

Portfolio Strategy

2022 Tax-Loss Selling Season: Less Money, New Problems

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Key Takeaways

Our View:

- Ahead of the 2021 tax-loss selling season, we published our [*Portfolio Strategy report titled “Mo Money, Mo Problems”*](#). Our goal with this piece was to help guide investors heading into year-end with rebalancing their portfolios. At the time of writing, the stimulus taps were wide open, unlike today, which helped to propel global equity markets higher including the S&P/TSX and S&P 500 index which rallied +27%.
- As we noted then, the abnormally strong equity market performance in 2021 was indicative of several unique variables (e.g., near-zero interest rates, extreme levels of accommodation – both monetary and fiscal, strong corporate and household fundamentals, etc.), which we did not expect to see a repeat of in 2022.
- We advised investors to consider taking profits/crystalizing gains within their portfolios. In particular, we suggested investors seek out sell/trim candidates within sectors trading at peak/or extreme valuations – i.e., information technology and consumer discretionary sectors in the U.S. and Canada – and to redistribute these funds across more attractive sectors/securities.
- Tax-loss selling was our second recommendation for investors, but with less than 25 names in total down 20% or more as of November 19, 2021 (for both the S&P/TSX and the S&P 500 indexes), most investors likely had few losers to sell.
- Today, the story is quite the opposite given the rapid evolution in the market cycle.

Key Takeaways (Cont'd)

- For the 2022 tax-loss selling season, we suggest investors follow the same two strategies within their taxable accounts, but in reverse order – tax-loss selling first and crystalizing gains second.
- We continue to see signs of weakening in the global economy as the lag effects of policy changes – both monetary and fiscal – make their way into the real economy. As we have observed during the past tightening cycles in the U.S./Canada, these typically end with a recession.
- In fact, with each passing day, we are seeing growing evidence that we are nearing a recession or as we like to refer to it as “winter is coming”.
- That said, for long-term oriented investors, we continue to recommend they focus on “places to invest” versus “places to hide” – few still exist today.
- In particular, investors should consider taking profits in stocks trading at **extreme valuations versus history, have higher earnings risks and/or high cyclical exposure, while allocating to sectors that are trading at the opposite extreme with lower earnings risks.**
- At the stock level, we prefer companies with strong quality characteristics including companies with strong competitive advantages, high earnings durability/lower earnings variability throughout the economic/market cycle, and which are led by great managers with a long track record of success.

Key Takeaways (Cont'd)

- Finally, in the accompanying Excel files, we list stocks listed on the S&P/TSX and the S&P 500 indexes, which are down 20% or more YTD, along with the corresponding ETFs which have a high positive correlation of at least 0.4 (over the past 2-years) in most cases to each of the stocks listed.
- Please note that the last day to sell securities on Canadian/U.S. markets to realize a gain or loss is **December 28, 2022**. [Click here](#) for additional year-end tax planning opportunities.
- **Recent commentary from the Investment Strategy team:**
 - Client Insights: Market Commentary (Nov 1, 2022): [Make It Stop](#)
 - The Advantaged Investor Podcast (Oct 28, 2022): [Q3 equity and fixed income review and look ahead](#)
 - Client Insights Presentation: [Quarterly Update and Market Outlook](#)
 - Asset Allocation Quarterly (Oct 4, 2022): [Too Fast, Too Furious](#)
 - Client Insights: Market Commentary (Oct 3, 2022): [What's in Style for U.S. Equities?](#)
 - Portfolio Strategy (Sept 16, 2022): [The Changing Seasons Summer to Fall, but Not Yet Winter](#)

