

“RECONCILIATION”

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By Brahm Satov

Years ago, when I started in this business, I wanted to be able to not just help investors make money, but also keep them safe when markets were not. I have had the privilege of working in this capacity at CIBC for about 12 years and for that I am thankful. I am also thankful that I did not choose to become an economist, as I have learned that even if you get the call right in terms of the direction of the economy, you can be too early or worse yet, too late. You see, to me, in terms of directing investments, it does not matter if we have a recession or not, I just need to make sure I adjust the portfolios based on the probability of one. As many know the feeling of what it is like to go through a significant correction. In other words, move towards safety when it makes sense. Additionally, I think it would be prudent to position based on valuations, especially when they get to extremes. In times of irrational exuberance, even if it persists for longer than perhaps it should, it makes sense to lower the risk in the portfolios. We have, and plan to continue to do this. Although it seems of late that many are celebrating a soft landing, to be honest, I just don't see it in the data. It may be no surprise that I continue to suggest a more cautious positioning in terms of investments. I am expecting more volatility in the equity markets, as the economy continues to slow, and governments battle to try to reinvigorate. In terms of battles, it seems like every time we turn on the news, we see more of it. On days like today, perhaps we could consider reconciliation, bringing people or peoples together after strife. I believe we have much to learn from the people of the First Nations, how can they forgive after so much mistreatment, so much pain, but yet so willing; Reconciliation.

Although, I have been saying that I do think and have thought for quite some time that the probability of recession has been (and still remains) elevated. I am not saying that we are most certainly going to have a recession or that it is imminent. Although, some may correctly point out that based on many metrics we may already be in one. Moreover, in terms of North American stock markets, they are overvalued, overpriced, but again, these excesses could continue for longer than expected.

I was in a meeting not long ago when someone said that the economy had experienced a soft landing. I did pipe up to ask what made them think that we had landed, and if memory serves me, they said that they saw it on the news. I did let them know that to me, the data as I see it has continued to weaken with no sign of a soft landing. Please see below for some of the data to which I was referring. We have the Conference Board Leading Economic Index, no sign of soft landing, employment rate, no sign of soft landing, and housing starts, no signs either, all good leading economic indicators.

United States Leading Index

Summary

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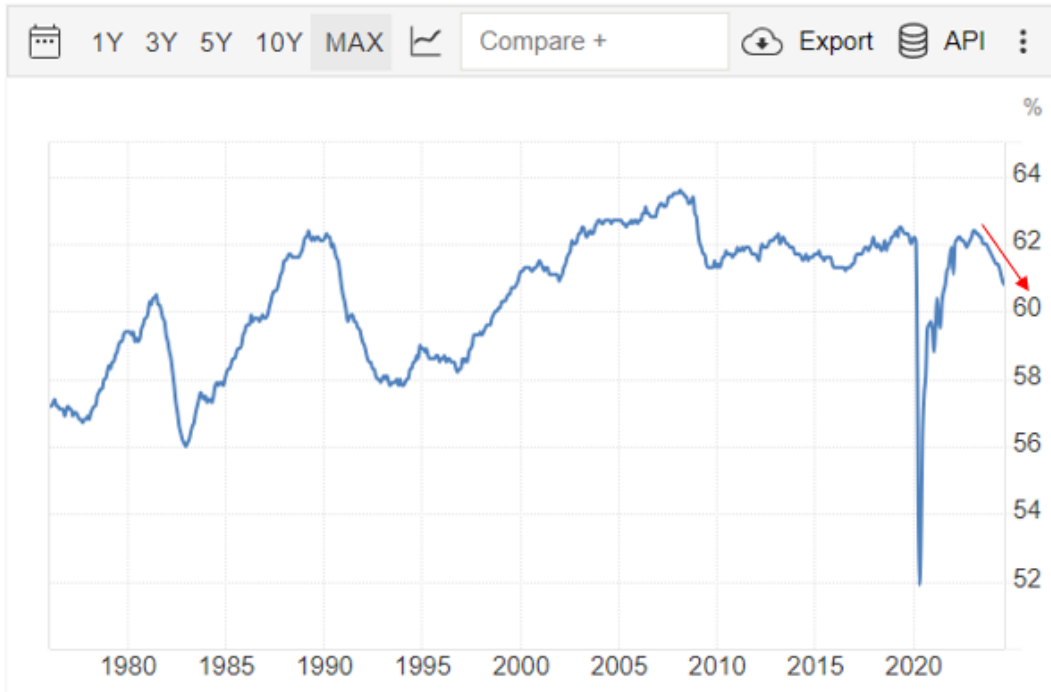
Conference Board



Source: Trading Economics

Canada Employment Rate

Summary Forecast Download ▾



Source: Trading Economics

U.S. Full Time Employed, Change Year-over-year

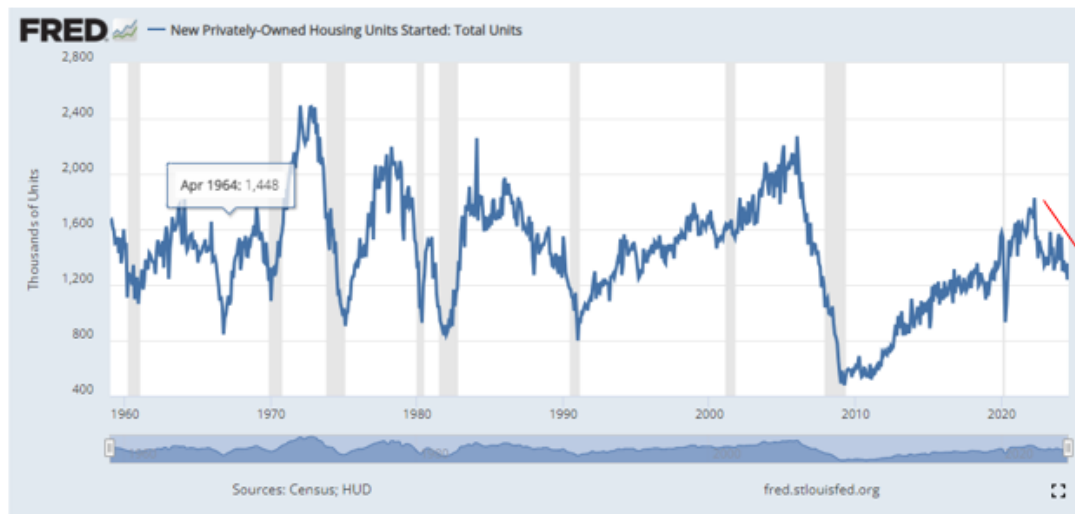


Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Labor Statistics

fred.stlouisfed.org

U.S. Housing Starts



I did not include one of my favorite leading indicators, the yield curve which remains, for the most part, inverted, generally seen as a harbinger for recession, nor did I mention that central banks historically do not have a good track record of orchestrating a soft landing, although they often do, lower rates, and try. Keep in mind the dual mandate of the Federal Reserve, the pursuit of maximum employment and stable prices. Although, the U.S. central bank lowered interest rates for the first time in more than four years with a bigger than usual cut recently, as it reduced the target for its key lending rate by 0.5%, to the range of 4.75%-5%, in my opinion this was done because they are quite worried about the direction of the economy.

Each year, in Canada, September 30, marks the National Day for Truth and Reconciliation. The day honours the children who never returned home as well as survivors of residential schools and their families and communities. My thoughts are with you, reconciliation. 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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