RESEARCH CAPITAL
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Quarterly Newsletter October 2023

The summer has flown by, and I hope that it was an enjoyable one for you, despite the smoke from the forest fires and the extraordinary heat experienced around the world. This summer also felt more normal as though still present, (I was sick again in May), Covid was not an issue and spending time with family and friends was a pleasure.

During the summer, the stock market seemed quieter. Employment is still high thus offsetting the effects of interest rate increases and inflation. North America and Europe have actually talked about or have paused interest rate increases and companies were still issuing positive earnings. There have been ups and downs, but effectively the U.S. and the Canadian markets since June have been moving sideways.

The same concerns are still with us:

1) Inflation coming down but ticking back up now and then. Oil prices have been rising which is a primary driver of inflation as it causes increases in pricing of supply and production of goods.
2) The ongoing Ukrainian war with the death toll rising and its infrastructure being destroyed. Now the stoppage of grain transportation is creating global food scarcity which can result in political issues and coups in Africa.
3) China's slowing economy. China finally dropped its zero Covid policy but has not done enough to help the economy grow again.
4) Interest rate increases. They have been paused, but still a concern that there may be one if not two more increases to come which will trigger a recession. Unfortunately, central banks, all use lagging indicators when making judgement calls and tend to overreact.
5) Recession; Are we in one now or not? No one seems sure, and again due to statistics used recessions are usually over by the time the NBER (National Bureau of Economic Research) says we are in one. The current situation is fragile, and anything can trigger a serious downturn.

The writer strike in the U.S. appears to be settled but the actor strike is still ongoing. Thousands of people who work in the film industry have been out of work since April. It is so bad in New Mexico that my daughter's restaurant held a music festival one weekend employing movie people and raised funds to help cover people's basic needs. Now, there is the car industry strike, demanding exorbitant pay increases and causing side factories to close and lay people off.

Higher salaries fuel inflation. Companies' costs increase thus they increase the price for their products which causes inflation to rise. As inflation rises so do Interest rates affecting people's and companies' ability to manage their debt expense. The result -- bankruptcy and foreclosure and more people out of jobs. Yes, people should have higher wages, but it is a balancing act. If this spiral of rising rates gets started, the prospect of a short recession becomes more unlikely.

Looking Forward
Where is the recession? It was originally projected to start early 2023, then later in the year. Now some, like the Bank Credit Analyst, are saying mid-2024. In short, no one really knows, and the glass half-full and half-empty discussion continues. As stated above, global economies are fragile. Germany managed to keep production up despite an energy crisis through the winter but is starting to struggle now. China is under-performing and actually reducing rates. Over the last quarter the economy and stock and bond markets have moved sideways.

What should be done with investments? Equities that pay dividends have declined in value as interest rates rise. That value decline does not mean the dividend would be cut or your income reduced. It means that you are being paid to wait until this protracted turmoil subsides. It means holding some cash in reserve, rebalancing portfolios, and taking profits on some of the stocks that might be peaking. This does not mean sell all of a particular holding but maybe a judicious reduction depending on your situation.

Bonds/GICs might be good for an education savings plan or because you know that you need a set amount of money in a couple of years. I do not think that they are going to help you achieve a growing portfolio with growing income for the years to come. I could buy BCE bond with a 3.8% coupon maturing August 21, 2028, at $92.373 (I have done so for some education savings accounts) for a yield at maturity of 5.6%. Inflation is currently at 4%. That means your real return is only 1.6%. With GICs this situation is worse as you are locked in for five years. A bond you can sell. BCE common stock price $53.10 yields 7.28% with the potential of increasing its dividend over the years. It did pause in 2009, but since then has increased on average 5.2% a year. This means you will be outperforming inflation. Bonds and stocks do decline in price when interest rates rise and rise in price when interest rates decline.

As we move into fall, I will continue to stay the course. We should all stay away from the “hot stocks” in the media (a good rule of thumb is that when a stock is touted in the media, any opportunity it held is long past) and stick with what we know and need: electricity, food, shelter, core goods, metals and materials and banks.

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