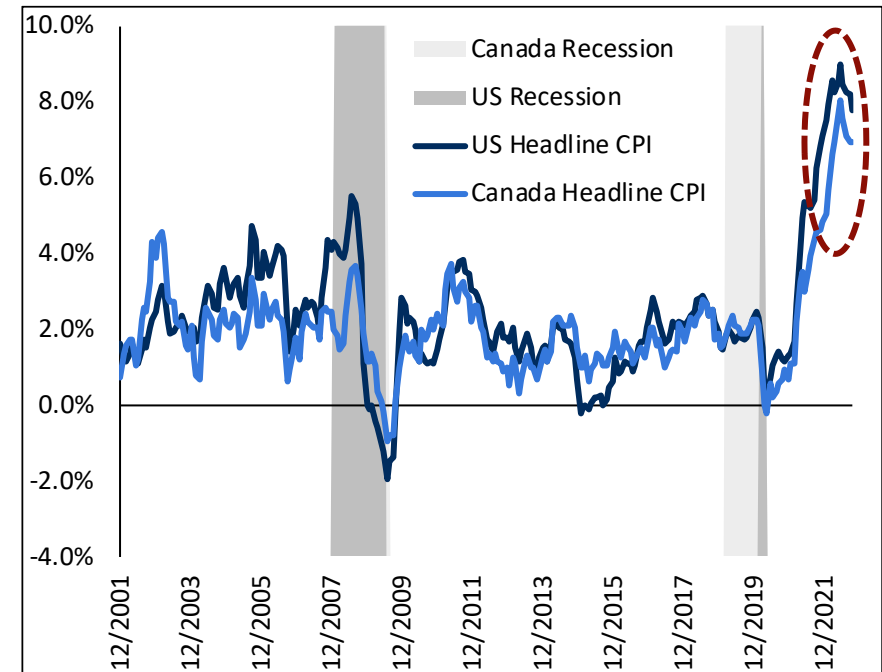
Inflation Exp. to Fall Back Towards Trend in 2023

Inflation Exp. Likely to Cool from Peak Levels in 2022

14-Nov-22	Average 2000-2020	Inflation Forecasts			
		2021	2022	2023	2024
World	3.6%	3.5%	6.8%	4.6%	2.9%
Advanced Economies	1.7%	3.2%	7.3%	4.0%	2.1%
US	2.1%	4.7%	7.9%	2.8%	1.6%
Canada	1.9%	3.4%	6.9%	3.1%	1.7%
Euro	1.6%	2.6%	8.5%	5.8%	2.7%
UK	2.0%	2.6%	9.0%	9.3%	2.5%
Japan	0.1%	-0.2%	2.4%	1.4%	1.4%
Australia	2.5%	2.9%	6.6%	5.5%	2.4%
Emerging Economies	5.0%	3.8%	6.5%	5.0%	3.4%
China	2.6%	0.9%	2.0%	2.5%	1.5%
India	5.9%	5.1%	6.7%	5.7%	4.8%
Russia	10.5%	6.7%	14.0%	6.3%	5.1%
Brazil	6.2%	8.3%	9.3%	5.3%	3.8%

Source: Capital Economics; Raymond James Ltd.; Data as of November 14, 2022.

Inflation Pressures Show Signs of Easing from Peak



Source: FactSet; Raymond James Ltd.; Data as of October 31, 2022.

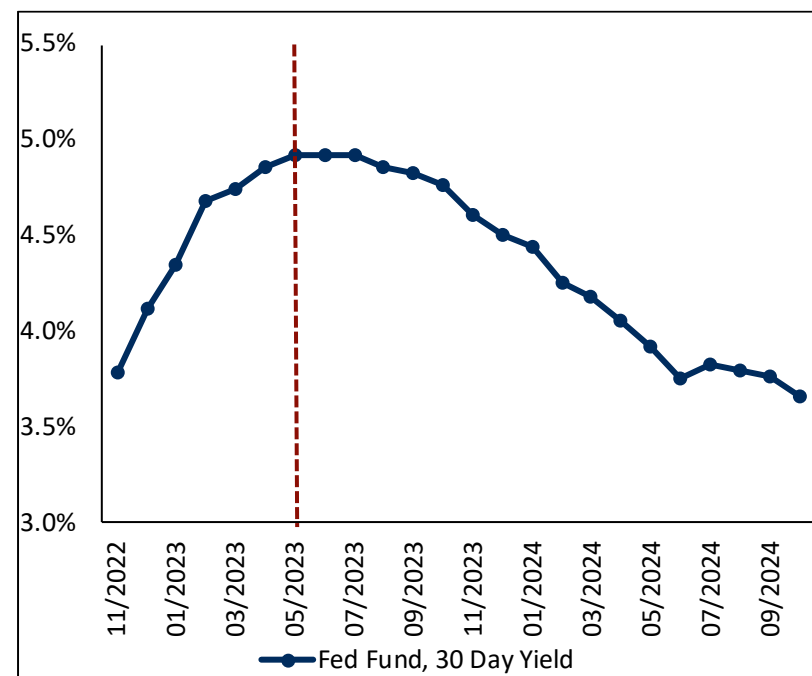
Further Policy Tightening on the Horizon, then Cuts

