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INSIGHTS & OBSERVATIONS

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YOUR GUIDE TO FINANCIAL MARKETS AND INVESTMENTS July 2024

Welcome back. Like the summer which continues not to arrive, the expectations for falling interest rates from early this year have not played out. In January the consensus was for several reductions in rates, prompted by falling inflation and leading us to a perfect 'soft landing' for the economy.

Today at the year's halfway point we have seen inflation ease somewhat, but rates are barely lower here in Canada and completely unchanged south of the border, contrary to all the predictions. Once again the following old stock market adage is proven true: *"When all the experts and forecasts agree, something else is going to happen."*

Looking back to January of 2023 I recall the consensus then was for recession by the end of the year. This forecast was widely accepted and was actively being built into corporate and consumer behaviors at the time. When it failed to occur the talk faded away and today we hear few recession forecasts…which has me a little worried. While I am not predicting this, a recession in the next year does feel quite possible and it would surprise the majority opinion once again.

We will be keeping a closer eye for signs of a slowdown and I am reminded of the economy of the 1970's which also featured higher rates, inflation, commodity price swings and recessions. The better news was found in the Canadian stock market, which outperformed the US during that volatile decade.

Summer often brings a slowdown for markets as many investors turn their attention to vacations with friends and family, and breaks away from the office. August is usually the second slowest month of the year behind only December, and then things begin to pick up after the Labor Day long weekend passes by.

Historically the summer is followed by two of the more nervous months of the year, September and October, which are infamous for their dips and even a few crashes throughout history. Finally this fall we also layer on the US election with all of its drama. For these and various other reasons we've been building our cash reserves recently, preferring to have funds available to buy up bargains if we get pullbacks in the months ahead. As always, the homework and the reading continue in the meantime.

Have a great month, take care.

Philip

July's Articles

The largest part of successful investing is thinking. One of the world's best investors is Warren Buffett, and he frequently credits his results to the ability to set aside time to think without distraction. His late partner Charlie Munger was the same, saying he didn't know any wise people who didn't read all the time.

The combination of assimilating information usually by reading, then pondering things over time can lead to great ideas. Good investors who do this have learned to connect disparate events, trends, and to spot changes in order to find opportunity.

Those of you who have been to our office know that Yuki, Charlie and I are fortunate to enjoy a great view. As I do my daily reading and look out our windows, occasionally dots connect and ideas pop up which can lead to investment decisions. I'm not sure whether the view helps or hinders this process but the importance of making time for conscious thought about our investments is very clear.

In the article linked below we look back at the 'thinking work' of a few prominent business and artistic leaders, and find they each had their way to encourage thought and reflection. Today with the Internet and many more distractions it seems harder than ever to find quiet time to address decisions in a considered manner. This reality has probably been true for a long time though, as technology always progresses and creates a future that will definitely be 'noisier' than today.

However, this consistent reality also means the few people who can learn to focus their thoughts will continue to get better results than the overwhelmed majority.

https://collabfund.com/blog/lazy-work-good-work/

The continuing pinch of higher interest rates is ongoing around the world. While we've seen a slight decrease in rates here in Canada and in some European countries, the only way we'll get substantial rate cuts would be to offset a sharp recession, which seems unlikely for now.

Assuming economies muddle along at current slow rates of growth accompanied by lower – but not low – inflation, rates should stay around today's levels. This means any debts maturing in the next few years which were originally taken on 3-8 years ago will be facing much higher rates as they come due. Unfortunately, governments were the worst managers of this situation and many now face a large portion of their debt needing to be rolled over at sharply higher rates.

In the article linked below by **Desmond Lachman** of AEIdeas, we find a look at three large countries which each face a version of this problem. While not specifically mentioned, Canada is heading in the same irresponsible direction so the experiences of these countries may give us a preview of what to expect. Excessive government debt has ended every empire throughout history, and today's dominant players are unfortunately following this same ill-fated plotline despite all the lessons of the past.

https://www.aei.org/economics/the-worlds-debt-problem-will-end-in-tears/

WHAT THEY SAID

"I just sit in my office and read all day."

Warren Buffett