

The Market in Review

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This week's articles and insights

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“It’s been theorized that a person living in medieval Europe during the dark ages would get no more information in their lifetime than was in a Sunday edition of The New York Times. Now, each morning, we see more information than that from our smartphones before our coffee is finished.”

— Posted By Kevin Divney, Russell Investments

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	27,141	- 0.30%	+ 16.35%
S&P 500	3,004	+ 0.29%	+ 19.82% (+15.56% in \$CDN)
TSX	16,488	- 0.04%	+ 15.12%

Dog Days

The Dog Days of Summer refer to the hottest period of the year from mid-July to mid-August.

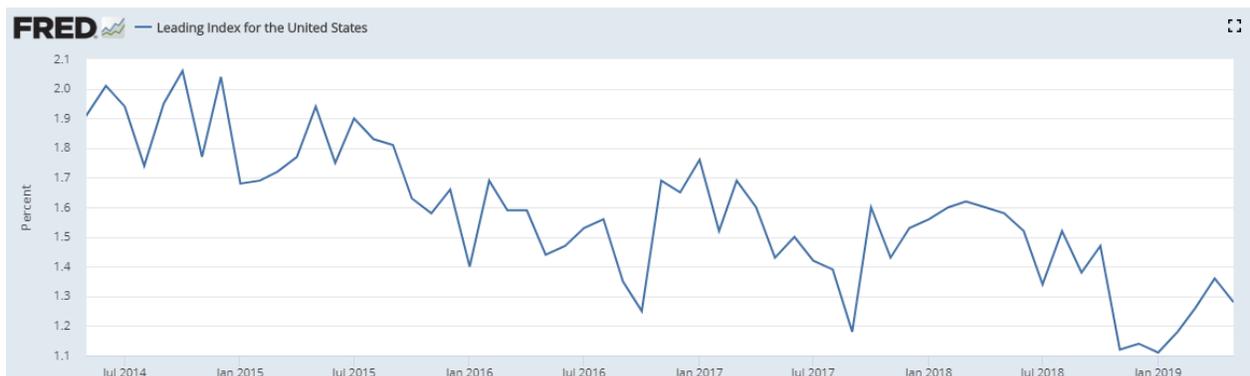
It is the time of year when Sirius, the Dog Star, rises with the sun. The Romans believed this added to the heat of the sun and so made it hotter. Others say it is a time when the temperature drives dogs crazy. As a result, most vacations taken during this period, leading to lower volumes in the stock market. As you can see by the data above, not much has happened this month. Traditionally, August is also slow, albeit a little weaker than July.

A good time to take a vacation, in other words.

That being said, we are always on the lookout for issues that could help or hurt our portfolios. We watch events around the world – and there are so many, it seems – even though few have had any lasting impact.

