Rhine River, which as a result of high temperatures, and just generally weaker rainfall, we have water levels there at very low levels. And to a point, and why is that important? Is the Rhine River is essentially Germany's, they call it Germany's commercial artery.

(05:12):
It's 1,300 kilometers, 800 miles, and it really goes from the heartland of Germany through Switzerland, Netherlands, and it empties out into the north sea. So what we're seeing, is because container ships cannot carry as much given the water levels, they're at 25% capacity. That's led to increase in costs for shippers, also in delays. And these factors are likely to provide headwinds for Europe's economic activity in the near-term. So these are the headlines that we're hearing or reading today, and they are having impacts on the global economy in the short-term. And we thought that it would be a nice transition into our recent investment note, which is the back-to-school piece, where we look at the environment today through the lens of the fundamental environment, the earnings environment, the fixed income environment for the rest of the year, as well as over the next year. So Kev, let's start with the fundamental backdrop, as we enter September and what we're seeing?

Kevin Headland (06:17):
Yeah, so clearly know what we're seeing right now, is the beginning of material slow down in the economic data. We've used the Global Purchasing Managers, PMI index for quite some time, our famous heat map. And you're starting to see material slow down. You're actually starting to see sub-50, which is that a level which is, I would say, zero, right? So above 50 is expansionary, below 50 is contractionary. And what you're seeing now in Europe, is you're starting to see some red, some below 50-numbers. And Asia, you're starting to see some below-50 numbers. Now, of course, there's a lot of factors. These climate issues are one factor, but just shows you the slow down we're seeing globally. It's not just in Asia and Europe. We're also seeing it in North America. The US PMI is getting low 50s, and getting very close to 50. So it's something we're definitely seeing around the world, is a very trend that we are seeing a slowdown in economic activity.

Macan Nia (07:12):

Yeah, there's no doubt about that. And then when we look at the PMI, is a couple of really points, I think, we should highlight. Number one is, as you mentioned, it's weakening, it's trending sub-50, that will likely have implications for earnings moving forward. We'll touch on that in a couple of minutes, and it's likely to have an impact on yields moving forward, because there's that relationship. Typically when PMI is peak and they're trending lower, obviously south of 50, yields typically follow that pattern. And if economic activity continues to weaken, which we believe is the case, given higher rates, higher inflation, that PMIs are likely to continue to trend lower, leading to yields, trending lower as well.

(08:00):
Couple positive things from the PMI, Kev, number one is within that main headline, they have all these other sub-surveys. An example of that is they ask managers in each one of those countries, "What is your supplier lead time? Essentially, how long is it taking you to get your product into market?" Or really proxy of supply chain issues. And across the regions, whether it's North America, Europe, or Asia, the supplier lead time is actually coming down. So this may be a preliminary sign that supply chain issues that has plagued the global economy over the past couple years, may have peaked, and is now trending lower, which is going to be a positive. The second positive thing is also within the subset, is inflation questions. And again, in these regions, you are seeing that managers are indicating that inflation has likely peaked, trending lower, "Are we going back into straight line to levels that we saw pre-COVID?" Not yet, but it's a promising sign that these managers in the manufacturing hubs are seeing their inflation pressures decrease.

Kevin Headland (09:06):
Yeah, there's saying seeing the inflation pressures decrease, you said the supply chain disruptions or lead time has start to slow, and that's starting to abate, and that should be a positive from an inflationary perspective. You're also seeing prices paid come down as well, which is another positive as input costs tend to come down. So you're starting to see those inflationary forces start to lessen a little bit. They haven't gone away, but at least, I think we're seeing an improvement in the trend.

Macan Nia (09:33):
I think we can all take anecdotal evidence in our day-to-day lives as another example of inflation likely have peaked, and trending lower, whether it's gasoline prices, whether it is, example, fruit costs, whether it is things that we buy. So services is a good example, or even goods, right? With higher inventories, retailers have had to put material discounts, and that's leading to inflation trending lower. So that's a natural transition, Kevin, to our view of inflation for the remainder of the year, and over the next year. For the first nine months of the year, there's no doubt that we are experiencing the consequences of the policies that we put into place at the depth of the pandemic. And that's in the rear view mirror, let's look forward. As we've mentioned before, Kev, you mentioned a couple of things in terms of signs that an inflation is peaking and trending lower.

