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The Krygier Report

An exclusive newsletter from Mark J. Krygier, Senior Portfolio Manager | March 2024   www.krygierwealthmanagement.ca

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Sound familiar?

Have you ever had a "deja-vu" thought that you have been in your current situation at another time in your past? Let me paint a picture and see if it rings a bell. The U.S. stock markets have rocketed ahead based on the returns of a very select handful of huge technology companies. An innovative technology has captured the imagination of investors, to the point where it has become the subject of headline news on an almost daily basis. Retail investors, many of whom previously have showed little interest in the details of their investment portfolios, start peppering their advisors with questions about specific companies, mutual funds or ETFs (Exchange Traded Funds). Valuations on many of the most well-known stock names are stretched to multi-year highs. Outside of these well-known high-tech companies, stocks in most other sectors of the economy have been meandering for the past couple of years. The U.S. dollar is relatively high against most other global currencies. The corollary to the high U.S. dollar is that the price of many resources is subdued or even at depressed levels, despite global imbalances between supply and demand. Hmmm…sound familiar? Are you thinking about the current markets? The "Mag" or "Magnificent" 7? I am thinking further back, like back to the 1999-2000 dotcom era.

Today, Artificial Intelligence or "AI" is the hot topic of discussion around the proverbial office water coolers. Literally, a handful of stocks, dubbed "The Magnificent 7", drove stock markets in the U.S. to dramatic highs in 2023, after getting clobbered in 2022. In 2024, the Mag 7 has been reduced to the Mag 5, as the stocks in Mag 7 members Tesla and Apple are down so far this year, the result of which has only exacerbated the concentration risk in the U.S. markets. In the past two years, investors in the "high-tech" sector have experienced huge swings in volatility, with not much to show in the way of results from beginning to the end of those two years. The S&P 500 posted a 2-year 5% return on the S&P500, comparable to current GIC or CD levels. However, you wouldn't know that from the headline news, which rarely puts current events into historical context, as an investor could be tricked into thinking that the markets themselves are currently "magnificent." Historically, a "healthy" bull market exists when the overall economy is strengthening, debt levels amongst consumers, corporations and governments are reasonable, and most sectors in the economy are doing well. If you look at moribund commercial real estate sales, slowing consumer spending and elevated inflation levels, I am not convinced "healthy" is the word I would use to describe the current economic situation. Add into this a frightening mix of global macro-events, such as Russia threatening a nuclear response if the West brings more support to the Ukraine, and a potential Middle East crisis with Iran's tyrannical leaders encouraging the terrorist organization Hezbollah to ramp up attacks on Israel, and I would suggest that "cautious at best" is probably a more appropriate tone for investors at this time.

So how does the current situation compare to previous markets, and what was the aftermath in those scenarios? It is true that history does not perfectly repeat itself, but it is also clear that patterns often appear which do repeat themselves, mostly I believe because human nature does not change. So often, at the very moment when people are overly optimistic or "bullish" is when we face the most risks. Think about the overly confident military regime, sports team or individual athlete, who have been shocked by a supposed "underdog". In March 2000, 24 years ago to this month, the Nasdaq high-tech laden index hit a peak from which it collapsed over 50% and it took 15 years (to January 2015) to make new highs. What was going on prior to that collapse? The advent of the internet – the innovative technology of the time which certainly changed the way we do things. A handful of companies like Cisco, Microsoft, JDS Uniphase and Nortel (remember that one?) were literally rewriting history every month with an impressive increase in earnings and stock prices. Investors, who previously had shown no more interest in following stocks than I have in doing my own car oil changes, were calling advisors with names of stocks they "had" to buy. I describe those times as a "panic to buy", the ultimate "FOMO" (fear of missing out). So, what went wrong? Why did the collapse occur? Overly optimistic predictions as to the supply and demand of internet equipment was certainly part of the problem. I remember when John Chambers, the CEO of Cisco, said in the fall of 2000, in the beginning months of that long bear market in technology, "Never in the history of the industrial revolution have we seen such a drop in demand." To all the excitement about AI changing the world I would say, never say never…

Bottom line

Reading headline news without putting things into historical context can be more than just misleading at times. Extremes in emotion – whether greed or fear – are not the basis for making reasonable decisions. As each new experience broadens our horizons, we still need to remember that life experience is worth something. As the philosopher George Santayana in his work, "The Life of Reason: Reason in Common Sense" said, "Those who cannot remember the past are condemned to repeat it." At *Krygier Wealth Management* we have been through many market cycles. We are always trying to be alert for potential dangers and to position our portfolios accordingly. I believe it is better to be forewarned and prepare accordingly than to wait to see if history repeats itself. If you are concerned, give us a call.

Global benchmarks

As of February 29, 2024 (Canadian $ Returns – except where noted)

Asset class	YTD	1 year	3 years
S&P/TSX Composite T/R (Canada)	2.4%	9.2%	9.0%
S&P 500 TR - **US$**	7.1%	30.5%	11.9%
NASDAQ Composite - **US$**	7.2%	40.5%	6.8%
MSCI Europe Index Price Return	3.8%	9.0%	5.5%
MSCI Emerging Markets	2.2%	5.4%	-6.7%
China S.E Shanghai A Price Return	2.6%	-11.7%	-6.2%
MSCI World Index Price Return	7.9%	22.3%	9.3%

Asset class	YTD	1 year	3 years
30-year U.S. T-Bond - **US$**	-5.1%	-4.1%	-10.9%
10-year U.S. T-Bond - **US$**	-2.4%	1.1%	-5.4%
Long GOC Bond (2053)	-6.4%	-0.3%	-8.7%
10-year GOC Bond	-2.6%	2.1%	-3.3%
5-year GOC Bond	-1.3%	2.7%	-1.5%
3-month CDN T-bill	0.8%	4.9%	2.3%
US$/CDN$ (1.3575)	2.5%	-0.5%	2.1%

Source: RBC Capital Markets Quantitative Research

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