Policy Rate Forecasts Suggest a Coordinated Tightening

14-Nov-22	Interest Rate Forecasts			
	Current	2022	2023	2024
Advanced Economies				
US	4.00%	4.38%	4.13%	2.88%
Canada	3.75%	4.00%	3.25%	2.50%
Euro	2.00%	2.00%	3.00%	2.50%
UK	3.00%	3.75%	5.00%	3.25%
Japan	-0.10%	-0.10%	-0.10%	-0.10%
Australia	2.85%	3.10%	3.60%	3.10%
Emerging Economies				
China	3.65%	2.00%	1.80%	1.80%
India	5.90%	6.15%	6.40%	5.75%
Russia	7.50%	7.50%	7.00%	6.50%
Brazil	13.75%	13.75%	11.00%	7.50%

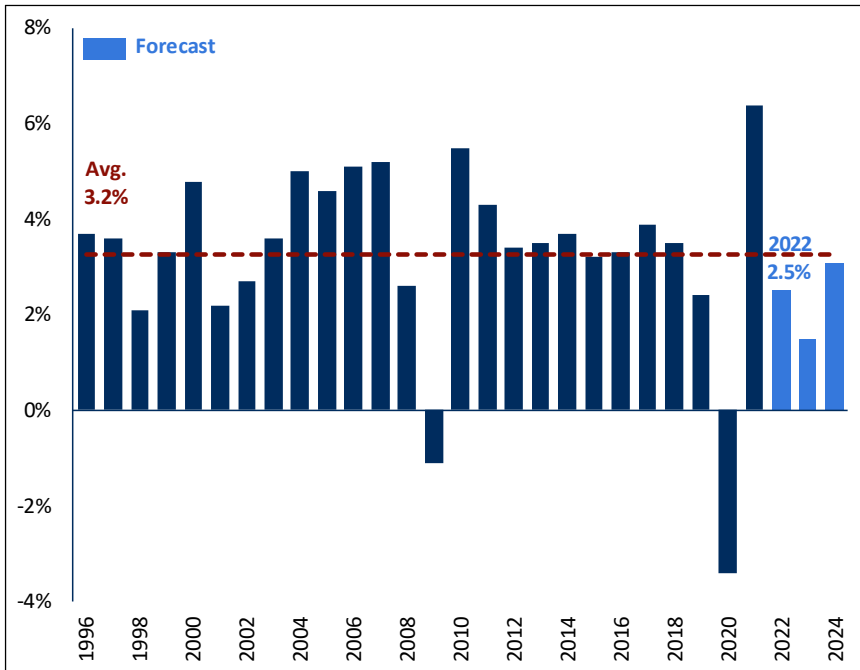
Source: Capital Economics; Data as of November 14, 2022.