(10:27):
Another one is our inflation model. And very quickly, our inflation model is a proprietary model that we've been running for years now. It's incorporates things that we believe make up inflation. So owners of equivalent rent, which is basically a proxy of rent and living, the dollar index, wage growth, and commodities. And when you look at these inputs, and you assume levels today to continue over the next short-term period. So that's owner equivalent rent, that's 6%, the dollar index, 106, oil at a 100, and aggressive wage growth at seven, continue, we have CPI actually trending down towards four to 5% by year end, and by three to 4% by the summer of next year. Now, if our model is off by a bit, so add an extra percent, it's still a positive sign that inflation is finally trending in the right direction. And that will have implication for policy, and also market returns.

Kevin Headland (11:25):

Yeah, I think the key there is really not necessarily the levels, whether we hit four or five by end of this year, or three by mid of next year. Definitely the key is the trend there in Jerome Powell, Fed chair, had his speech at Jackson Hole recently. It was last week from when we're recording this, on September 7th. And the market took it as a bit hawkish, because I think they were expecting a less hawkish tone. And I would argue that the tone hadn't changed. When Jerome Powell and the Federal Reserve are talking about being aggressive in their Fed rate, hikes or federal rate levels, it's about being above neutral. And if you take two and a half percent, roughly as a neutral, they're there now. If they raise rates further, the rest of this year, say another a 100 basis points or so, that I would say is an aggressive posture.

(12:13):
And what they're saying, is they don't expect to reduce rates anytime soon, unless inflation gets down to their target of, or near 2%. Doesn't mean they're not going to raise rates further even higher, and go above 4%. What they're meaning and saying, is that they're not likely to reduce rates, and have more of a dovish or easing posture, until we see inflation material slow. And we're starting to see the impacts of the rate hike policy already as inflation is starting slow. We're sorry to see some of those exogenous factors, like you said, supply chain disruptions, starting to abate, that is all helping inflation. And of course, as we see the slowdown in the economic environment, that is also contributing to a slow down in inflation. So again, the overused cliche, the trend is your friend, but I think we're starting to the trend start to turn to a positive, which should be a positive go-forward for the markets.

Macan Nia (13:07):
We believe that the global economy is going to continue to slow, from one very simple aspect, is we saw a rate, like let's just talk about the US central bank. So the Fed, so they raised rates 50 BPS in March. They raised against 75 BPS in May, and then followed by another one in June of 75 BPS, likely to go ahead in the next meeting, 50 to 75 BPS. And one could argue, we still haven't, the global economy or the economies have not experienced the full impact of these rate increases. Typically takes one year for it to flow through, so that we believe the global economy will continue to slow, will have put downward pressure on inflation. And just a couple other measures of inflation that are trending lower Kev. Example is commodity prices.

(13:56):
So there's many ways of looking at it, but one is through the Goldman Sachs Commodity Price Index. This is down almost 15% since last summer. We mentioned, or you mentioned the ISM Prices Paid. It's an index, it's at 60 today. It was at 90 last summer. And then last but not least, is the NFIB survey of small businesses. And basically asks questions related, "Are you planning on raising prices in the next year?" And that index is at 56 [inaudible 00:14:24] 66 in March of this year. So in the short-term, there's probably, Kev, inflation remains a headwind for markets, but we believe there's a catalyst throughout the rest of the year, that will put downward pressure on inflation. And we're probably less likely to be discussing inflation in 2023, as much as we've been discussing it in 2022.

