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There is much about the current investment climate that baffles me. Top of my list are negative yields. There are now some \$15 trillion in bonds which have an interest rate below zero around the world. Try as I might, I find that hard to fathom.

In August, Jyske Bank A/S, Denmark's third largest bank, announced it was offering 10 year mortgages at a rate of negative -0.50% . Another Danish bank offered a 20 year mortgage of 0.0% . With a negative yielding mortgage, the amount owed declines each month by more than the monthly payment. Banking has been turned upside down. The Guardian (August 13) reports that in Switzerland the bank UBS will introduce a charge of 0.60% if clients deposit more than EUR 500,000.

Last week even Greece sold debt offering less than 0% . The Greek government issued EUR 487.5 million of 3 month debt at a yield of -0.02% . It was just last August that Greece emerged from an eight year international bailout program.

Japanese investors, after four years of long term interest rates at or below 0.0% , have ramped up purchases of U.S. Treasuries. Japan has now surpassed China as the top holder of U.S. Treasuries. Also in the category of baffling facts, RBCDS reports that "a byproduct of these strong flows into U.S. Treasuries by Japanese investors is that it has created an opportunity for U.S. investors to go the other way and purchase JGBs (Japanese Government Bonds) on attractive terms on a currency hedged basis...JGBs yield nearly 100 bps (100 basis points equals 1%) more than U.S. Treasuries on a F/X (foreign exchange) hedged basis". (October 8, 2019)

Pity the regulated pension and insurance fund managers who have to buy government bonds with negative yields. Years of ultra-low yields have increased companies' pension obligations. This week General Electric announced that it is making major changes to its pension plan, including freezing the U.S. pension plan for 20,000 employees, to improve its balance sheet.

What's more, RBCDS (October 9) reported from an investor conference in the UK that "a saver who wants to use Gilts to achieve an inflation adjusted £1.00 would need to save £2.60 today. This is a consequence of extraordinarily low interest rates across the developed world where the real yields offered, if that's the right word to use, are deeply negative."



RBCDS's Mikhial Pasic, CFA, found another way to illustrate how challenging it is to manage pension funds or, to save for retirement, with low interest rates. If a saver in Ontario wanted to achieve the minimum wage in retirement by investing in 10 year bonds he would need \$2.4 million now, which is 85 times the annual minimum wage of \$14 an hour. In 2001 the minimum wage was \$6.85 an hour (\$14,248 a year), the 10 year Canada bond yielded 5.4% and a saver needed only \$264,000, or 19 times the annual minimum wage, to retire.

The two groups of stocks that have benefited the most from this worldwide search for yield are the electric utilities and real estate investment trusts. As has been the case for the last few years, reliable income is sought after in the stock market.

Also baffling to me is that somebody could think that 25% tariffs on goods imported from China to the U.S. was a good idea. Tariffs are an important reason that the New York Fed's model puts the odds of a recession at a recent high of 38% in the next 12 months. As Barron's wrote October 4, "But that also means there's a 62% chance that a recession won't occur."

Manufacturing companies in particular are being badly affected by the trade wars. A local case in point is Dorel Industries, which gets 50% of its revenues from the U.S. On October 1 Dorel eliminated its dividend "until the chaotic conditions created by tariffs are normalized." At their Annual Meeting in June, President Martin Schwartz didn't seem to think the U.S. would shoot itself in the foot by maintaining high tariffs (nor did I). That would appear to have been a miscalculation of Mr. Tariff Man.

I went to a friend's funeral this week, always a reason to reflect. Ted was an exemplary sailor. While appreciating the beauty of Hudson Yacht Club on a fine fall day I thought of how lucky I've been. Happy Thanksgiving.

This is the time of the year when charitable giving is popular. As you know there is no capital gains tax on gifts of appreciated securities. Alexa and Margarita are only too happy to help you with that.

Sincerely,

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Please visit us at www.georgestedman.com

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