ABOUT HISTORY

November 2022

By Brahm Satov

On Saturday, September 24th my family and I went to a First Nations Pow Wow. It was nothing as I would have expected. Like most events, I expected to pay for parking, an entrance fee, to obviously pay for food, etc. Needless to say, I was surprised when all of that was absolutely free and we were greeted not by anyone collecting fees, but instead a warm hello. The atmosphere was all about giving. Far more profound was the kindness and overall kinship that we were surrounded by. The experience was, dare I say, moving to my spirit. I highly recommend it to anyone who wants to get a glimpse of part of our history. After all, it was not Jacques Cartier who discovered Canada, nor Christopher Columbus across the pond who discovered America. Everyone knows you cannot discover something if others are there when you arrive. I would like to pay respect to those that make up our history, to those of First Nations, I say miigwech, a profound thank you.

We can all learn from history. On the news not long ago, we heard the U.N. urging the Federal Reserve to ease up on rate hikes, warning of a possible global recession. Although it may be uncomfortable, recessions are a normal part of the economic cycle, and when inflation is high, central banks have little choice but to combat it before it gets out of control. Moreover, because they have tried using tools such as lowering interest rates to ultra-low levels and quantitative easing to make recent economic upswings last far longer than they otherwise would, I believe this makes the chance of a more profound downturn, higher. As I said in my last newsletter, central banks have been controlling the economies. As such, I believe the depth of this downturn is up to them. In other words, if the central banks start lowering rates instead of raising them, re-engaging in QE instead of QT, then I think we can start talking about an economic upswing. However, since inflation is still prevalent, I am not expecting this anytime soon. When rates are rising quickly at the same time as QT (quantitative tightening, liquidity being removed from the financial system), it is like slamming on the breaks of your car with both feet and hoping the car does not stop.

Historically, the Canadian banks receive a lot of attention and that has not changed over the years. Many people think that they are undervalued, I do not share that opinion. I believe the Canadian banks still have more downside, given the probability of lower earnings, with higher loan loss provisions and a deterioration in their profitability. For those who recall history, back in 2009 the price of bank stocks was much lower than in recent years, and more importantly they were trading with much higher yields. The Bank of Montreal dividend yield was at a lofty 8.9% (vs. 4.4% currently), and CIBC had a yield of 7.8% (vs. 5.4% currently), TD Bank paid 5.9% (currently 4%), while Royal Bank was at 5.6% (vs. 4% currently). I believe it is possible to see these types of yields again, after all Scotia already has a yield of about 6.2%, just about in line with yields back in 2009.

(Source: https://www.farbes.com/2009/03/19/ roya1-bank-canada-persona1-finanee-investing-ideas-canadian-banks.html?sh=S26b80644543)

This past October, David Rosenberg wrote a great piece in his Early Morning with Dave. He made the point that so far in this downturn we have had 34 sessions which saw the DOW surged by at least 400 points, and that this volatility happens in bear markets. He noted that between 2010-2019 a bull market, this happened only 21 times. Just to reiterate 21 times over a 10-year span vs 34 in 10 months. We are certainly in a period of choppy markets to say the least, but I believe his point is this, with this much volatility, it is indicative not of a bull market, but a bear, history is a great teacher.

Thank you for taking the time to read this, miigwech.

Sincerely,

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