CONSIDER YOUR PURCHASING POWER

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If you haven't thought about your cash management lately, now's the time to pay attention. In this Burgundy Journal, we share how to put your elevated cash levels to work.

In 2022, inflation ran at a red-hot 6.8%, reaching a multi-decade high. And while it remains elevated (6.3% as of December 2022), we have seen it come down recently. Against this backdrop, we think it's time to pay attention to your cash management and avoid a decline in your purchasing power.

SOME BACKGROUND

The Bank of Canada recently raised its policy rate to 4.5%, marking its eighth consecutive rate hike. In this environment, banks have seen an increase in their net interest margins, which is the difference between the interest they pay on deposits and the interest they earn from investments. Since it has been profitable not to, generally, they have been slow to increase their deposit rates.

Over the last few years, banks have been flushed with deposits. This was especially true during the peak of the pandemic when, faced with limits on spending (no travel, events, or dining out), Canadians increased their savings rate. At the time of writing, the average deposit rate at a large Canadian bank is 0.9%.[i]

FINDING (CASH) BALANCE

While we advise clients to hold onto ***some*** cash for short-term spending needs, emergencies, and unexpected expenses (up to three years' worth), keeping ***high*** cash balances in chequing or savings accounts erodes purchasing power. While inflation has started to come down, it may take some time to fall to the Bank of Canada's target range of 1% to 3%.

> “The Partners’ Bond Fund, Burgundy’s model fixed income strategy that invests in a portfolio of corporate and government bonds, is currently yielding 5.4%. This strategy aims to offer an attractive yield with less interest-rate sensitivity than a typical bond portfolio.”

EXPLORING ALTERNATIVES

There are liquid alternatives to cash to consider, such as money-market and bond strategies. These can provide a higher return than cash held in a savings account, helping to offset the effects of inflation without locking up your funds for a predetermined period (as is generally required of an investment in a Guaranteed Investment Certificate, or GIC). These investments typically have lower volatility and offer a steady stream of income, which can help preserve the purchasing power of cash. They can also help diversify one’s overall assets and mitigate the risk associated with other investments.

If some of the cash is earmarked for a longer investment horizon, it can be invested in money market and strategically deployed into other asset classes. This allows for opportunities to take advantage of market fluctuations. At the time of writing, Burgundy’s Money Market Fund, which is highly liquid and trades daily, is yielding 4.2% in Canadian dollars and 4.5% in U.S. dollars.

Alternatively, bonds are also liquid and can provide the potential for capital appreciation (typically during downturns) in addition to interest income. The Partners’ Bond Fund, Burgundy’s model fixed income strategy that invests in a portfolio of corporate and government bonds, is currently yielding 5.4%. This strategy aims to offer an attractive yield with less interest-rate sensitivity than a typical bond portfolio.

To keep this short, now is the time to think about your purchasing power. If you have elevated cash balances and want to maintain liquidity, reach out to your Investment Counsellor to discuss your situation. B

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[i] Sourced from Cannex: https://www.cannex.com/public/depa01e.html
Note: This is an average of the five big banks. In a chequing account, it is zero.

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