Kevin Headland (14:49):
I'd like to hope so. Inflation's been the hot word for quite some time, and it'll be nice to stop talking about inflation as much. We're talking about slowing of economic growth here, and that tends to lead into a weaker earnings environment. And this is one where, from an equity perspective, we haven't really seeing perhaps the market start to price in weaker earnings just yet. And that should be something we need to be aware of. We're not saying, we're completely out of the woods yet. We're not saying we're going to retest lows. In fact, I was watching something recently, there was a study done. When we've had bear markets, Macan, and that when the S&P 500 has had a 20% or more decline, and then recovered more than 50% of that decline, which it has recently this year, it's actually never established new lows. So perhaps we've already seen the low of the market? We're not seeing the market's not going to go further down from here. We're not

going to, volatility is not over. Perhaps we're not going to retest the lows already established earlier this year.

Macan Nia (15:52):
Earnings and sales have been resilient in the first couple quarters of this year, despite the headwinds. So I'm looking at Q2 earnings for the S&P and TSX respectively. They were up seven and 17%, sales have grown 14 and 6% respectively. So they've been very resilient in the first half of the year, but like you mentioned, going forward on a slowing global economy. And we use a whole host of measures, one of them being manufacturing, and it's pointing to an earnings environment, as we go into the end of this year, early next year, of flat to slightly negative earnings. And the reason that we think that this is likely to increase the lumpiness of returns, or just volatility in general, is because the markets are pricing in eight to 10% earnings growth.

(16:45):
We believe once they start pricing in a flat earnings environment, it will create short-term volatility. But also a very interesting stat when we are looking at earnings, is even despite a negative earnings environment or flat, let's just say, one year forward, nearly 70% of the time the market is up, and the average return is close to 11%. So as we're entering the end of this year, we've been through a lot, Kev. It's been one very exhausting year, one really kick to the stomach after another.

(17:19):
But it seems that we are much closer to the end of this bear market than what we were three to six months ago. And the last thing we really believe that has to be priced in from a negative perspective, is earnings. And once that's priced in, a lot of the negativity, whether it is higher rates, whether it is slowing economy, whether it's slowing earnings will already have been priced into the markets. Setting a favorable backdrop moving forward.

Kevin Headland (17:44):
Yeah, I think it's important to understand, the markets are forward-looking mechanism, and markets hate uncertainty. I think once we're getting more clarity on federal reserve rate hike expectations, as well as the risk of recession, perhaps how deep it is. Once you get closer to this clarity, markets start pricing in the light at the end of the tunnel, shall we say it? And I think you perhaps can see that over the next few months, maybe a little longer, but I think some of that uncertainty is starting to go away. Which tends to be positive for markets, maybe not in the ultra short period, but for those who in investment horizon of three year period, it starts to look very attractive.

Macan Nia (18:25):
And then last but not least are bonds or fixed income. Let's not relive the horror that we've experienced in the first nine months of the year, but very similar to just the return profile of equities, moving forward, one could argue that a lot of the negativity we have already experienced in price performance in 2022, and the runway, if we are correct, and the global economy continues to slow down, inflation comes down, if central banks pivot, or not even pivot, are not as hawkish as the markets are expecting, then that provides a very nice backdrop for bonds moving forward, especially, Kev, for that investor who's looking out for returns of greater than a year.

Kevin Headland (19:12):
Yeah, it's interesting, when you look at fixed income, and of course you said the negative returns, and it's quite easy to ignore fixed income in a portfolio. And I think it's important to realize that this has been, call it a once in generation, whatever, very rare occurrence of how bad fixed income has been for portfolios and for investors. And really as a result of the repricing and the speed of the repricing of central bank policy, and how quick the yield curve moved, it's very unusual and surprising. But then you start looking at the headwind that has been so far this year of rising yields, and how that could be a tailwind going forward. If the bond market starts to price in that increased

risk recession, we could see a nice tailwind as yields actually start to fall. Sometimes early next year, perhaps you can get some really strong returns.

(20:05):
We often look at the yield curve as a signal that we're at nearing recession, and often it's an inverted yield curve, right? When the 10, two year-yield curve inverts, means the two year-yield is above the 10 year-yield for the US treasury market. And what I did, is I looked at some performance leading into a yield curve inversion, and coming out of a yield curve inversion, shall I say? And if we use the T timestamp as when the yield curve hasn't been inverted for at least three months, and that's the signal of an upcoming recession risk.

