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Market Ethos

The latest market insights from Richardson Wealth

RICHARDSON Wealth CONNECTED WEALTH*

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Top 10 of 2021

It is our annual tradition to go through past weekly Market Ethos publications and determine which, in our humble opinion, are worth a re-read, or even a third read. It's also a great way to learn from past views – right or wrong.

Active vs passive – so you are telling me there is a chance (Click HERE)

Clearly passive has dominated during this beta, large-cap driven market. However, with inflation and central bank pivots, we are starting to see increasing dispersion in performance. This does favour active over passive, although both should be present in portfolios.

Modern Portfolio Theory – We have a problem (Click HERE)

With correlations between equities and bonds rising, and correlation between other asset classes elevated, diversification has become more challenging. This has created a market where finding good diversifiers is proving more challenging.

Labour intensity, wage pressure and why people are quitting their jobs (Click HERE)

Transitory or not, inflation sucks. It is essentially a tax on people consuming goods or services, as things simply cost more. It erodes the value of a nest egg in real terms and can wreak havoc on even the soundest financial plan. Supply chain issues aside, the job market is red hot which is building wage pressure and is a concern for an increasing number of companies. This Ethos dives into the sectors that are most, and least sensitive to rising labour costs.

Imagine (Click HERE)

Unfortunately, one question that is not asked often enough is **WHY** did an investment perform well? Generally, investors are focused more on the result— the performance report card if you prefer. Does solid performance that results in an A+ or 5-star ranking really imply a great process, great insights or superior management? Maybe, in some instances. But more often it is simply that a given strategy had a healthy exposure to a trend that took off in the marketplace. The dominant trend over the past 40 years has been falling bond yields. In this Ethos we ask the reader to *Imagine there's rising yields, it's easy if you try*.

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Not all dividends are the same (Click HERE)

Many dividend-paying companies are treated as bond proxies or long-duration investments, so when yields fall, their price tends to rise. This has been a tailwind for some time, but as we near the beginning of a new rate cycle it is worth a reminder that there are dividend-paying companies that are much less sensitive to interest rates – with some even benefiting from rising yields. We refer to those as 'Cyclical Yield'. As the name suggests, Cyclical Yield dividend-payers tend to be in industries that are more economically sensitive. If the economy is doing well, they should do well *and* bond yields should rise. Dividend portfolios should have a mix of both Cyclical Yield and Interest Rate Sensitives, but for now we believe the tilt should be towards Cyclical Yield.

When a dollar is not just a dollar (Click HERE)

A look at the drivers of GDP growth and company earnings. Consumers have spent much more on durable goods and less on services such as travel, leisure and eating out. From an economic standpoint, this shift in consumer spending has been great for the economy as a dollar spent on an automobile has a much bigger impact than a dollar spent on your burrito lunch.

Bull year 2 or 12? (Click HERE)

Where we are in the cycle can have large implications on expected returns and sector positioning. Although March 2020 technically saw a very short bear market and a quick correction, we argue here that 2021 doesn't feel like a new cycle. Speculative aspects of the market, a hawkish pivot by central banks and animal spirits running wild.

Brightest before sunset (Click HERE)

This one is from the end of the summer. The economic recovery was on full display, earnings growth was very strong, vaccination rates were high and climbing and new cases were on the decline. Generally, better returns follow poor returns. Given we are near the upper historical threshold of trailing returns, we stressed that return expectations should be muted. The TSX had returned 18% YTD up until that point, and since then it currently sits just 1.3% above those levels. Most of the levers to move the market higher have been pulled. As contrarians, this means we are sharing our muted return expectations for the market. While not a dire outlook, repeating strong double-digit returns will be a challenge. This continues to apply to markets as we close out the year.

Rarefied air (Click HERE)

Not to get all gloomy, but here is another piece outlining just how far markets have run since pre-pandemic levels. Based on the global GDP measure vs the global equity market valuation, markets appear to be in uncharted territory. "This time is different," is often labeled the most expensive words for an investor's portfolio. This investor lesson is based on mean reversion. When things go on for too long or get too excessive, they often revert to the mean or below it for a time.

Is gold broken? (Click HERE)

This question applies now just as much as it did back in March. Odd looking back now that this report on gold coincided with the low print of the year for the yellow metal. It's up nearly 6% since then, compared to Bitcoin which is now down 6% (after round-tripping from new highs just a few weeks ago). We continue to believe gold plays an important part as a portfolio diversifier.

Source: Charts are sourced to Bloomberg L.P., Purpose Investments Inc., and Richardson Wealth unless otherwise noted.

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*This report is authored by Craig Basinger, Chief Market Strategist, Purpose Investments Inc. Effective September 1, 2021, Craig Basinger has transitioned to Purpose Investments Inc.

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