Fed Fund Futures Suggest Rate Cuts In 2023



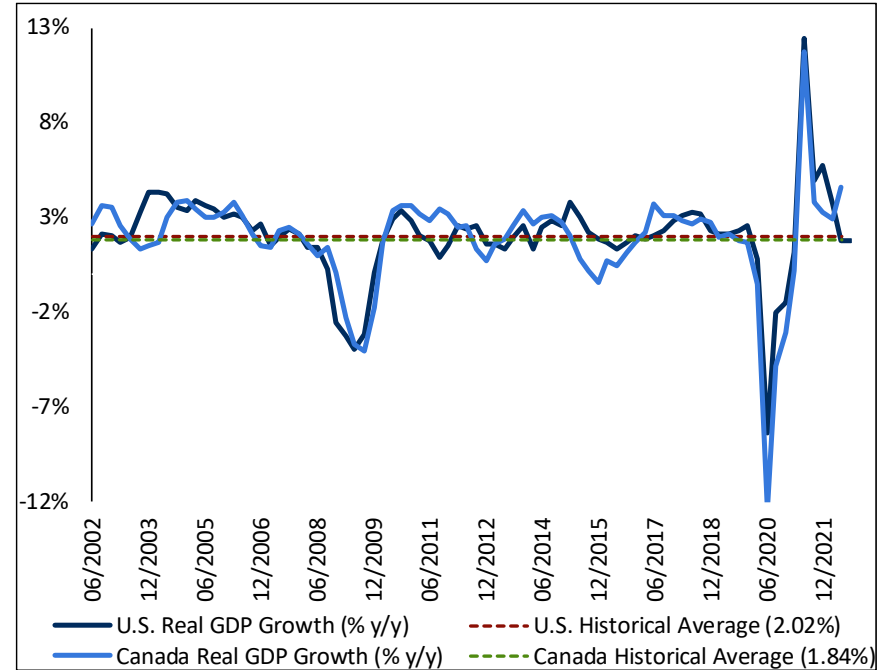
Economic Growth Continues to Slow

Global Real GDP Growth (YoY % Chg.)



Source: Capital Economics; Raymond James Ltd.; Data as of November 10, 2022.

U.S. and Canada Real GDP Growth (YoY % Chg.)

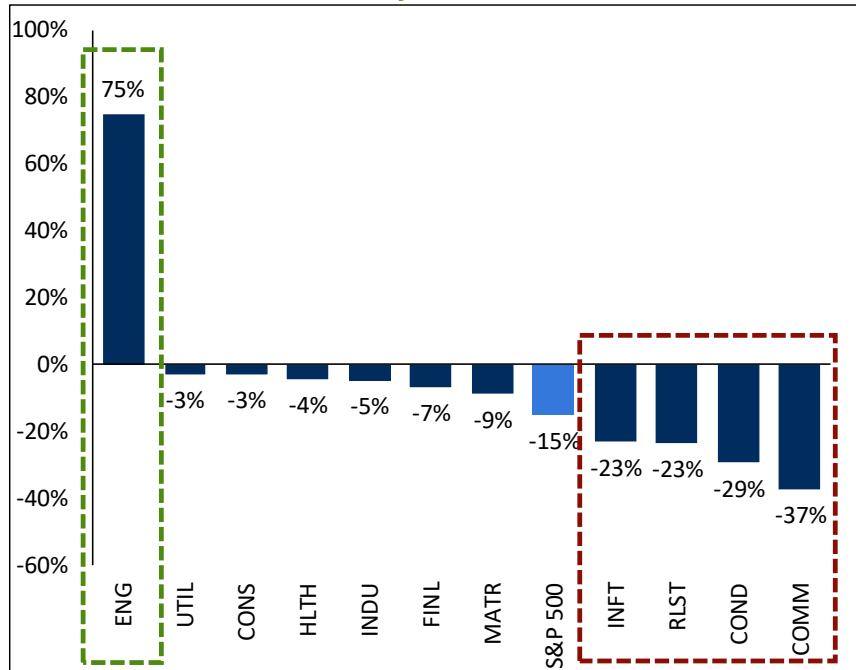


Source: FactSet; U.S. Real GDP Growth as of September 30, 2022, Canada Real GDP Growth as of June 30, 2022.