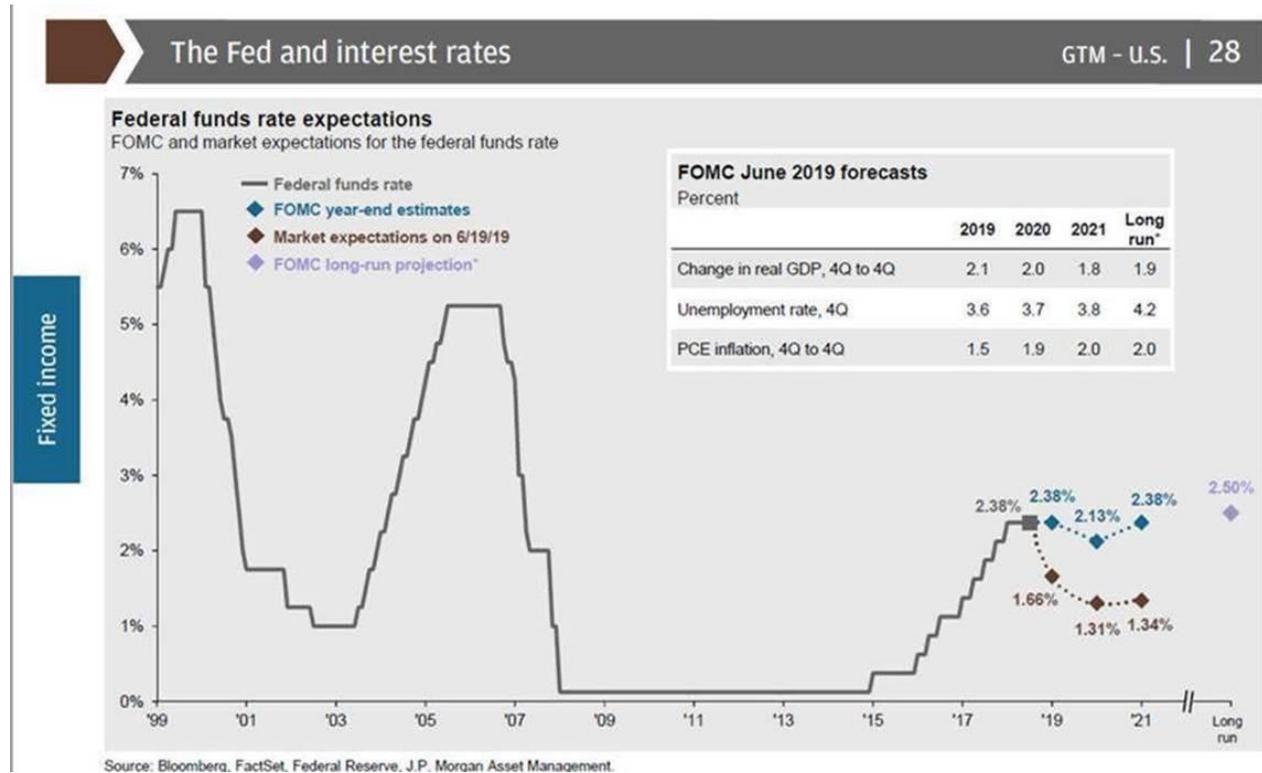
For example, the Iranian seizure of a UK-flagged oil tanker last week would have roiled oil markets years ago. Today? Hardly a ripple. In fact, oil stocks fell on the news. The difference between 2005 and today is that the U.S. produced 5.4 million barrels of oil per day in 2005 compared to 12 million barrels per day today. It doesn't matter what Iran or Iraq or Libya do with their oil – the U.S. is producing so much, it can fill any gaps in production.

Growth has been slowing, as we all know:



...but it is still positive.

We watch interest rates, which are the biggest “agent of motion” for both stocks and bonds. High rates pull money out of the market and into bonds and savings accounts, while low rates stimulate investment. We are currently in a falling-rate world, which is generally good for stocks. After 9 interest rate hikes in the U.S. since 2015, the market is expecting 3-4 cuts in the year ahead:



A few things to point out:

- Stocks have rallied sharply this year under the expectation that rate cuts are coming. If they don't come as hoped, watch out.
- While the market is expecting sharp rate cuts in the U.S., the expectation is for almost no cuts to Canadian rates. As a result, the Canadian dollar has been the strongest currency in the G10 over the last six months.
- 10-year Greek bonds (1.99%) now yield less than 10-year U.S. bonds (2.05%). This shows the hunger for yields in the world today, and why the U.S. has to cut rates. But really – Greece? Rates were 10% there in 2016 and almost 40% in 2012.

Finally, we watch valuations. Stocks in the US today are in the top quintile of valuation compared to history. In other words, in 80% of all prior periods, stocks have been less expensive than today.

The problem is, there are few other places to put your money. Around the world, almost every country is lowering interest rates and US \$13 trillion in bonds now have negative yields. Stocks may be expensive compared to past periods for stocks, but compared to bonds? They have rarely been less expensive.

So, we are stuck holding what we have and waiting for something to happen.

Population Bomb, or Bust?

