

Darren's take on things January 2022

Question: Is the stock market (S&P500) considered over-valued after providing a 26.9%¹ return in 2021 and can this last?

That's like asking if your house is currently over-valued after experiencing price gains in 2021, because there are many factors to consider.

I have gone on the record saying many assets are giving the false sense of appreciation due, in part, to unprecedented monetary stimulus (that is, money printing) which is fueling inflation across the board. By printing more money, the money supply becomes diluted and it takes more dollar bills to buy the same thing. So the appreciation we are experiencing has more to do with the *value of money going down* than it does about our homes, stocks or even groceries going up. It's kind of an illusion of wealth, really.

Is the stock market over-valued though?

Maybe not and why is that? Stock values are a function of corporate earnings. If a company delivers strong earnings, its share price may go up. In 2021 corporate earnings increased a record 65%¹ while stocks increased 26.9%¹. Based on earnings, the stock market is actually cheaper today than it was one year ago.

What can we expect for 2022?

Corporate profits experienced record levels in 2021 due to unprecedented government spending and that's unlikely (we hope) to repeat in 2022. But with an economic reopening sooner or later, corporate profits are still expected to grow by 10%² in 2022, which is a good backdrop for a decent year. Overall, stocks aren't cheap, but aren't expensive either relative to earnings and low interest rates.

What? Me worry?

Yes, there are things to worry about. The most worrying indicator is inflation — which has returned in pretty much every market and every asset class in the world. To combat inflation, central banks will likely raise interest rates. Can stocks appreciate and hold onto their gains if/when interest rates finally move up from historic lows? For 2022, I will make one prediction, expect many more surprises — so stay tuned. We are watching these and many other developments closely.

THE LUCK FINANCIAL GROUP
PROVIDING THE PEACE OF MIND EXPERIENCE

I wish you a happy, healthy, prosperous and fulfilling 2022. If you have any questions, concerns or wish to discuss further please reach out. We are here to help.

Sincerely,



Darren J Luck, CIM®, Senior Wealth Advisor, Portfolio Manager

The Luck Financial Group | (519) 972-2976 | LuckFinancialGroup@cibc.com

We understand that you've worked hard, saved and sacrificed. Which is why we have been committed to helping generations of families and business owners meet their goals since 1991.

CIBC Wood Gundy is a division of CIBC World Markets Inc., a subsidiary of CIBC and a Member of the Canadian Investor Protection Fund and Investment Industry Regulatory Organization of Canada.

CIBC Private Wealth Management consists of services provided by CIBC and certain of its subsidiaries, including CIBC Wood Gundy, a division of CIBC World Markets Inc.

"CIBC Private Wealth Management" is a registered trademark of CIBC, used under license. "Wood Gundy" is a registered trademark of CIBC World Markets Inc.

The views of Darren Luck do not necessarily reflect those of CIBC World Markets Inc.

If you are currently a CIBC Wood Gundy client, please contact your Investment Advisor.

This information, including any opinion, is based on various sources believed to be reliable, but its accuracy cannot be guaranteed and is subject to change.

CIBC and CIBC World Markets Inc., their affiliates, directors, officers and employees may buy, sell, or hold a position in securities of a company mentioned herein, its affiliates or subsidiaries, and may also perform financial advisory services, investment banking or other services for, or have lending or other credit relationships with the same. CIBC World Markets Inc. and its representatives will receive sales commissions and/or a spread between bid and ask prices if you purchase, sell or hold the securities referred to above.
© CIBC World Markets Inc. 2022.

Source:

¹ <https://compoundadvisors.com/2022/2021-the-year-in-charts> and <https://compoundadvisors.com/author/bilello>

² <https://files.constantcontact.com/5b50e5a9101/5fa689c4-91a3-426c-9a5c-83d57978c81b.pdf>