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IT'S ABOUT TIME

Off the heels of last week's market rally, you might be wondering what this recent spike means for you and your investments. Mathew Harrison breaks down what influences market behaviour and shares Burgundy's outlook for stomaching volatility.

Last Thursday, November 10th, markets soared. With the war in Ukraine, high inflation, rising interest rates, and talk of an impending recession in the background, the S&P 500 Index experienced its third-largest point gain – ever. Let's explore what was behind this.

WHAT MAKES A MARKET SPIKE?

Markets are good discounting mechanisms and, in the short term, everything that you and I know, they know. And the market is constantly digesting new information. If you see it in an article, it is already reflected in the prices. When markets are down a lot, they have low expectations about the future. When markets are pricing in low expectations, it doesn't take much to move them significantly[1].

On November 10th, the glimmer of hope was the unexpected news that inflation was slowing down faster than expected. This, in theory, means that we may be closer to the end of the central bank interest rate hiking cycle than previously thought. While we can't say what will come of this news, the event reminds us that throughout market cycles, it is best to stay invested and focus on the long run.

TIME IS ON YOUR SIDE

Since the start of World War II, investors in U.S. stocks have enjoyed an average gain of 10.8% a year over those 83 years. In dollar terms, $1,000 grew to $5.2 million over that period[2]. To get your hands on this impressive wealth creation, you would have had to remain fully invested as the world was falling apart – through wars, recessions, market bubbles, financial crises, and more.

> **“It’s been said before that when it comes to investing, time (not timing) is what matters.”**

It’s been said before that when it comes to investing, time (not timing) is what matters. While we frequently promote the power of long-term investing, we appreciate that the emotional jostling of volatility can make holding for the long haul easier said than done. And while just a small moment in time, last week reminds us that timing markets is very difficult, if not impossible. That’s why when your portfolio is aligned with your goals and objectives, you should stay invested.

At Burgundy, we are always focused on owning high-quality, resilient companies that we believe are trading at reasonable valuations. Unlike their weaker competitors, these kinds of companies can weather challenging environments and often emerge stronger than their less-resilient counterparts. This is the fundamental underpinning of our quality/value approach.

Regardless of what lies ahead in the shorter term, last Thursday is an important reminder that you never know when markets will turn. But one thing is for certain – you want to be invested when they do. B

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ENDNOTES

i. We believe that the market is excellent at quickly digesting and reacting to short term changes. Mispricings occur when measuring over a longer time period. This is why Burgundy conducts research on long-term valuations of quality businesses.

ii. Source: FactSet in U.S. dollars. U.S. stocks is represented by the S&P 500 Index.

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