The Market in Review

Paul Siluch, Lisa Hill, Peter Mazzoni, Sharon Mitchell, and Lincoln Jiang
Financial Advisors
Raymond James Ltd. – Victoria BC

December 17th, 2021

This week's articles and insights

1. *Murder Hornets!*
2. *Where's Santa?*
3. *Will 2022 Be a Growth or a Value Year?*
4. *Looking Forward to 2022*

"Christmas is a baby shower that went totally overboard."

- *Andy Borowitz*

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	35,898	+0.40%	+ 17.29%
S&P 500	4,669	+0.03%	+ 24.30%
TSX	20,740	-0.89%	+ 18.97%

Murder Hornets!

Does the world seem meaner to you these days?

We can blame it on the falling price of paper.

Back in the 1890s, paper prices declined enough such that most newspapers could be profitable. This caused many more to start up. Content was needed to fill the extra sheets and advertisers followed those papers those that sold the most. William Hearst and Joseph Pulitzer battled it out in New York through the 1890s with increasingly lurid headlines about violence, corruption, and disasters designed to pull readers in, and the practice continued through the years as radio, TV, and the internet dominated news dissemination. For over a century, information services have been one-upping each other at an increasing pace.

An estimated 3.2 billion people on Earth today have internet access, so there are a lot of eyeballs to reach. And to attract them, you generally need to scare them.

"If it bleeds, it leads."

- Eric Pooley, New York magazine, 1989

In his compact and cutting description of TV news, Eric Pooley outlined how the most horrid and vivid news got shown first in the nightly news. This is because the worst stories attract the most viewers. Today, the term "clickbait" is applied to sensational stories on internet news services designed to induce the reader to click to read more. Of course, what readers mostly get is ads (and probably bad things on their computers) but who isn't a little drawn to read more about "Burmese Python found in family toilet!"

"A lie gets halfway around the world before the truth has a chance to get its pants on."

- Winston Churchill

It doesn't even have to be true. "Fake news" attracts even more attention than truth. Retractions are now printed in smaller and smaller print if they are even printed at all.

Back to the lurid headlines…is increasing aggression confined to just news? Not at all.

Years ago, weather reporters were the butt of anchor room jokes. That is, until they discovered that their segment was often the most-watched part of the newscast. Weather became a standalone show and now has its own websites. This attracted competition, so to stand out in an increasingly crowded market, weather reporters had to make the news even more dramatic. Red graphics – the colour of anger and conflict - are increasingly used to depict extreme weather. Old sayings that are seen as too tame have been amped up.

Remember the "Pineapple Express" - a term used for late autumn rain storms? Now we have "Atmospheric Rivers". Heat waves are now "Heat Domes", and even insects have gotten into the game.

Washington State Department of Agriculture

Killer bees of the 1970s? Few people fear bees anymore, so now we have Murder Hornets.

"Flurries" are now "Severe blizzards" or "Storm of the century." And don't forget "Snowmageddon."

The financial world is equally to blame, and then add in greed to the emotional melting pot. Stocks rarely "decline" anymore. They "plummet," "tumble", and "crash", then "skyrocket" higher. Viewers are induced to run from falling stocks and flock to rising ones.

While greed plays a part, fear is the dominant emotion in financial reporting. Bearish stories attract more readers, and so bearish analysts can be wrong year after year and yet still get interviews. Like the cranky sage on the street corner holding up a sign:

“The world will end ~~today~~ tomorrow.”

Bearish advisors are never wrong – they are just early in their warnings.

Humans are wired to react quickly to threats. It was how we survived on the ancient savannah. Don’t stop and think about the leopard – just run! Our visual and auditory nerves are tuned more for threat than pleasure because these catastrophes and disasters we read about *could happen*.

I mean, is there a Burmese python in my toilet? I’d better check…

Up until the dawn of cable TV and the hundreds of channels it spawned, most Canadians and Americans consumed the same news and watched the same TV shows. Our world views were more homogeneous, which kept politics and opinion much closer to the middle. Today, anyone can watch anything anytime, and because the watchers (you and I) are being watched (by Facebook and Google), we get steered and fed more of what we already believe.

Christmas is supposed to be a time of good cheer, when the longest night of the Winter Solstice passes and families gather.

What is the cheery truth today? The world has never been safer in terms of countries at war. Humans have never lived longer lives, and fewer and fewer live in poverty. That said, there are many people suffering, and if you have generosity in your heart to help, now is the perfect time to reach out with physical or financial help.

We may ***think*** the world is a meaner place because of the sensationalism of news, but it isn’t.

Here’s to a more peaceful 2022.

Where’s Santa?

November through January is usually the best 3-month stretch of the year for stock markets. Not so much this year, though, for two reasons:

1. **Omicron** – the new Covid-19 variant is spreading rapidly throughout the world. The bad news is that it is up to four times as infectious as the original Covid strain, putting it on par with chicken pox. The good news is that it appears to be far milder. It is an elusive variant, however. Two doses of the Pfizer vaccine give you only about 30% protection against catching Omicron, even though it is still 70% effective in keeping you out of hospital.

   This is how viruses work, in that they become more infectious and less deadly. The flu bugs we get today are distantly related to the Spanish Flu of 1919, and they have evolved to just "ill us" but not kill us.

2. **Central Bank Tightening** – the endless money-printing days are coming to an end. Canada and the U.S. (and many other developed nations) engaged in easy money in two ways. We printed money and bought our own government bonds ("quantitative easing") and then we lowered interest rates to almost zero. Canada has already stopped buying bonds, while the U.S. is now "tapering" their purchases and will be done by April.

   This is when the expected interest rate increases could start. Current projections are for up to three hikes in the U.S. during 2022.