In 1968, a Stanford University professor named Paul Ehrlich wrote a bestseller called **The Population Bomb**. He postulated that we were filling the world with too many people and the 1970s would see mass starvation. However, just the opposite occurred - the world had 3.5 billion people then compared to over 7 billion today. Contrary to Ehrlich's fears, global life expectancies have never been longer.

Regardless of whether he was wrong or just early in his predictions, the fear remains that there are too many people on the planet and it is getting worse. While no one can argue there will not be more people tomorrow than there are today, will there actually be as many as we fear? And given that humans are living longer and better (wars and crime rates are down, for example, and obesity is now a bigger killer than starvation), could we end up with an excess of old people?

In other words, could a falling birth rate be worse than a rising one?

The United Nations' official projection shows the global population peaking around the year 2,100 at about 11 billion people. This is 4 billion more than the roughly 7 billion on the planet today. That will be a lot of mouths to feed.

However, after studying the rapid decline in fertility rates in every part of the world, many statisticians are scaling back their estimates. Iran, for example, had a birthrate of 6 children per woman in 1980. It has fallen to just 2 children per woman today. The number is the same even in frontier countries, such as Bangladesh.

Wolfgang Lutz, of the Vienna University of Economics and Business, believes the Earth's population will peak at 9 billion around 2060 - nowhere near the 11 billion

estimated by the U.N. Not to be outdone, a former population alarmist - Jørgen Randers, a Norwegian academic who co-authored the book **The Limits to Growth** about global population reaching unsustainable levels by 2100 – has now sharply reduced his estimates.

“The world population will never reach 9 billion people,” he now states. “It will peak at 8 billion in 2040 and then decline.”

China is more exposed than most countries to a declining population. To slow its rapid expansion decades ago, it enacted its infamous “one-child, one-family” policy. Some say this prevented close to 500 million births. The most recent official study showed China’s population peaking in 2029. However, the firm Global Demographics did its own study of data such as primary school enrollments and came up with 2023.

In other words, China could start to shrink in just four more years.

It is not unique to China, either. Twenty countries are already seeing their populations shrink. Italy is shrinking the least, Japan is in the middle, and Puerto Rico is shrinking the fastest. China has now relaxed its one-child policy, but it has made little difference. Births fell last year to the lowest level since 1961.

The main reason appears to be when women have choices. Specifically, those provided by education and economics. Educated women tend to marry later and have smaller families due to career aspirations. And all those people China has lured into their megacities have discovered having a child is an economic burden. It can take two incomes to rent a small apartment.

Fewer Than We Think?

To maintain a stable population, a country needs a birthrate of approximately 2.1 children per woman (one for each parent, and a bit extra for early deaths). China’s official fertility rate is 1.6 births per mother, but new analysis shows it could be much lower - closer to 1.2 to 1.4. In Shanghai, for example, the largest city in the country, the birthrate was just 0.88 in 2008 (Lutz and Basten 2010; Shanghai Population and Family Planning Commission 2010). That is more than one baby per women too few to maintain the city’s population.

In a recent article in the South China Post, researcher Yi Fuxian at the University of Wisconsin-Madison said China’s real population may be even less than what we have been told. As much as 90 million fewer people than official figures state.

“China’s official population data after 1990 has been overstated,” the article says. “His research suggested there were 377.6 million new births from 1991 to 2016, less than the official figure of 464.8 million. That’s about twice the size of Spain’s population, which is slightly over 46 million.”

Of course, the Chinese government does have great sway over its people, so it is possible it could incent or even force families to have more babies. However, education and economics are larger factors than propaganda, and they are already too entrenched to turn the ship around. China’s Millennial Generation has been hollowed out by the one-child policy, and so they do not have a large enough younger cohort coming up behind the Baby Boomers. The population of workers in China peaked around 2015, and pensions are expected to be in extreme stress in another decade due to the sheer volume of pensioners drawing them down.

In summary, China is likely to get old before it rules the world.

