The Krygier Report

An exclusive newsletter from Mark J. Krygier, Senior Portfolio Manager | October 2022 www.krygierwealthmanagement.ca

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Do as I say, not as I do?

The whole world waits with bated breath for the Chairman of the U.S. Central Bank (the “Fed”) to pronounce whether or not the Fed will continue to raise interest rates and if so when and by how much? Will it be 0.75% (75 “basis points” or “bps”) or will it be a full 1.0%? Will rates rise to 4.25%, 4.50% or, heaven forbid, to 5.0%? Beyond the numbers, what will the Fed Chairman say about the future? Will he say that rates will need to continue to rise? Will the voting members of the Fed, in their infinite wisdom, look into their tea leaves or crystal ball and determine that inflation is now being held in check due to their fiscal prowess and supreme control over the mammoth U.S. economy? If you detect the slightest hint of sarcasm in my tone you would be 100% correct. I recall from my youth the story of the “boy who cried wolf.” To test the village defense system against predators, a young Sheppard boy cried “wolf, wolf” and all the villagers came with sticks in hand to protect his flock of sheep from the marauding intruders only to find no wolf was present. A second and a third such “test” left such a bad taste in the mouths of the villagers that when the real canine intruder entered the village no one would answer the lad’s cry of “wolf, wolf” with the result that the helpless sheep were left for wolf fodder. With a record of flip-flopping and changing his mind as many times as he has done in the previous five years, why is the whole world “village” waiting on every word this Fed Chairman says? For instance, in December 2018, Mr. Powell announced in a press conference for the third time in months that he would be raising rates at least 3 times in 2019 and then, less than three weeks later, in early January 2019, he said no more rate hikes and in fact he dropped rates 3 times in 2019! If history is any indication, in the near future the Chairman will have “discovered” that sufficient evidence exists to stop raising rates. The language will undoubtedly be couched in neutral terms such as “we have to follow the economic numbers” to know which direction to take. Shortly thereafter rates will likely start to drop to “stimulate” the moribund economy. Already longer-term interest rates are lower than short-term rates, otherwise known as the infamous “negative yield curve”, which is often associated with a recessionary environment.

Unless one believes that the Fed has changed its proverbial stripes and actually has the political will to raise short-term interest rates high enough to guarantee a deep recession, something not seen since Paul Volker was the Fed Chairman in the early ‘80s, and perhaps the only way to truly combat inflation – then the real question is what are we left with once the Fed stops raising rates? Will the U.S. dollar continue its stratospheric rise? Will gold continue to disappoint as a protector against inflation? Will employment wage inflation come back down to earth? Will the housing market continue to leverage up prices beyond the reach of the average working person? Will consumers continue to spend on borrowed money if their “ATM” houses stop rising in value at double digit rates? It is very difficult to believe that short-term interest rates will go to 5 or 6%, let alone double digits as we saw in the ‘80s. Therefore, despite the tough talk by the Fed Chair, it is reasonable to ignore the Fed’s mantra of “Do as I say” and instead expect to act and “Do what he does.”

In stark contrast to the "double-speak" of the Fed and other Central Banks, my recently departed father-in-law was of a different ilk altogether. Having lived through the evils of religious extremism in his native Egypt, he moved to Canada in the late 1950s seeking a new opportunity for self-fulfillment. He got his education in Mechanical Engineering in Manchester, England and started working for CN Rail in Canada in his late 20s. He worked his way up through the system over the following 40 years rising to the ranks of senior V.P. and reporting directly to the former CEO, Paul Tellier. He was known as a man of integrity, a man of few words, and a man of his word. In a world which predates the "woke" culture of political correctness, of lack of gratitude and self-respect, he was a role model of decency, respect, hard work and dedication. A dedicated husband, father, grandfather and great-grandfather, he was respected wherever he went, and at work he was renowned for his pleasant demeanor by his direct staff, other employees, and even union leaders from amongst his peers in senior management. His secretary told family members that "everyone here swears and screams except your father." He was honest, complimentary and would do what he said he would do, and he would lead by example through his honesty and hard work. The nonsensical idea of "Fed speak" in which one obfuscates issues to deliberately mislead and misdirect was not in his lexicon. In stark contrast to many of today's business and political leaders, there was no sense of aggrandizement or narcissistic focus on himself and what he had achieved. On the contrary, he lived simply and within his means. He understood the need to focus on the big picture and not sweat the details; he would focus on the task at hand and on the needs of those around him.

Bottom line

The world is full of egos, those who pretend to know more they really know, and those who think they control things they cannot. It is sometimes difficult to distinguish between the real issues and those issues upon which some politicians or business leaders tend to focus our attention. All of the "get rich quick" schemes, businesses built on excess leverage in a world of artificially low interest rates, excessive consumer spending, and "new sources" of value, such as crypto-currencies, which have no intrinsic value, all fly in the face of common sense. The world desperately needs leadership from people like my late father-in-law. True long-lasting value takes hard work to achieve. We need to focus on the needs of others, we need to treat each other with civility and we need to recognize that good things are worth striving for and working towards. From an investors' perspective the parallel lessons are readily apparent. May his memory be a blessing and a guide to us all.

Global benchmarks
As at September 30, 2022 (Canadian $ Returns – except where noted)

Asset class	YTD	1 year	3 years
S&P/TSX Composite T/R (Canada)	-11.1%	-5.4%	6.6%
S&P 500 TR - **US$**	-23.9%	-15.5%	8.2%
NASDAQ Composite - **US$**	-32.4%	-26.8%	9.8%
MSCI Europe Index Price Return	-23.9%	-20.1%	-2.6%
MSCI Emerging Markets	-22.2%	-23.8%	-3.0%
China S.E Shanghai A Price Return	-18.8%	-16.3%	3.0%
MSCI World Index Price Return	-19.5%	-13.7%	4.4%

Asset class	YTD	1 year	3 years
30-year U.S. T-Bond - **US$**	-30.4%	-27.8%	-9.1%
10-year U.S. T-Bond - **US$**	-17.0%	-16.9%	-4.8%
Long GOC Bond (2053)	-25.5%	-19.6%	-9.6%
10-year GOC Bond	-12.3%	-11.3%	-3.3%
5-year GOC Bond	-7.3%	-7.6%	-1.3%
3-month CDN T-bill	0.5%	0.5%	0.6%
US$/CDN$ (1.3826)	9.4%	9.1%	1.5%

Source: RBC Capital Markets Quantitative Research

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