(20:38):
If we've looked at the returns prior to the 12 months, versus the following 12 months after that, you actually get a stark contrast in returns, and you go from a very low single digit returns, to actually perhaps low double digit returns for a lot of the US fixed income market. So again, this, perhaps although we're getting a slowing economy, and inflation abating, and people are kind of worried, well, this is when fixed income tends to do well. When you start adding duration, adding the higher quality, and into recessions, this is when the bond market actually performs quite well for portfolios.

Macan Nia (21:12):
And we see that relationship too if the odds of a recession are increasing for early next year, typically what happens during recessions, going into them, yields drop. So that may be, or is likely to be a positive tailwind for bond returns moving forward. Also, again, as we mentioned before, when PMIs are heading south, yields typically tend to follow PMIs southward. So there's a lot of, with a slowing global economy within that hood, there's a lot of indicators that point to ... If I had to choose, or we had to choose a path of least resistance for yields moving forward, we both would agree that there's not an easy case to be made for yields going down, but we could put a very favorable thesis forward in terms of why yields will drop. As a result, bond returns are going to be different over the next 12 months, than what investors have experience in the previous 12.

Kevin Headland (22:09):
Yeah, fixed income it's almost [inaudible 00:22:11] playbook. You know when yields are rising, there's headwinds. And again, when yields are falling, there's a tailwind. I think it's understanding that playbook, and taking advantage of that playbook. It comes down to portfolio construction, equity versus fixed income, but also sub-asset classes within equities and fixed income. This is when you want to embrace quality in your equities. This is when the good quality businesses tend to perform. When you look at the risk of negative earnings, you look, you want to embrace companies that have less risk of negative earnings, right? More the predictable earnings, the good quality businesses that have solid sustainable cash flows, and perhaps low debt. Those companies tend to do well in these environments. And on the fixing income side, you transition through the credit to the higher quality, longer duration, and you have to be really flexible in your fixing and mandates. And I think that's key right now, is allowing that flexibility within the portfolios to move as we migrate, and we shift through this economic environment.

Macan Nia (23:08):
Yeah, and maybe it's fitting that it's back to school week, and get the textbooks out. And fixed income has served its role within asset allocation from a textbook perspective. It has a role, right Kev? But unfortunately over the last couple of years, given a once in a generation type of event, which was COVID, which led to drastic and once in generation type of policies and activities by us, which is basically being stuck in our homes, and changing our consumption habits has led to inflation that we're seeing at these levels. Now, if you think that's going to persist, or even move higher, then the relationship we've seen, or the performance we've seen for fixed income is likely to continue. We don't think so. We think, yes, we believe inflation over the next couple years is going to trend back towards what it was pre-COVID.

(24:03):
Because, Kev, when you look at rates, you look at inflation. Inflation has been really pegged around 2% over the past couple, really past decade plus, because of big structural themes. So one being demographics, another one being globalization, technology, productivity, those haven't gone away. And if anything, from a demographic perspective, we've got older. So those very same factors that has led to lower inflation, are still in the cards in the medium-term. We just have to work through this short-term disconnect that was caused by policies, once in a generation type of policies. Really, we could sit here and say, "What did we do as countries, as individuals, more so countries, over the past couple of years, because of COVID?" We added to debt levels. And debt levels by nature are, increasing debt by nature is deflationary. Kev, you know, you've heard me complain about it over the past couple of weeks, or months. I bought a house, variable rate mortgage, and I'm cursing even this morning, cursing the Bank of Canada for raising rates.

(25:10):
But does that mean that I'm not going to spend my money? No. It just means that I'm allocating, or spending my money differently. I'm putting more towards interest costs. So what does that mean? If I had $1 to spend of disposable income, I might have 95 cents now, 5 cents goes to interest payments. Well, that's deflationary. Instead of being $1 in the system, now it's 95 cents. So when we look at all these factors today, yes, there's going to be challenges still over the short-term. But the peaking argument we believe is in place today, it's just a question of how quickly we move down towards four, three, 2% over the next couple of years. But overall, that's going to be a positive for bonds.

