REVIEW AND COMMENTARY
3rd QUARTER – 2024

Don't fight the Fed

It has been more than four years since North American Central Banks lowered interest rates. In September, the U.S. Federal Reserve lowered rates by 50 basis points. The last time rates were lowered by 50 basis points in the U.S. was 2008 when the U.S. economy was in a recession. While there are signs of strain, there is no evidence that either the U.S. or Canadian economies are recessionary. Of course, with the U.S. election approximately a month away, the health of the global economy may be significantly influenced by the actions of the winner. Trump's promises of wide-spread tariffs, if implemented, will have a significant impact on U.S. economy. As the world's largest economy, the direction of the U.S. will be felt world-wide.

Another significant event last quarter was the decision by President Biden to step aside and allow Vice President, Kamala Harris, to lead the Democrats into the upcoming Federal election. This isn't the first time this has happened. In 1968 Lyndon B Johnson stepped aside but this was well before the National convention. The democrats did not fare well in that election which was won by republican nominee Richard Nixon. The political fortunes of the Democratic Party are much more positive this time around. Candidate Harris is gaining ground and her fund-raising is considerably stronger than her opponent.

While polling has been unreliable in determining recent Federal elections, it does show the race for the White House remains close. Stakes are high. Beyond the potential threat to an individual's rights to education and health care, so is the sovereign independence of many countries. Russian continues its offensive against Ukraine and tensions in the Middle East escalate. If U.S. support of Ukraine and Israel were to wane under new leadership, then these conflicts may escalate quickly, and conclude even faster. A withdrawal of the U.S.'s global geo-political influence may also encourage others such as China to pursue their territorial ambitions.

Of course, residency in the White House does not mean all pre-election promises will be implemented given negotiations between the House and Senate would be required if controlled by different parties which recent polling suggest. With only weeks to the election, the major stock indexes in North America reached new highs in Canada and the U.S. Markets will never go in a straight line up or down and direction can change quickly and often. History suggests that the most visceral reactions in the market are the few days after the election.

In our previous quarterly, we suggested investors become more defensive in their selections. Defensive investors were well rewarded in the third quarter as significant gains were made in the broader markets – at the expense of the top names in the major indexes. For example, in the S&P/TSX index, two of the three top performing sectors were the Financials and Utilities. It has been a while since these two sectors combined to lead the index higher.

We continue to like this strategy for several reasons. First, interest rates have eased and appear unlikely to increase regardless of the result in November. Second, tensions in the Middle East notwithstanding, the Saudi's have indicated they will protect market share rather than market price when it comes to the price of Oil. This is a dramatic shift in strategy and lower oil prices will be a boost to all major economies. Third, the U.S. economy will face some upcoming challenges regardless of the outcome of the Presidential election. Recent labour strikes may slow the economy enough to counter-act the spending required to start rebuilding after the 40 trillion gallons of water dumped on the U.S. south-east by storm Helene. Thus, if November's winner of the White House doesn't impose policies promoting economic isolationism, we continue to recommend staying conservatively invested and don't 'fight the fed' in the upcoming quarter.