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INSIGHTS & OBSERVATIONS

YOUR GUIDE TO FINANCIAL MARKETS AND INVESTMENTS **April 2024**

Welcome back. Last month we noted that recent stock market strength meant we were finding fewer bargains to consider. Over the past few weeks this trend has accelerated, to the point where we've begun some minor profit-taking to add to your cash reserves. Investors heightened optimism of late is being stoked by more evidence of a stronger economy and with it better corporate earnings.

So far the return to a normal level of interest rates hasn't hurt too much, and as recession fears shrink more economically sensitive groups like the energy stocks are doing very well. We've noticed a strange contrast between record US stock markets and concurrent worries about the financial health of consumers. Canada has a comparable puzzler – record household debts and much higher interest rates, yet real estate markets remain very expensive.

Perhaps these odd juxtapositions are simply another step on the present road of 'interesting times' upon which we find ourselves travelling. As mentioned in prior issues the gigantic distortions first of too low and negative interest rates, then capped off with vast COVID overspending, has profoundly bent economies out of shape. As a result many 'rules' of economics have failed us over the past twenty years, leading to frustration and the unusual conditions of today. As investors, our job clearly is not getting any easier!

Much of the strength in US markets over the past year is due to a very small number of huge technology stocks, which rebounded dramatically after a significant sell-off in 2022. Historically when a stock market is driven higher by only a handful of stocks investors should worry as this isn't the most healthy environment. Much better to have most market sectors doing well reflecting broader economy strength. While we have seen a few more areas moving upward lately, the important US banking sector has lagged due to worries about falling commercial real estate values – think office towers and malls.

In our feature article this month we focus on this issue and consider the outlook for the overall American economy with this worry in mind. As it is in many categories, the US is also leading the way with its massive government debt growth, and all investors should be closely watching to see how this ominous trend unfolds in the years ahead.

Have a good month and a Happy Easter!

Philip

April's Articles

In our January issue I mentioned the 60+ elections worldwide this year, which has led to several questions about our outlook for the US presidential contest in November. One of the many fun aspects of my role is the opportunity to talk with interesting and accomplished clients, learning from their wisdom and experience.

A somewhat surprising opinion we heard in regard to this upcoming election has stuck with me over the past few months. A politically astute client told me the following about the Trump/Biden rematch: **"It doesn't matter who wins, nothing is going to change."**

The more we think about this thought the more it seems to be correct, sadly, as it was aimed at government's complete loss of fiscal caution. Our client feels no party will try to reduce debt until its too late, which may be the case within a few years. While the US election was the topic this same condition also seems true in Canada and elsewhere.

In the article linked below author **Desmond Lachman,** writing at AEideas, takes a closer look at US debt as it relates to their commercial property loans. US banks are much less conservative than our own, and with interest rates now at normal levels, the inevitable adjustment to much higher borrowing costs for this sector will be slow and potentially painful.

This author then compares US banks to the US government as both are increasingly pinched by much higher interest costs versus two and three years ago. As mortgages and other financing renews and costs go sharply higher, some difficult decisions will be forced onto those who overspent and overborrowed.

https://www.aei.org/economics/the-winding-road-to-a-public-debt-crisis/

The interest rate/inflation tug of war has become the key factor for stock markets worldwide. Not since the 1970's has there been this much worry about higher inflation, prompting rising rates in an effort to control it.

Central banks have been unusually active over the past two decades, first suppressing interest rates for far too long, then being forced to raise them quite quickly during the past two years. As you'll read in the article linked below, author **John Lynch** at Comerica Wealth Management rightly observes that these gigantic distortions are unlikely to end well. The big concern is the record debt levels now held by most governments, as extremely low interest rates let them accumulate excessive amounts in recent years.

The silver lining of inflation which was also apparent during the 1970's, is that for Canadian markets our resource-heavy economy produces better gains than US markets experience during inflation. We'll see whether this occurs again, but either way expect to hear much more talk about this.

https://advisoranalyst.com/2024/03/26/what-a-long-strange-trip-its-been.html/

WHAT THEY SAID

"To win elections, politicians have promised practically endless government spending and covered up the cost, leaving generations of taxpayers obligated to pay off the debt. That's wrong, but neither the U.S. nor Europe has a plan to stop it.

David Malpass