Kevin Headland (25:53):
Yeah, we should see that, and it's going to play out. And I think key there, is when you say you still have money span, it comes down to employment. And even when we're seeing a slower economy, whether it's globally, or more closer home, North America, even when we find ourselves a recession sometime next year in Canada or the United States, we also expect it to be a shallow recession, because unemployment, while likely to tick up, is not going to be the leader of the recession. It's not going to be the cause of the recession. It's going to be a byproduct.

(26:21):
And when we see that, when see employment not being the cause of recession, history has shown, we see more shallow recessions. And eventually that, again, is favorable for portfolios. It comes down to portfolio construction, as I mentioned, but it's definitely not something we should be fearing, and running to the sidelines for. But rather taking advantage of the dislocations and the opportunities that this type of market allows our active portfolio managers.

Macan Nia (26:53):
Yeah, so it's been a tough year. How would you say your mood is today, Kev, as we go towards the rest of the 2022, compared to what it was, let's just say, in March or April of this year? Do you feel better? Worse? The same?

Kevin Headland (27:08):
I think I feel a bit better. Again, it's clarity, right? Being able to see perhaps that light at the end of the tunnel, it gives me more comfort. And as I run through the data that we look at, and run through things. It's playing out as we expected, and I hope that it continues to play out as we expect. That gives me comfort. Perhaps be even happier next year if we do get a recession, when all the signals are, "Load up the truck and get into the markets." But some of this clarity is starting to be a little bit more of a positive feeling for myself.

Macan Nia (27:41):

Yeah, I think from my perspective, if we go back to March or April this year, when it comes from an interest rate perspective, at that point, we were still pricing in 25 BP increases. And since then, we've seen big increases. We've seen 0.5, as I mentioned before. And a lot of that uncertainty, as you said, it's the certainty. There's a lot more certainty today, I think, than what there was in March or April. We have more certainty in terms of the path of interest rate increases from this point. We have more certainty around the global economy, A, from its ability to be somewhat resilient, despite rates going up, and all the challenges. But we also have more certainty of if there is a slowdown, what type of slowdown it's going to be? Whether it's going to be a severe recession versus mild, than I think we have more certainty on employment, and other factors, which points to a milder recession.

(28:43):
We have more certainty, we believe, in terms of earnings. Now that's going to provide some lumpiness over the next couple months, but once you have that priced in, a lot of the negativity we believe as we go towards 2023 will have been priced in. So when I look at the broad spectrum, there's a lot more certainty today, despite it not feeling that way as we go into 2023. And that provides, I think anyways, a nice backdrop for not only equities, and for bonds. And what do we know? We know with, and I think the big thing for 2023-

Kevin Headland (29:18):
Nothing.

Macan Nia (29:18):
Pardon?

Kevin Headland (29:19):
We know nothing.

Macan Nia (29:20):
Yeah, we know, well, that's one thing we all know, is we know everything, but we know nothing. But I think as we go into 2023, what we do know is, and it's hard to see, but like we said, we've talked about big bears versus baby bears. There's been 15 bear markets going back to 1950, and all the stats behind that. And what we know, is after each one of these bear markets, there's that much longer bull market with nice returns of eight to 12%, depending on your time rise, or how you're looking at it, over years after that. I feel more confident and optimistic today that we're much closer to the end of this bear market and the beginning of the next bull market. Although as hard as it is always to see in the middle of the storm, it feels like that today.

Kevin Headland (30:06):
Yeah, I think you've got to be prepared for that too. As we've said before, a bull market never lets you in, and trying to time, the perfect entry point never works. So I think we need to be prepared for that eventuality, is markets are up more than they are down over time. And we got to be prepared for that eventuality.