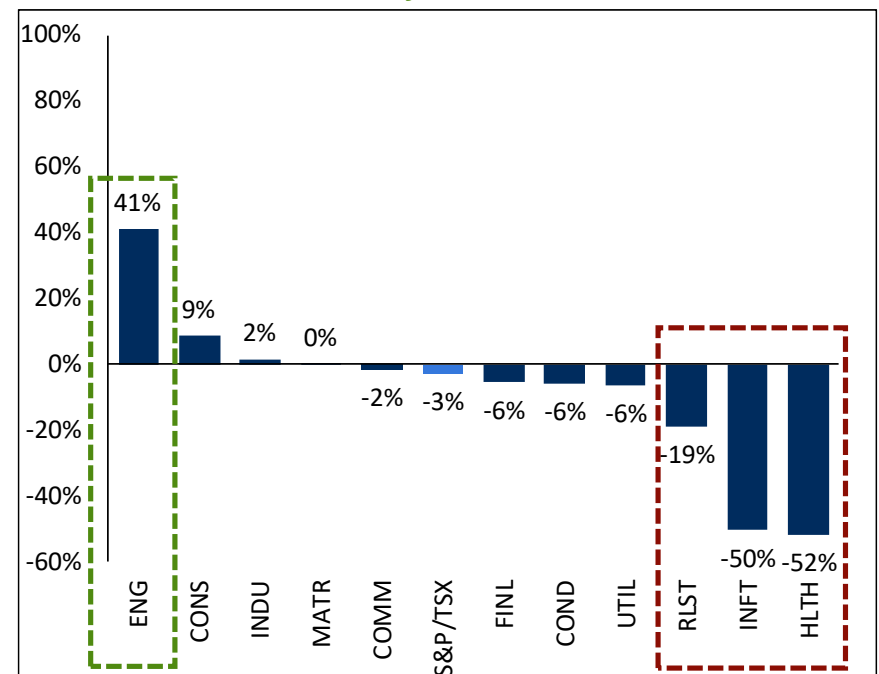
Energy for the Win in 2022, but not Likely in '23

We find it difficult to envision a repeat of the relative outperformance for the energy group in 2023, especially as the global economy slows materially. Likewise, for all the other sectors, we believe a lot (not all) of the negativity has already been baked in.

YTD Index Performance by Sector: S&P 500



YTD Index Performance by Sector: S&P/TSX

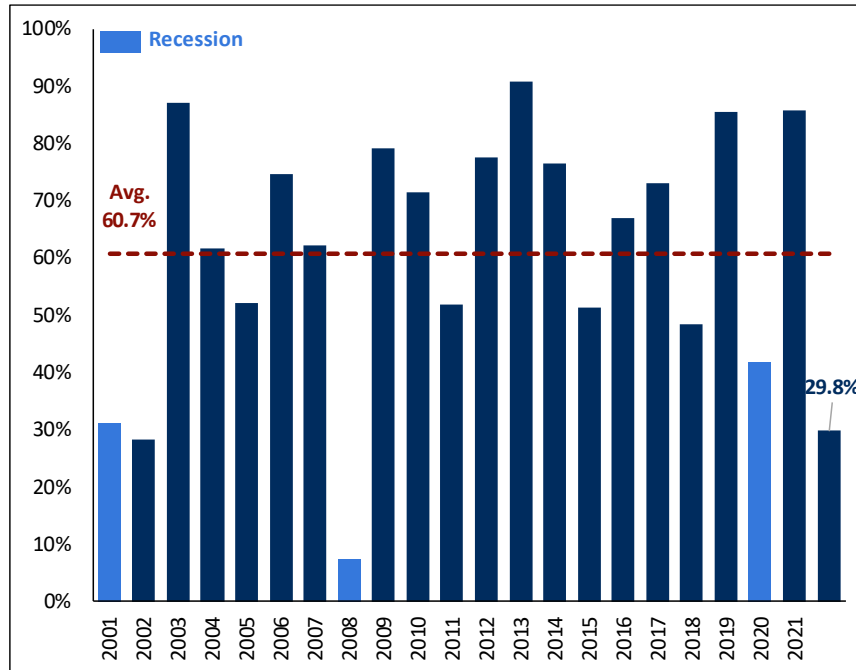


Source: FactSet; Data as of November 11, 2022.

