

# “I HEARD IT THROUGH THE GRAPEVINE”

**December 2023**

By Brahm Satov

As we approach year-end, it is once again time to take stock, sort to speak. I have been what we call “bearish” or some may argue, more bearish, since late 2021. (Bearish meaning, of the opinion that stock markets would trend lower). It was in late 2021, early 2022, that I was reducing holdings of the Canadian banks and adjusting portfolios to be more conservative. Recently, I heard through one of my colleagues, that someone said, although I was right in 2022, when markets went down, I have been wrong thus far in 2023. And they are right, I have to admit in 2023 I have been wrong. I, for the most part, expected markets to trend lower as higher rates slow the economy. And whilst the economy has certainly slowed, the stock markets, have trended higher. Now, I am ok with being wrong, I have been married for over 20 years to a beautiful Trinidadian, and for those in the know, spicey, at least for my wife is not just a food preference. So being wrong is not new to me. While on the subject, in regards to my wife, or my much better half and soulmate, I would like to wish her a very happy birthday as December is her special month. I am thankful to those who remind me when I am wrong, although I had to smile when, I heard it through the grapevine.

I want to be very clear in terms of my prognostications and market expectations. I believe I have said this before, but I will say it again, just in case. I expect(ed) markets to trend lower as the economy slows, we could call this phase one. However, when markets realize a central bank pause is amidst, we could get a very significant relief rally or some have called it a Fools Rally. I believe that the reason for this rally is because investors will come to believe of the likeliness of a soft landing as the central banks seize raising rates and things are not yet so bad economically, we can call this phase two. In this period, it may also be that some are expecting rates to trend lower in the coming months and for that to reaccelerate the economy. However, a pause is not a pivot and that may be good news at least for the markets. What do I mean by that? I mean markets could rally in the first segment of this phase two, the pause, but by the time that central banks pivot, usually a stock market correction has already taken hold. Moreover, although a very substantial rally in this phase is possible, I keep expecting investors to smarten up as markets usually experience a significant fall in the very next phase, but so far, that learning we will leave perhaps for AI in the future. In the next phase, phase 3, I expect higher rates to bite and the economy to slow meaningfully, it is in this phase we should see layoffs expand and employment to weaken. Furthermore, in this phase I expect significant stock market weakness as investors realize that a soft landing is less likely. Eventually, I do expect central banks to start to lower rates, to pivot, to try to reinvigorate the economy, we can call that phase four, and stock markets could be expected to continue to fall, at least in the beginning of this period.

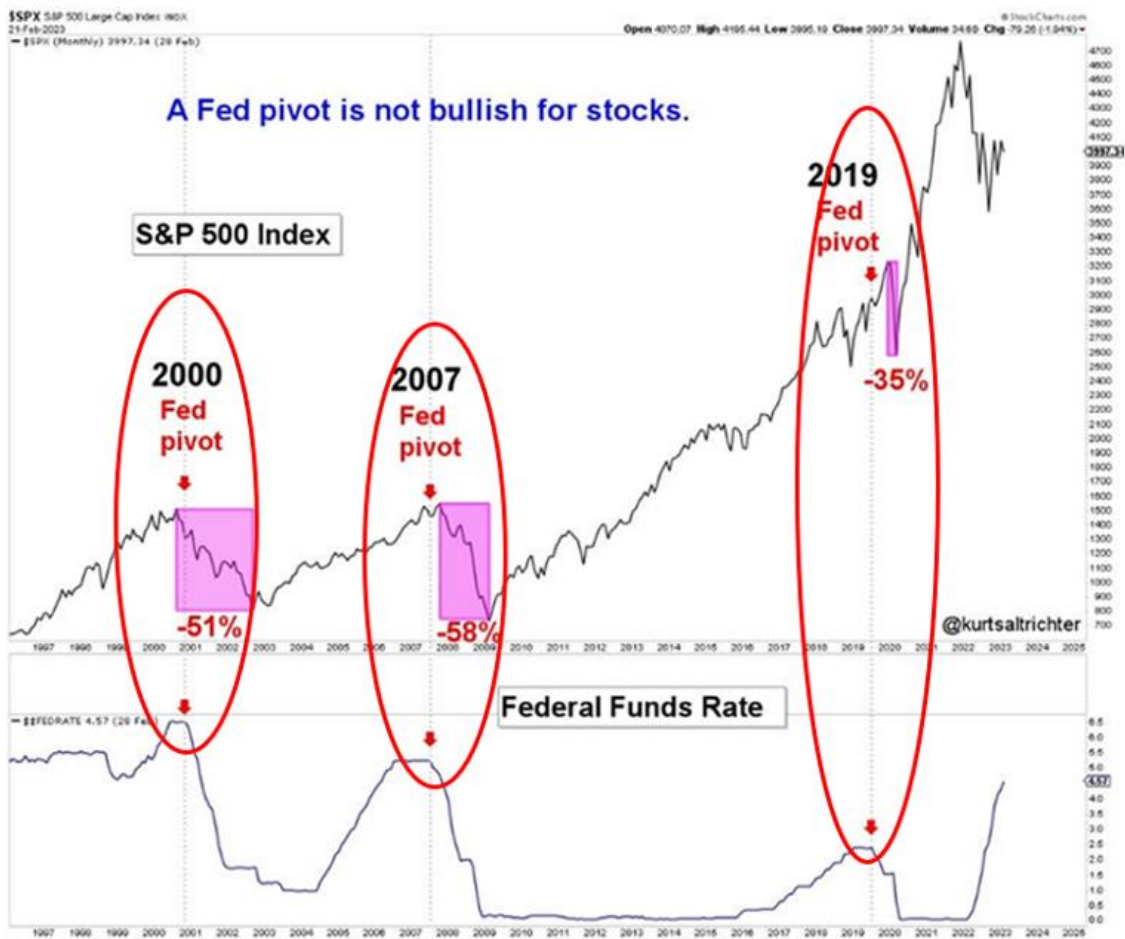
**THERE HAVE BEEN 14 FED HIKING CYCLES, 11 LANDED IN RECESSION!**

