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How bad will the coming recession be for Canada?

Deanne Gage || January 5, 2024

IG Private Wealth Management's market outlook predictions for 2023 were the same as many wealth management firms – a slower, stagnant economy, average returns and the peak of inflation and interest rates. What Philip Petursson, the firm's chief investment strategist, didn't anticipate was the resilience of the U.S. equity markets – in particular, the massive performance of the magnificent seven technology stocks.

So, how do these factors affect predictions for 2024? Globe Advisor spoke recently with Mr. Petursson about Canada's prospects and the overall outlook for various investment products.

Is Canada already in a recession?

I believe Canada is, in fact, in a recession right now and that's a function of our interest rate environment and the impact on mortgages. It's going to be a little bit longer than the average recession.

If homeowners are renewing a five-year mortgage today, they will have an increase in the interest cost by upward of 50 per cent. So, until we start to see some relief by the Bank of Canada in terms of cutting interest rates, the extra costs are going to continue to weigh on consumers. The money that would have gone to consumption elsewhere in the economy is going to go toward paying the mortgage or rent.

In my view, the Bank of Canada won't start to cut interest rates until the back half of 2024 at the earliest. The positive offset to it is we think unemployment will remain lower than what you would typically see in a recession. It will probably nudge a bit higher but not the 8 to 12 per cent that's typical in a recessionary environment. Several market participants are calling for a recession in the U.S. in 2024, but I think that probability is much lower than where we were a year ago. The environment could actually get better – not worse – and I see the same thing for Europe and Asia. Canada is going to be the outlier.

What’s your outlook for guaranteed investment certificates (GICs), cash exchange-traded funds (ETFs) and high-interest savings accounts, which were popular with investors last year?

It’s going to be a case of diminishing returns. The interest rates offered for those products will be lower by this time next year. Now, looking at bonds in the same environment, if we see bond yields starting to come down, that speaks to a better environment in 2024 than what we saw last year.

Will investors continue to put more money into cash products?

We have to rely on the history of investor psychology as our guide. Investors flocked to GICs in 2023 because of the down markets in 2022. Investors will be surprised about the returns achieved across various asset classes in 2023. As a result of that, I see fewer flows into GICs and more flows back into equities, fixed income and traditional asset classes.

What about the outlook for alternative investments such as real estate and private equity?

These investments have shown their value in a portfolio given the fact we saw less volatility out of these products over the past couple of years. We can continue to expect those asset classes to attract more dollars, but I don’t think investors are chasing returns in this segment. Rather, it’s opening up to an asset class that previously had only been available to institutional investors.