

# JW S04E09 James Gauthier

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## SUMMARY KEYWORDS

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## SPEAKERS

James Gauthier, Pat Bolland

### Pat Bolland 00:16

Welcome back to the Just Word Podcast. I'm Pat Bolland and James Gauthier is the guy who runs all the money at Justwealth Financial. who James is an expert on the markets around the world, and he's going to try to explain what's happened so far this year... James, great to see you again.

00:35

Hi. Pat, good to be with you,

### Pat Bolland 01:08

James. You know we always do a market update. We haven't done one in a while. It's mid year. And more interestingly, last week, we had the crash. They're calling it the Kamala Crash, but what really went on in the stock market last week?

### James Gauthier 01:27

Yeah, I'm not sure it was a Kamala Crash. Kamala has risen in the polls, I think, much more highly than expected, to Donald Trump's dismay, I'm sure, but I don't think that's what caused the crash? It might have accelerated it a little bit, but what happened last week was the reversal of the Japanese carry trade. That is what started the problem. So if you look at what's happened around the world, you know we saw a bit of a bump here in North America. It happened to happen on the day of a Canadian holiday, or at least for Ontario, where the Toronto Stock Exchange is. So we kind of bypassed it a little bit, or at least defer to the day. But Japanese markets were down 12% on the date of that trade. And I mean, the Japanese carry trade has been something that investors have been taking advantage of for decades, because interest rates have been so low in Japan, it's very cheap to borrow there. So people would borrow their invest in the US or other markets, whether it's in fixed income securities or more risky securities. And when all of the concern came about that the central banks in the United States were going to reduce interest rates that carry trade was not as attractive. And what happens is, I think there was a bit of a squeeze that happened on people that were over extended leverage on margin, and some of these trades got called, which means that, you know this, this Japanese stock market tanked, and, and, and that had a domino effect around the world.

**Pat Bolland** 03:09

Yeah, incredible, yeah, borrow at low rates, invest, hope to get a higher rate, and then when that doesn't work, can unravel pretty fast. But still, James, you have to admit, it's a presidential election year, and it plays in the markets, doesn't it?

**James Gauthier** 03:23

Oh, absolutely, it does. I mean, we've got, we've got 2024, November, scheduled for US elections. Things are starting to heat up. I mean, up until about a month ago, you know, it was Joe Biden versus Donald Trump, and that story has changed. And, you know, markets do react to it. I mean, it is short term, and in the long run, it means almost nothing, but it can have short term impacts. And we've got the same thing probably in 2025 here in Canada, a hotly debated election is going to come up. I'm sure there's been a few elections around the world as well. I mean, France has had one recently. The UK is another one. I mean, there's, there's lots of places in Europe that are up for elections. So it can have an impact on the local market, and that can have repercussions globally.

**Pat Bolland** 04:11

Okay, let's bring it back home. Though. How is the economy, the Canadian economy, the US economy? Everybody seems to be talking about jobs or the lack of growth of jobs. What are your thoughts there?

**James Gauthier** 04:24

Yeah. Well, I mean the data, the data has been softening. For sure, the economic data releases out of Canada and the United States has generally been trending down. And that shouldn't be surprising, because central banks have been focused on decreasing inflationary pressures, and the way that they try to do that is by trying to slow the economy. So now that the economy is slowing, their job is becoming close to being done or potentially, and the fear is that they overdid it. They went too far. Interest rates have been at high levels, above average levels for a prolonged period of time now, because inflation has just been too persistent. But if you look at the data, whether it's it's, you know, economic output or GDP or pertaining to personal delinquencies on credit cards, defaults, mortgages starting to default, you are seeing signs that the trouble is on the horizon, which was by design. So this is, this shouldn't be surprising.

**Pat Bolland** 05:26

Okay, so do you anticipate interest rates will go lower from here then?

**James Gauthier** 05:31

Absolutely yes. I mean, a lot of a lot of people in the media are saying that they're already behind the curve. At least in the United States, we've already started cutting rates. In Canada, the Central Bank of Canada has cut interest rates twice. Small moves quarter point, but the US has yet to move. So their next meeting is in September. It's probably, oh, I don't know, five weeks away or so. And they they are expected to cut for the first time in several years. And some people are saying it should be a 50 basis points cut which, which is steeper than what we've done here in Canada, but they are probably the, the last major central bank to move on this.

**Pat Bolland** 06:11

Okay, so that does that mean you can move with confidence into the bond market, for instance?

**James Gauthier** 06:18

While declining interest rates are good for bonds. There's no question about that. The thing is, bonds, the bond market is already priced in some cuts they anticipate. Markets are supposed to be forward looking. So, you know, it changes from day to day. But right now, markets are pricing in about 100 basis points worth of cuts within the next year or two, so that that is already priced in. And the question becomes, are they going to do more, or are they going to do less than that? And you can, you know, configure your portfolio around that if you want to gamble on something like that. Generally speaking, you know, it's, it's hard to see why interest rates would go up in the short term unless there was some kind of re reigniting of inflationary pressures. It's, it's, it's hard to believe that central banks are going to cut rates gradually. We've been on a downward trend, and that's probably going to continue, which would be good for bond prices.