Over Here

On this side of the ocean, things are a little different. Canada’s official fertility rate is about 1.6 and that of the US is about 1.8. The extra factor both our countries have is high immigration. Canada allowed almost 350,000 immigrants last year, which is 1% of the population. Canadians are not intrusively spied on, monitored, or arrested without reason, making it a global beacon. In fact, the countries with the highest rates of immigration - Australia, Canada, Finland, Germany, Hong Kong, Belgium, Luxembourg, Macau, New Zealand, Norway, Sweden, the United Kingdom, and the U.S. – all share the same freedoms, in addition to economic opportunity. Countries with oppressive governments – China, Iran, Zimbabwe, Kyrgyzstan, and Egypt, to name a few – are all experiencing a net outflow of citizens.

As a result of a modest birth rate and vigorous immigration program, Canada’s population is growing even as many other countries are shrinking. Our Millennial generation is larger than the Baby Boomer generation, so we can look forward to robust housing and clothing sales for some time to come.

How does this affect us as investors? With over 300,000 in net immigration and 100,000 in natural births, Canada’s real estate industry is seeing a historic rise in higher rents. We simply don’t have enough homes (yet) for all these new people. The Greater Toronto Area has a 25,000 housing unit shortage and grew by 77,000 people just last month alone. Toronto (+8%), Ottawa (+6%) and Montreal (+4%) are experiencing rent growth that is twice their historical averages. This

could persist for at least the next three years until new construction catches up with demand.

Our Dividend Value portfolios hold the Canadian Apartment Properties Real Estate Investment Trust (**S&P/TSX CAR.UN**), which benefits from the need for more apartment housing. Canada's banks also benefit through mortgage lending and building finance.

Population decline is not necessarily a bad thing. Crime drops, but so does growth and vitality. Canada is blessed to be a young, attractive, and still-growing country.

Ideas of Interest

For you precious metals fans, silver may have just touched an important low. Measured against gold, silver fell to the lowest price since 1991. In past periods, silver has subsequently outperformed gold for at least a year after this reverses.

What is a good way to feel more secure about your finances? Hold a bigger-than-you-need balance in your savings account. Elizabeth Dunn, a psychology professor at the University of British Columbia and a co-author of **Happy Money: The Science of Happier Spending** found that people's bank balances were "of unique importance to life satisfaction. Middle-income people might feel pretty good about their level of income if they just happen to be living their lives in such a way that even if they don't actually have a lot of net worth, but they always have 8,000 bucks in the bank." We have always advised to keep extra in the bank because it feels good. Now there's proof!

It's getting crowded out there in competition for your eyeball time. Netflix (**NASDAQ NFLX**) used to dominate the *watch-what-you-want* streaming business, but is now facing Disney+ (**NYSE DIS**), Amazon Prime (**NASDAQ AMZN**), Apple (**NASDAQ AAPL**), YouTube TV, AT&T's HBO (**NYSE T**) and lesser competitors such as Starz and Crave. We own Disney because of their vast library of movies and sports through ESPN. Netflix recently saw its U.S. customer base shrink, so perhaps Disney is winning market share already.

Bugged by Bugs

Victoria is blessed with a climate that does not encourage mosquitoes. Yet, they always find a way to proliferate, especially when you are having a barbeque.

My wife says mosquitoes like her more than they like me, and she may be right. A recent article on what mosquitoes are attracted to suggests that the female hormone estradiol is a key attractant. Dr. Jonathan Day, a University of Florida professor, says “They cue in on...the hormone estradiol,” he says, “which is far more prevalent in women than in men.” They also feed on easier targets, and since women have less hair on their arms and legs, they tend to get bitten more on this exposed skin.

They also smell the air for carbon dioxide, which mammals breathe out, and lactic acid, which is produced during exertion. Alcohol raises our metabolism, causing us to emit more carbon dioxide, so drinking and mosquitoes definitely don't mix.

Other than using insect repellent – the most effective remedy – what else can you do? Light coloured apparel is preferable to dark coloured, and tight fitting clothing is harder to penetrate.

This article is can be found here:

<https://www.insidehook.com/article/health-and-fitness/all-the-reasons-mosquitoes-single-you-out-and-what-to-do-about-it>

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