

“DARWIN”

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By Brahm Satov

I am one of the people that really enjoys those National Geographic shows, it's not just the calming voice of David Attenborough, but I think the reasons that these shows often attract my attention is the colorful vivid beauty of nature, the interconnectedness of all things as well as the Darwinian aspect of survival of the fittest. I believe that according to Charles Darwin it is not necessary the strongest or fastest that survive, but when he says the fittest, interestingly I believe he refers to those most adaptable to change. I have been focusing recent newsletters on the rising likeliness of economic weakness and the probability of an equity market correction. Congruent with this, I think it is important to lower risk in the portfolios (change) when the probability of correction is high.

I started to change the allocation in the portfolios we manage in late 2021, thankfully that helped greatly in 2022. In early 2023 the markets experienced a rally as many believed in a soft landing. In my last newsletter I reiterated that the probability of a soft landing is very low, very. It has been a long time, well over a year and over two for many indexes since they have made a new high, that means for most investors this has been a difficult period. Albeit for those who moved to GIC's, they may be smiling, as although markets have not made a new high, GIC's continue to pay a handsome yield.

In terms of survival, I did write about the rising probability of bank failures prior to SVB and Signature banks failures in March 2023. Recently, we have seen what is called a bear steepener, (whereby long-term rates rise). Please keep in mind when this happens, existing long-term bonds (with lower interest coupons), lose value and depreciate. For companies holding significant amounts of these bonds, this could prove problematic as the devaluation negatively impacts their balance sheets and, in some cases, creates collateralization issues. In my opinion, this once again raises the probability of difficulty not just for the banks, but also the insurance companies and any business that holds a large amount of long-term debt on their balance sheet.

In regards to competition, the bond and stock markets compete for investor dollars, so as GIC interest rates rise, and bond yields rise, they become more attractive, and the stock markets, less so. As a result, demand for stocks often fall as investors eventually move from stocks to bonds, and accordingly stock prices should be expected to fall.

For those looking for signs of a recession on the horizon, we have seen more than a few. Scotia recently announced that they are reducing their workforce by 3%.

(Source: <https://www.reuters.com/business/finance/scotiabank-says-q4-results-will-be-adjusted-certain-notable-items-2023-10-18/>, "Canada's Scotiabank to cut 3% of its global workforce", By Nivedita Balu, October 18, 2023). Credit Swiss is also looking to let additional people go. (Source: <https://www.bnnbloomberg.ca/credit-suisse-prepares-for-more-job-cuts-financial-news-says-1.1987080>) And Nokia announced a large cut, up to 14,000 people. (Source: <https://www.bbc.com/news/business-67153676>). It was not that long ago that businesses were vying for talent, these reductions in my opinion, are indicative of the next phase of this downturn.

As some of you may know I was fortunate to have spent more than a few years of my life in Hawaii. What you may not know is that on January 16, 1893, United States troops invaded the Hawaiian Kingdom without just cause. A land that had been led by kings and queens for generations. (Source: <https://www.nea.org/nea-today/all-news-articles/illegal-overthrow-hawaiian-kingdom>). More than 60 years later, Hawaii officially became America's 50th state on August 21, 1959. I am certainly not advocating that the US was right nor just in terms of Hawaii. What I am saying is Hawaii seems to have for the most part emerged from this turmoil and is largely viewed as a place of peace and tranquility. When I arrived in Hawaii, I was all by myself, lonely, but in retrospect it did not seem to take long until I felt like Hawaii had become my hale. I felt like I fit in with the people, nature, and the surroundings, and although I was from the mainland, different if you will, I felt as if I was treated like Kama'aina. When I went back with my family many years later, just before the Covid years, although so many things had changed, I still felt like I had returned home.

Just to reiterate, the survival of the fittest is considered an ageless law of nature, but the fittest are rarely the strong. The fittest are those endowed with the qualifications for adaptation, the ability to accept the inevitable and conform to the unavoidable, to harmonize with existing or changing conditions. Although I still enjoy those National Geographic shows, it seems much of what I see on TV is sadness, it makes me question humanity, as the supposed most intelligent creature on earth, cannot seem to find peace nor harmony, perhaps it is time for change.

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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