

“HOW LONG”

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By Brahm Satov

How long can this market last? How long until we see a recession? How long can this gold rally last? How long can this inverted yield curve go on? Two bands that I know of, performed a song entitled, “How Long”, the Eagles (you know Don Henley, Glenn Frey, etc.), as well as a band called, Ace, (Paul Carrack on lead). Now although I like the Eagles, I would like to give a shout out to the version performed by Ace, as I heard and enjoyed this song often in my growing up years. Ironically, my dad had nicknames for so many people, and many nicknames for me, but my favorite was when he called me, “Ace”. In terms of how long, I will endeavor to do my best at providing my thoughts on, “how long”.

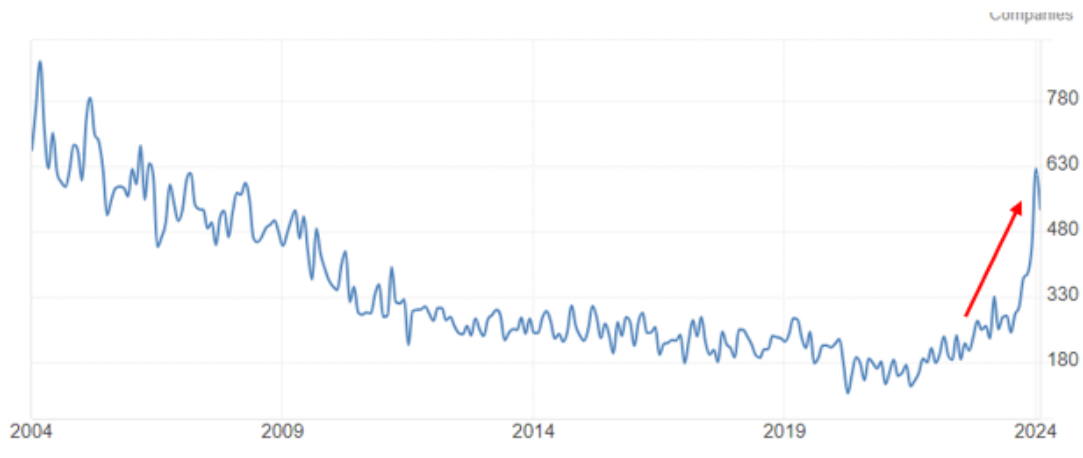
Alan Greenspan, the Chairman of the Federal Reserve (from 1987-2006) gave a speech that included irrational exuberance on December 5, 1996. In other words, he felt at that time that the stock markets had become overvalued and irrational and were trading at values that did not make sense. Yet the stock markets continued to rally for many years, 1997, 1998 and 1999, until the technology meltdown in 2000 and a corresponding severe 3 year stock market correction. In short, how long can stock market euphoria last and momentum based market movements, in my opinion far longer than they should, but I would surmise that they all end the same.

In terms of the gold rally, in 2005 gold stocks performed well for just over 3 years and then suffered a correction just after the 2007 Financial Crises. However, not long afterwards, the sector did recover and rose to new highs as central banks and governments tried numerous stimulative measures to try to reinvigorate the economy. It looks to me as if we are in similar times and the gold mining stocks started an upward trend in March of this year, so given the history, I suspect the runway for this sector still has a good ways to go. In addition, given the massive debt load, which puts downward pressure on the economy especially if rates rise, we could expect further stimulative measures which I expect to continue to devalue currencies, and that should continue to be positive for precious metals.

In regards to the yield curve inversion, I believe this has already been the longest inversion on record. And we know that the inverted yield curve has historically been a good predictor of recessions. Albeit the lead time can be long, sometimes years. Nonetheless, an inversion especially one that is both persistent and pervasive, in my opinion should be taken seriously and as such investors should be more cautious, even if it feels like they don't need to be. As history has shown that most often, recessions and market corrections follow.

I would surmise that at least once a week, I get the question of "how long" until our economy sinks into recession. A very difficult question, although I suspect for many Canadians it likely already feels like we are in a recession, given the higher costs for food and fuel and other necessities. Since governments have continued to try to stimulate the economy at the same time as central banks attempt to quash inflation, we are likely going to see a rising chasm in the economy. We are already seeing the number of bankruptcies rise and credit card delinquencies as well, which are signs of stress in the economy. Although I am uncertain when the recession will "officially" arrive, I believe it is just a question of, "how long".

Canada Bankruptcies



Source: Trading Economics

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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