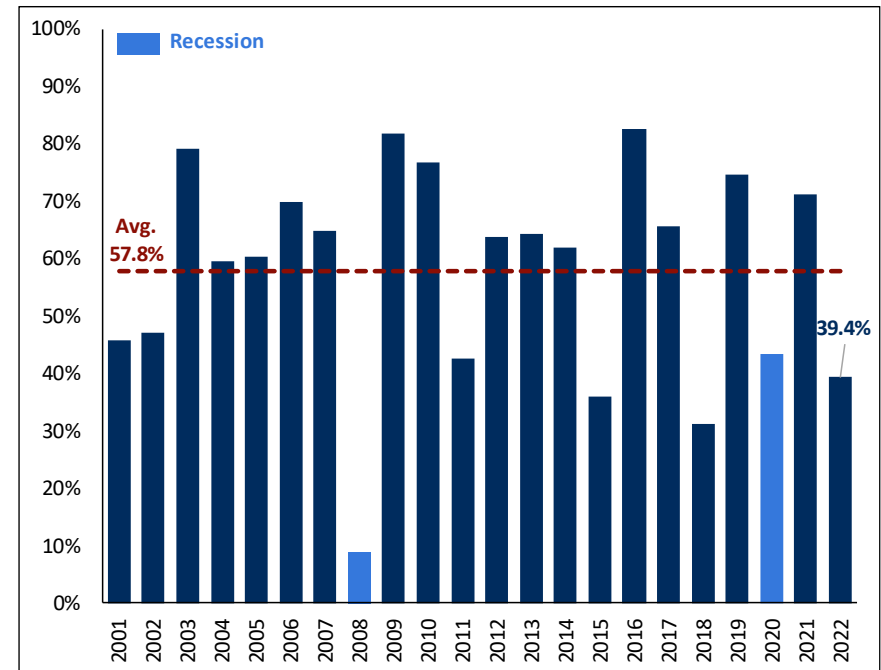
S&P 500 & S&P/TSX Historical Equity Performance

Sentiment has shifted from overly optimistic to overly bearish in two short years. The % of stocks in positive territory has fallen from ~75-90% in 2021 to ~30-40% today. Over the past 20 years (excl. 2000-2001), equity markets have typically rallied higher from these levels in the years that followed.

The % of Stocks with Positive Returns: S&P 500



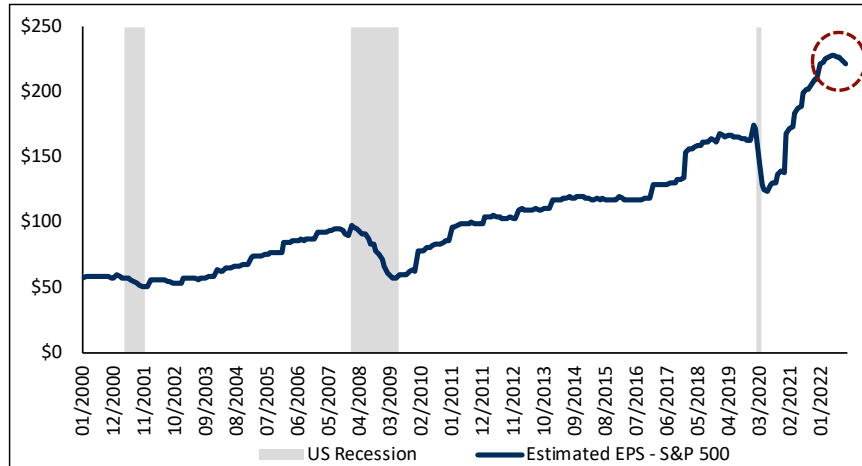
The % of Stocks with Positive Returns: S&P/TSX



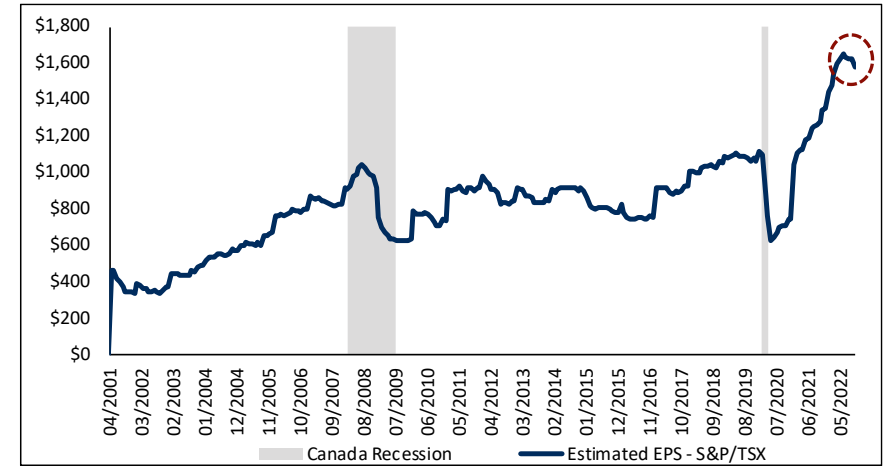
Source: FactSet; Data as of November 10, 2022.