Macan Nia (30:24):
Let's leave our audience with maybe one investible idea. And since there is cash on the sidelines, which is indicated by multiple surveys. So the Bank of America survey, the a AAII bull-bear survey and so on, what is the strategy for cash over the next, let's just say, couple of months, or for the rest of the year?

Kevin Headland (30:47):
Invest it. You can't can't time the bottom, right? So I think if you're uneasy about getting money into the equity market, at least I think [inaudible 00:30:55] costs averaging. We had a nice rebound from the lows in mid-June, and then we had some lumpiness in last week, and now perhaps markets recovering depends on the day. And since the 1950s, I think on any given day, it's a coin flip, whether S&P 500 is positive or negative, so we can't time, day to day, but the trend is positive. I think you need to get money to work.

And on fixed income, listen, yields are much higher than they were earlier on this year. So the starting point is much stronger. And again, history, as you say, doesn't necessarily repeat itself, but rhymes. And if we do get a recession next year, yields will fall, and those that have given up on fixed income will look in hindsight, and likely be unhappy, because they missed out on some solid returns.

Macan Nia (31:46):
Yeah. When I think of 2023, I think of are you positioned properly for an up market? And that means with what, and let's just stay with the cash, are you holding cash in that next bull market? Because it's often hard to deploy mentally as the rally begins or unfolds. And the key is, I think, from an investor perspective, is do you have a strategy in place to use your cash? The last thing we want, is to look back at 2022, very similarly to how investors look back to March of 2020 Q4 '18, Q1 '16, any bear market, really. And looking back at it after the subsequent rally, and thinking, "Oh shoot, I wish I took advantage of that." And I think this is in one of those periods, that 2022 has given you another opportunity, if you didn't allocate your cash at some point in the summer, to be able to do it again at similar prices. What? Did I make you speechless?

Kevin Headland (32:45):
No, I just thought you were wrapping it up.

Macan Nia (32:48):
Welcome to our natural dynamic. So I think that's actually, Kev, a really good point to end the conversation. In a nutshell, global economy is slowing, will continue to slow on the backs of higher rates, will have a dampening effect on inflation. So inflation, the path of least resistance is lower. There's still some challenges in the short-term, one being earnings, two, and we haven't mentioned it either, is the US midterm election. And typically these type of events cause short-term volatility, very rarely medium to long-term.

(33:22):
But generally, I think over the next couple months as we price these remaining uncertainties, a lot more is known as we go into 2023. And typically, that provides a very nice backdrop for returns, both in stocks and in bonds, moving forward. So with that, Kev, let's wrap up. Again, if you are a listener and you find these podcasts insightful, educational, please feel free to give us a nice rating. It helps align us with other like-minded investors, so they can get this content as well. And if you have any comments or suggestions on how you would like the podcast structured, just shoot us an email, we're very flexible. So with that, I'm Macan Nia
Kevin Headland (34:09):
And Kevin Headland.

Macan Nia (34:09):
Thank you for listening.

Kevin Headland (34:16):
Copyright Manulife. Commentary is for general information purposes only, and shouldn't be relied on for specific financial, legal, or other advice, and does not constitute an offer or anion by or on behalf of Manulife Investment Management to any person to buy or sell any security. Opinions expressed are those of Manulife and/or the sub-advisor of Manulife Investment Management, and are subject to change based on the market and other conditions. Manulife isn't responsible for any losses arising for any use of this information.

(34:47):
Manulife funds are managed by Manulife Investment Management Limited, formally named Manulife Asset Management Limited. Manulife Investment Management is a trade name of Manulife Investment Management Limited. Commissions, [inaudible 00:34:59] commissions, management fees and expenses all may be associated with Mutual Fund Investments. Please read the fun facts and perspectives before investing.

Mutual Funds are not guaranteed. Their values change frequently and past performance may not be repeated. This information does not replace or supersede KYC, Know Your Client-suitability, needs analysis, or any other regulatory requirements.

Manulife, Manulife Investment Management, the Stylized M Design, and Manulife Investment Management & Stylized M Design are trademarks of The Manufacturers Life Insurance Company and are used by it, and by its affiliates under license.

7/21 AODA