First Hike	Last Hike	Result
October 1950	May 1953	<b>Recession</b>
October 1955	August 1957	<b>Recession</b>
September 1958	September 1959	<b>Recession</b>
December 1965	September 1966	Soft Landing
November 1967	June 1969	<b>Recession</b>
April 1972	September 1973	<b>Recession</b>
May 1977	March 1980	<b>Recession</b>
August 1980	December 1980	<b>Recession</b>
March 1983	August 1984	Soft Landing
January 1987	May 1989	<b>Recession</b>
February 1994	February 1995	Soft Landing
June 1999	May 2000	<b>Recession</b>
June 2004	June 2006	<b>Recession</b>
December 2015	December 2018	<b>Recession</b>

Source: Rosenberg Research

Just as a reminder, the chart above shows that when central banks are raising rates, the probability of a soft landing is 3/14 since 1950 or approximately 21.4%. Moreover, in a recent newsletter I wrote that to my knowledge we have never seen a yield curve inverted as it has been without a recession to follow, ever. So for those hoping that this downturn and the following rally was a buying opportunity, I would suggest it is only for the timely or the lucky who get out before it is too late.

For those who are curious as to how the markets actually perform when the Fed has pivoted in the past, in the last three Fed pivots where the Fed (the US central bank) started to lower rates from peaks, like where we are now. The markets suffered a correction of 51% in 2000, 58% in 2007 and 35% in 2019. So when I say a pause is not a pivot, I hope you know what I mean.



Source: Daily Charts, Andrew Sarna Nov 2023

Whilst I am admitting when I am wrong, I should add Bitcoin to the list. Although when it was \$55K, I suggested that it was worthless and not long afterwards it had a severe correction, I have continued to express my doubt with cryptocurrency and so far this year, Bitcoin has had a meaningful rally. It may be ironic that I read an article recently by Michael Grothaus that stated, in my own words, that according to Dead Coins, which tracks cryptocurrencies across the globe, more than 800 cryptocurrencies are now essentially worthless. (<https://www.fastcompany.com/90179072/over-800-cryptocurrencies-are-now-worthless>) Even the cryptocurrency, Stablecoin, is now worthless.

After a difficult year for the markets in 2022, as I write this, the TSX is up barely more than 3% so far for 2023, and all of the Canadian banks are down again so far in 2023 after a very tough 2022. I have been suggesting GIC's and with the 1 year GIC rate at just under 6%, I continue to think that makes sense. No matter your opinion on the direction of the stock markets or the economy, given that history has not been kind to stock markets through these cycles, I still recommend a conservative approach at this time. I would also like to wish everyone all the best of the season. I look forward to the next opportunity to hear what people are saying, and perhaps I will again be able to say, "I heard it through the grapevine".

Thank you for taking the time to read this, please feel free to e-mail me any feedback or comments.

Sincerely,  
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