Earnings Face Downside Risks, But with a Lag

S&P 500 EPS



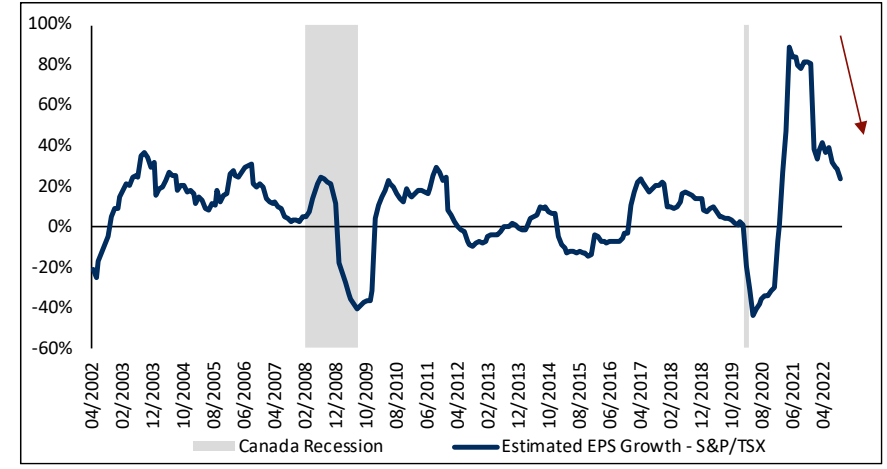
S&P/TSX Comp EPS



S&P 500 EPS Growth NTM (YoY % Chg.)



S&P/TSX EPS Growth NTM (YoY % Chg.)



Source: FactSet; Bloomberg; Raymond James Ltd.; Data as of October 31, 2022

Where to Look for Sell/Buy Candidates?

Index Performance by Industry: S&P 500

S&P 500 (USD)	1Mo	3Mo	YTD
Energy	29.7	21.0	75.0
Insurance	14.5	9.6	8.1
Food Beverage & Tobacco	9.6	-0.3	5.1
Capital Goods	23.3	8.2	-0.6
Pharmaceuticals Biotechnology & Life Sciences	11.0	1.9	-1.0
Utilities	4.0	-7.3	-2.7
Food & Staples Retailing	11.3	1.3	-4.1
Telecommunications Services	11.0	-6.7	-5.8
Diversified Financials	18.8	5.6	-7.5
Commercial & Professional Services	8.6	-0.4	-8.0
Health Care Equipment & Services	8.8	-0.2	-8.7
Materials	19.5	4.6	-8.9
Consumer Services	18.1	6.9	-11.8
Banks	20.2	7.6	-12.7
Transportation	16.7	-3.6	-14.3
Household & Personal Products	10.8	-1.8	-15.5
Technology Hardware & Equipment	9.7	-6.5	-16.7
Real Estate	7.6	-11.8	-23.4
Software & Services	10.0	-8.2	-23.8
Retailing	1.1	-10.7	-28.5
Semiconductors & Semiconductor Equipment	21.9	-7.1	-30.7
Consumer Durables & Apparel	21.7	-5.6	-32.9
Media & Entertainment	1.6	-14.4	-41.1
Automobiles & Components	-17.8	-27.6	-41.5

