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INSIGHTS & OBSERVATIONS

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

Welcome back. As we touched upon last month, markets and investors continue to debate the interest rate and inflation outlook, with stock markets reacting to each economic release showing either more or less growth than expected. After the surge in rates over the last two years and with today's much lower inflation, a period of treading water seems appropriate.

Despite the latest inaction on rates, many intriguing events are ongoing around the world and it feels as though we are following more things than ever as we closely watch your portfolios.

One headline which caught our attention was the news last month that Japan's stock market hit an all-time high, the first new record for this market since…1989! After their enormous real estate and stock market bubble burst in 1989, Japan made a series of policy mistakes leading to decades of deflation. They kept interest rates too low for this period which then raised their government debt to its current level of over triple their GDP (the measure of their entire economic output). This makes them the most indebted country among the first-worlders, and *hopefully* this fate may offer a lesson to other countries like the US and ourselves on the dangers of excessive debt.

Japan also faces a severe demographic trap as their population has been shrinking for several years, a trend which is very unlikely to reverse. All in all, Japan has already fallen from the world's second largest economy to fourth, and unfortunately it will continue to slide down the rankings over time.

Other topics we've delved further into include the outlook for real estate, especially commercial property in light of the normalized interest rate environment. With our banks' quarterly earnings reports just out we haven't seen many signs of problem loans yet. However in the US most banks will be facing write-downs since commercial real estate there is down an average of about 25% from its peak a few years ago.

Should rates stay near today's levels we'd expect to hear of more bad loans and distressed sales in this sector and it could spread to residential property as well. Real estate is much slower to react when interest rates climb as they have, but it looks as if the next 1-2 years will bring more evidence of excess leverage being unwound.

Lastly, we have seen huge speculation in the US market around the artificial intelligence (AI) stocks in the past year. This level of risk-taking is itself a cautionary note for investors and when paired with us finding fewer cheap stocks versus four months ago, this is another sign confirming our recent patience with investing new cash.

Have a fine month, take care.

Philip

March's Articles

My ever-present worries about government debt are well known and (some may say) feature too regularly in this newsletter. Particularly with rising interest rates over the past two years, the stresses of excess debt are beginning to show up for corporations and individuals along with some of their countries. Now suppose interest rates remain around what today are actually *normal* levels; does this mean there will be no escape from an eventual debt crisis? Well, there could be a much more pleasant resolution.

We are very well aware of history's long line of forecasters who've called for various economic disasters which then failed to occur. Gloomy economists, as the saying goes, have predicted 9 of the last 4 recessions.

However here is a happier solution leading to a route out of the debt problems many countries face today and my worries definitely could be resolved if we find it. This greatly preferred outcome is…a meaningful jump in our economic productivity.

As you'll read in the article linked below by US investment manager **Joe Calhoun**, if technologies like artificial intelligence or other advances move quickly enough this will boost the economy's growth and generate much more wealth (and tax revenues). This would allow both lower interest rates and IF politicians start taking debt repayment seriously, they would then be able to address the problem.

Good investors must always ask themselves 'how could I be wrong?', in this case I would love to see this path toward greater productivity prove my debt worries to be misguided, leading to a stronger world for us all.

https://alhambrapartners.com/2024/02/12/weekly-market-pulse-are-you-ready-for-the-roarin-twenties/

Generational Wealth. When we meet families to chat about wishes and hopes for their future generations the conversations go in many directions. We may discuss big picture financial planning, charities, 'doing good' in the world, etc. The most consistent topic is usually the kids.

Various philanthropists have said it is harder to give away money successfully than it was to make it in the first place, and we've seen this proven true. Considering how difficult it is to create a fortune large or small, this makes sense because very few people succeed to this level, and giving money is a very different skill from creating money.

When it comes to giving within a family the issues multiply since kids rarely have the same 'money personality' or needs. These realities are magnified when sons or daughters-in-law arrive along with the potential marital worries they can bring.

As you'll read in the article below by **Ben Carlson**, none of this is new or unique and we've seen all sorts of examples good and bad over the years. We always suggest equal treatment for all, and as much transparency as possible, and we consider the risks of giving too much money or giving too easily. As you'll read, there is no shortage of ideas and options for a successful family!

https://awealthofcommonsense.com/2024/02/creating-generational-wealth/

WHAT THEY SAID

"Two of the hardest things to do are to save when you're young and spend when you're old."

Unknown

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