Markets don't like rising interest rates at all. This is a big part of the reason stocks have been weak since November. However, central banks may not be as aggressive as we fear, and so stocks may have already baked the bad news in.

In other words, we are still hoping for a Santa Claus rally to end what has been a relatively good year for stocks. Traditionally, the "Santa Rally" starts about December 15th, which is exactly the day markets turned up this week.

Will 2022 Be a Growth or a Value Year?

Growth companies are almost always young companies. They open new industries and grow like weeds. People ignore the fact that they often make no money, because they pour every cent back into more growth. Think of PayPal and digital payments (**NASDAQ PYPL**), Peloton and digital exercise bicycles (**NASDAQ PTON**), and DocuSign with its digital signatures on documents (**NASDAQ DOCU**). These companies all have nosebleed p/e ratios - over 45x earnings – compared to the market average of around 20x.

Value companies are mature companies. They are in their middle-age years (or older) and grow steadily. They don't need to reinvest as much, so often pay dividends to their shareholders. Think of Telus (**TSX T**), FedEx (**NYSE FDX**), and Royal Bank (**TSX RY**). These three have p/e ratios below 11x and all pay quarterly dividends.

Since the pandemic began in early 2020, we have seen Growth stocks trounce Value stocks. Many value companies were in industries that were severely hit by Covid-19 restrictions, such as restaurants, retail stores, and banks. Meanwhile, growth companies in the stay-at-home industries, like on-line shopping, did extremely well. This "growth company" advantage should have ended by now with people returning to normal lives.

The endless wave of variants has dragged things out, however. Growth companies have beaten value companies in 2021, just as they did in 2020.

A change may be in the cards. Rising interest rates and lower severity of the new Omicron variant could push value stocks – airlines, stores, banks – ahead of their growth counterparts. Theoretically, bargain-priced stocks should outperform expensive stocks over time. Maybe that time is finally upon us.

Meanwhile, some growth stocks are down 50% in the last month, making them almost value stocks. Sailors know the ocean churns dangerously when the tide changes. The churning in the market since November may mark a shift in the growth-value contest.

Our managed portfolios try to straddle both sides of this argument. We are invested in both old and new industries and have recently added a global chipmaker (a growth industry that will see shortages for several more years), an oil storage company (an old-line company with a 6% dividend), and an infrastructure company that builds (and rebuilds) roads, bridges, and power plants. The U.S. is working to pass a new infrastructure bill and

British Columbia has roads and railways needing repairs after the recent floods. Both benefit our new holding.

The Dividend Value portfolio has returned approximately +13% so far this year after fees.

Looking Forward to 2022

Is it déjà vu all over again? Today feels suspiciously like a year ago as 2020 ended. Or was it more like how 2014 ended? Maybe both.

In late 2020, we faced a 2nd wave of Covid-19, the spread accelerated by winter. Here we are in late 2021 and Omicron looms with its higher transmissibility. It's déjà vu all over again, except Omicron may be less deadly.

"I am hopeful, though, that the end is finally in sight. It might be foolish to make another prediction, but I think the acute phase of the pandemic will come to a close some time in 2022."

- Bill Gates

2022 could also resemble 2015. After years of quantitative easing to rescue the economy from the 2008-2009 recession, QE ended in October of 2014. In late 2015, interest rate increases began. Stocks struggled all year.

Omicron will crest and peak, like all the previous waves of the pandemic. We see the pandemic as the lesser of two evils in 2022. Interest rates play a larger role in the direction of stocks and bonds, so this will probably get more investor attention.

So what is going to happen to investments next year? Everyone has a crystal ball, some better than others.

Here's the official 2022 forecast from one of the best - Ned Davis Research:

• Expect another positive year but with increased volatility. The 2022 year-end target for the S&P 500 is 5000, or **7% above** current levels. Economies will grow in 2022 (no recession) but more slowly than in 2021.

• Stocks are overdue for a double-digit setback in 2022 – larger than anything seen in two years.

• Slowing earnings growth, inflationary pressures, and a less friendly environment suggest a slower pace of gains and more frequent corrections.

• Conditions should favor higher quality large companies and stable Growth stocks.

• Bonds could struggle in the 1st half. The U.S. Federal Reserve is likely to start hiking rates by next summer.

• Inflation should ease to 3.0%-3.5%, as the pandemic supply shock dissipates and demand moderates.

Uncertainties:

• Growth will decelerate as 2022 progresses. This could mean headwinds for stocks in the second half.

• The U.S. has mid-term elections, which carry the potential for changes in the political landscape. Uncertainty has historically favored defensive sectors (like telephone and utility companies).

Opportunities:

• Energy, autos, and entertainment are sectors that should bounce back in 2022 as Omicron fades. However, these are also industries that face disruptive technologies.

• The battle between old/traditional and new/disruptive companies may not be win or lose. In other words, we may end up with both gasoline and electric cars on the road together for years, and natural gas-fired generators alongside solar power for years to come.

• Potential opportunities exist in traditional energy companies as well as clean energy, battery makers, banks, Blockchain (we are not sure how to invest in this yet), and robotics.

What did clients ask us most about this year? Bitcoin was, by far, the topic that generated the most interest. We will be examining all the industries mentioned above in the months to come. If nothing else, 2022 promises to be an exciting year.

This will be our final letter of 2021. We wish you all Happy Holidays and a Merry Christmas!

Thank you for your referrals this month! They are always handled with great care and discretion.

http://www.dividendvaluepartners.com

We thank you for your business and your referrals and we hope you find our site user friendly and informative. We welcome your comments.

How to contact us:

paul.siluch@raymondjames.ca
lisa.hill@raymondjames.ca
peter.mazzoni@raymondjames.ca
sharonmitchell@raymondjames.ca

(250) 405-2417