**Pat Bolland** 07:13

Let's talk about stocks, because we talked about the crash last week, but the market seemed to recover pretty quickly. Is there a chance we could get to record highs again, for instance?

**James Gauthier** 07:23

Well, markets have been red hot this year. The US market is up over 20% and we're only in August. That's a year to date number. And that is the same story in Canada, not quite as much. Same story internationally, again, not quite as much. But I think the pullback that we saw, even though it was only really a couple days, and it was a little bit steep, and if you look at more exotic indices, like the NASDAQ, which is more concentrated in technology, it technically went into correction territory. It went down more than 10% but other major markets did not they only dropped a couple percent. So overall, I think it's really going to be dependent on what happens with the economies. If we have more of a soft landing and interest rates come down, that's favorable for the stock market. But again, the fear that we talked about just a few seconds ago was, have they gone too far, and if that's the case, and we have a more deeper recession as a result of interest rates being too high for too long, then that could have negative consequences for the equity market.

**Pat Bolland** 08:32

Okay, so where are you looking right now to invest, whether it's stocks or bonds, or is it Canada, the United States or somewhere else in the world?

**James Gauthier** 08:43

We don't like to jump around too much, you know, we we keep our portfolios pretty stable. We like to keep it well diversified, and that helps, you know, diversification helps to to lower risk. So if you have exposure to all kinds of different economies and all different kinds of asset classes. Then when one market goes down, you know, as long as they don't all go down together, which would be extremely rare, usually only happens in a crisis, then you know, diversification is going to protect you. So by design, you know, we're invested in all kinds of markets, all kinds of asset classes, so that you don't feel the full impact when something bad happens somewhere.

**Pat Bolland** 09:26

Do you, when you make investments around the world, do you look at the currency? Do, for instance, hedge the currency that you're dealing with against the Canadian dollar? Because I would assume that most of your clients are, well, are Canadian?

**James Gauthier** 09:39

Yes, they. Most of them are. We do have some international clients, but not many. We also have some US clients again, but not many in the grand scheme of things. So currency is important, and it's, I mean, it's not a major consideration. We basically make a policy decision, either we will hedge or we will not hedge. We don't flip flop. Back, back and forth based on where we think the currency is valued. You know, hedge this month and not hedge next month. And our basic policies are is that we do not hedge US Dollar Currency because it actually provides a diversification benefit. When, when equity markets tend to go down, one of the asset classes that investors will flock to is the US dollar. There's that seen as a safe haven asset, so it's actually a bit of a buffer. The markets don't go down as much because your US Dollars are appreciating. If you hedge the currency, you wouldn't get that benefit. So it's a way to lower the risk in your portfolio. So by design, we do not hedge. US dollar exposure on the equity side, no interesting on the international markets. Europe has some issues with their structure. To put it. Put it mildly. It's the, you know, we saw maybe about 1015, years ago. There was a lot of issue that the pigs, if you remember, that Portugal, Italy, Ireland, Greece and Spain all had some serious economic problems, and it showed some deterioration in the strength of the euro. So the Euro is a bit of a precarious situation, and we don't really have a strong view of where the Euro is. We also have not been a fan of the Japanese yen for decades. So when you talk about international equities, most of the currency exposure is either the euro, the Japanese yen or the British pound. Those are the major currencies of that that investment. So we did choose, by policy to hedge that that currency exposure, so everything that we have internationally on the developed markets is hedged.

**Pat Bolland** 11:51

You and I have chatted before about Bitcoin, so I'm not going to bring it up again, but I will bring up gold, because gold has been in the news a lot more of late. What are your thoughts?

**James Gauthier** 12:01

Well, gold has been on fire this year. Yeah, one of the top performing asset classes doesn't change my opinion of it. It's a non-productive asset. So gold is just a commodity. There's the only way you can make money on gold is if you sell that a price higher than what somebody what you paid for it. And that means that, you know, it doesn't generate profits on its own. It does not create any kind of interest on its own. The only way that you can make money is through supply and demand. And supply and demand, in all honesty, be in all honesty, can be manipulated, whether it's by large central banks or sovereign wealth funds or individual, you know, pockets of money, it is something that is not a true productive asset. So we do not believe in it, even though it's done well, it doesn't mean it's a good asset. So we do not hold it in any portfolios, nor are we ever likely to

**Pat Bolland** 13:02

James as always a pleasure to chat.

**James Gauthier** 13:06

Thanks, Pat. Have a great summer.

**Pat Bolland** 13:08

You too!