Index Performance by Industry: S&P/TSX

S&P/TSX (CAD)	1Mo	3Mo	YTD
Energy	17.9	6.3	41.0
Food & Staples Retailing	7.7	3.4	11.6
Retailing	2.6	2.1	8.0
Technology Hardware & Equipment	30.8	12.8	7.9
Transportation	9.6	1.0	7.4
Consumer Services	9.2	15.5	5.1
Insurance	7.3	2.6	0.2
Materials	6.5	9.9	0.2
Telecommunications Services	7.2	-1.3	-0.6
Commercial & Professional Services	-1.3	2.0	-0.6
Banks	7.3	3.4	-4.9
Food Beverage & Tobacco	3.4	-0.9	-6.1
Utilities	-3.2	-11.2	-6.4
Media & Entertainment	6.6	0.5	-6.9
Capital Goods	14.0	1.2	-14.4
Household & Personal Products	-0.7	-10.2	-16.0
Diversified Financials	10.0	0.1	-16.0
Automobiles & Components	25.7	3.0	-16.8
Real Estate	10.7	-3.3	-18.9
Health Care Equipment & Services	-3.2	-18.8	-25.2
Consumer Durables & Apparel	1.3	-2.8	-27.3
Software & Services	16.2	0.7	-50.7
Pharmaceuticals Biotechnology & Life Sciences	17.6	32.5	-59.3

Source: FactSet; Data as of November 11, 2022.

S&P 500: “Places to Invest” vs. “Places to Hide”

U.S. equities are now trading back at a slight premium to its 20-year historical P/E median of 16x. We continue to emphasize that investors should remain selective and focus on “places to invest” versus “places to hide” – i.e., focus on sectors trading at a wide relative discount compared to history (green) versus sectors trading at a premium (red).

S&P 500 Current and Historical Sector Valuations

	Sector Weight	Current PE NTM	Historical PE (Since 2000)	Premium (+) / Discount (-)	YTD Return
S&P 500		17.3	15.9	1.3	-15.1%
Communication Services	7.3%	14.7	17.9	-3.2	-37.2%
Consumer Discretionary	10.6%	23.9	17.8	6.2	-29.4%
Consumer Staples	6.8%	20.7	18.0	2.7	-2.8%
Energy	5.4%	9.8	13.8	-3.9	75.0%
Financials	11.7%	12.5	12.4	0.1	-6.8%
Health Care	14.9%	17.3	16.1	1.1	-4.4%
Industrials	8.4%	18.8	16.0	2.8	-4.7%
Information Technology	26.5%	21.1	17.8	3.3	-23.2%
Materials	2.7%	16.1	15.3	0.8	-8.9%
Real Estate	2.7%	17.1	18.0	-0.9	-23.4%
Utilities	2.9%	18.4	14.6	3.8	-2.7%

Source: FactSet; Data as of November 11, 2022.

S&P/TSX: “Places to Invest” vs. “Places to Hide”

Canadian equities, broadly speaking, are attractive when compared to the 20-year historical P/E median of 14.5x. We continue to suggest investors remain selective and focus on “places to invest” versus “places to hide” – i.e., sectors that are trading at a wide relative discount compared to history (green) versus sectors trading at a premium (red).

S&P/TSX Current and Historical Valuations

	Sector Weight	Current PE NTM	Historical PE (Since 2002)	Premium (+) / Discount (-)	YTD Return
Canada S&P/TSX Composite		12.4	14.5	-2.1	-2.9%
Communication Services	4.8%	17.4	15.7	1.7	-1.7%
Consumer Discretionary	3.5%	13.9	14.3	-0.4	-5.8%
Consumer Staples	4.1%	16.1	15.8	0.3	8.6%
Energy	19.1%	9.0	15.1	-6.1	41.0%
Financials	30.9%	9.8	11.5	-1.7	-5.6%
Health Care	0.4%	13.4	16.4	-3.0	-51.7%
Industrials	12.9%	23.0	15.5	7.5	1.7%
Information Technology	5.6%	33.1	21.4	11.6	-50.4%
Materials	11.7%	13.6	17.2	-3.6	0.2%
Real Estate	2.5%	14.9	14.7	0.3	-18.9%
Utilities	4.5%	20.1	17.9	2.2	-6.4%

Source: FactSet; Data as of November 11, 2022.

*****Refer to the Excel spreadsheet for sell candidates and corresponding ETFs*****

Important Investor Disclosures

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