Wealth Management
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When two worlds collide…

Growing up in the '70s and '80s, I recall news headlines featuring high oil prices and frightening nuclear reactor meltdowns. I remember the *Time Magazine* cover story of the Three-Mile Island crisis in the U.S., then it was Chernobyl in Russia, and much more recently in the 2000s, following an earthquake and tsunami, the Fukushima nuclear disaster in Japan. Such dramatic events have come amidst a growing push by climate activists for increased sources of "clean" energy to keep up with an insatiable desire for more energy from a growing world population. As a result of such disasters, the most energy efficient environmentally friendly source of energy, namely nuclear energy, got a bad rap and became "toxic" for politicians to promote. Political lobbying has pressured governments globally to shut down nuclear reactors, despite this growing need for more energy. Ironically, the push towards other forms of clean energy, other than nuclear, often creates more unfriendly pollution to the environment than the clean energy those sources produce. For instance, solar energy uses panels made of aluminum which needs to be mined and produced, and the unfortunate byproducts of wind energy are the toxic wind tower blades which are filling up landfills world-wide. Yet, in a dramatic turn of events, nuclear energy is back in vogue. Germany reversed its intended closures of its remaining nuclear power plants, after they found themselves at the mercy of the brutal Russian government and its control over natural gas in Western Europe. Recently, we have come full circle in this industry, as high-tech leader *Microsoft Corporation* announced it made a 20-year deal to buy nuclear energy from the Three Mile Island nuclear power plants, which will reopen in 2028, to power the growing demand for energy of data centers for this generation's investment de jour - artificial intelligence or "A.I.". Imagine - today's high-tech leaders reliant on an old-style mining industry – who would have believed it!

Another thematic "collision" has been the rise in the price of gold bullion during a period of incredible strength in the U.S. dollar. Historically, the U.S. dollar has moved inversely to the price of gold and other commodities. That means when the USD$ rises versus other global currencies, the price of gold and other commodities like oil usually heads lower, and vice-versa when the USD$ declines. USD$ strength over the past few years resulted from global uncertainty since the Covid outbreak, increased global warfare, as well as the aggressive policies of the U.S. Central Bank (the "Fed") to raise interest rates quicker and hold them higher for longer than most other countries. Meanwhile, during this same period, in an ahistorical fashion, gold bullion prices have also been steadily climbing and by the end of September they are up almost 30% so far in 2024. With the USD$ likely to start declining in the years ahead, as the Fed drops interest rates to combat a slowing economy, even as inflationary pressures remain high, there are many reasons to believe gold prices could continue to climb higher.

The upcoming U.S. Presidential election also echoes this theme of an impending collision course – in this case between two increasingly polarized ideologies. On the one side we see conservative social views, based primarily on Judeo-Christian ethics at its core vs. an increasingly left leaning ideology focused on climate change and a more liberal social agenda. Ironically, despite their vast differences in social policy, neither the conservative Republicans nor the liberal Democrats are likely to reign in the massive U.S. government debt load and, if anything, are more likely to increase it through further spending (albeit with different priorities). This increasing debt load has economists worried about the slowing impact it will have on the U.S. economy longer-term and the negative impact it could have on the USD$ status as the world reserve currency. Realistically there are no other challengers for this title, yet other assets such as gold bullion and even crypto currencies may start to reduce the global dependency on the US dollar for world trade. Already, countries not friendly to U.S. interests such as China and Russia, amongst others, have been adding significantly to their gold reserves.

The final collision course I want to mention is the recent actions of the Central Banks in both Canada and the U.S, to lower interest rates even while inflation remains elevated. Interest rate manipulation is a core monetary tool of Central Banks to reduce or increase the costs of borrowing in an economy. Raising interest rates increases the cost of borrowing which in turn curtails economic activity, whereas lowering interest rates stimulates an economy by lowering the cost of borrowing. The recent moves by the Fed and the Canadian Central Bank have come at a time when inflation remains higher than their targeted 2% level of inflation. A big portion of this inflation stems from labour costs which remain high, with striking unions in both countries continuing to demand higher wages. Many suggest that inflation in the economy arose out of the excessively low interest rates which followed the Covid crisis. If true, what will happen to inflation going forward if Central Banks are lowering rates before inflation has been tamed? For investors, consider that higher inflation tends to drive commodity prices higher, which should be good for the Canadian dollar and economy over that of their American counterparts.

Bottom line

There are periods in history where one must simply stand back and wonder where we are heading. A time of historically opposing forces clashing, whether socially, economically, or politically are just such moments. However, when it comes to investing for the long-term investor, it is important to remember the words of the great Peter Lynch, famed portfolio manager of the Fidelity Magellan fund, the largest in the world during his tenure, that if you spend 13 minutes a year studying economics then you have wasted 10 minutes of your time. With that in mind, if you or someone you know is concerned about planning for a brighter financial future, contact us and let's start the conversation!

Global benchmarks

As of September 30, 2024 (Canadian $ Returns – except where noted)

Asset class	YTD	1 year	3 years
S&P/TSX Composite T/R (Canada)	17.2%	26.7%	9.5%
S&P 500 TR - **US$**	22.1%	36.4%	11.9%
NASDAQ Composite - **US$**	21.2%	37.6%	8.0%
MSCI Europe Index Price Return	12.5%	21.5%	6.1%
MSCI Emerging Markets	16.8%	22.4%	-0.1%
China S.E Shanghai A Price Return	15.8%	11.1%	-2.9%
MSCI World Index Price Return	20.0%	30.0%	9.7%

Asset class	YTD	1 year	3 years
30-year U.S. T-Bond - **US$**	1.6%	14.6%	-9.9%
10-year U.S. T-Bond - **US$**	4.0%	11.1%	-3.4%
Long GOC Bond (2055)	-0.9%	18.1%	-5.7%
10-year GOC Bond	3.9%	13.3%	-1.1%
5-year GOC Bond	4.3%	10.3%	0.3%
3-month CDN T-bill	3.8%	5.1%	3.3%
US$/CDN$ (1.3493)	2.1%	-0.4%	2.2%

Source: RBC Capital Markets Quantitative Research

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