The Market in Review

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

November 25th, 2021

This week's articles and insights

1. *Rome Wasn't Unbuilt in a Day*
2. *Release Without Relief*
3. *Bye Bye Boomers*
4. *Do You Feel Lucky? Well, do ya?*

"Rome will exist as long as the Coliseum does; when the Coliseum falls, so will Rome; when Rome falls, so will the world."

- *Venerable Bede*

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	35,804	-0.19%	+ 16.98%
S&P 500	4,701	-0.07%	+ 25.17%
TSX	21,613	-0.11%	+ 23.98%

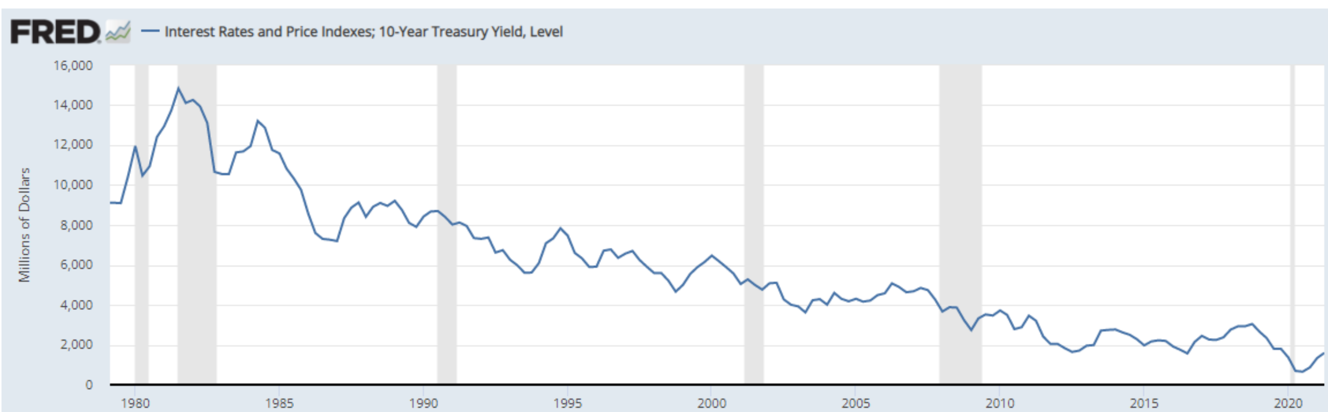
Rome Wasn't Unbuilt in a Day

Dollar Tree (**NASDAQ DLTR**) is one of the original dollar stores, where everything costs one dollar or less. Well, not anymore. The company just announced it is raising its price point to $1.25 per item. New signs are expensive, so don't expect to see "Dollar-and-a-Quarter Tree" in the logo anytime soon.

Another store offering just a little less than it used to.

I have been thinking a lot about inflation recently. It is popping up around the world and various tactics are being tried to slow it down, yet none seem to be working. Inflation is the topic of the day, the month, the year, and perhaps the decade ahead. And speaking of decades, the beginning of each is often a signpost for the one ahead. 1990, 2000, and 2010 were all similar in that they all were periods of falling interest rates. The decade of the 2020's is likely to be the first when this is no longer so.

Interest rates hit almost 0% in 2020, which is about as low as you can go. It may mark the end of a 40-year era.



Inflation – the price of goods – rose 4.7% in Canada in the last year, and a shocking 6.2% in the U.S. It is the highest rise in inflation since WW2 in America, and something most people have never seen before.

Milton Friedman famously said inflation is too many dollars chasing too few goods. Governments sent cheques in 2020 to help everyone keep shopping during the pandemic, even as supplies of everything were shutting down. We created these “too many dollars” by printing new money.

Friedman also warned that when a nation devalues its currency, it can lead to ruin down the road because no one trusts it any longer. Even though few people alive today have seen inflation at this level, it is a condition humans have experienced (and forgotten) a thousand times over the centuries.

Take Rome for example. Like most people, I have always assumed that Rome collapsed because of Attila the Hun and his barbarian horde. The western Roman Empire had lasted 900 years before Germanic invaders sacked it in 476 A.D. Yes, barbarians ended it, but internal rot made Rome weak long before the horsemen from the steppes showed up. And much of that rot was currency-related.

Up until the year 200 A.D., Rome was the most powerful empire in the western world. No other nation could challenge its discipline, its innovations, and its sheer size. As Rome grew, its long borders became even longer. To defend itself, Rome needed an even bigger army. And to administer this army, it needed even more bureaucrats. And the citizens had their own demands. Rome had a tradition of providing free bread to every citizen of the city, which became an increasing burden as the population grew. Beginning in the 3rd century (200 A.D.), emperors began cutting the amount of gold and silver in the coins.

Gold coins became rare, so the silver *denarius* became the coin of the realm. These got ‘clipped’ in value - from 211 to 268, silver coins shrank from approximately 50% silver to 0.5% silver - so the emperor could forge even more. Coins bought less as taxes rose, forcing many soldiers and farmers into bankruptcy. When soldiers’ pay fell, they executed the emperor and made the new one pay up. From 235 to 285, there were over 60 emperors, almost all of them assassinated.

That's what you call 'political accountability.'

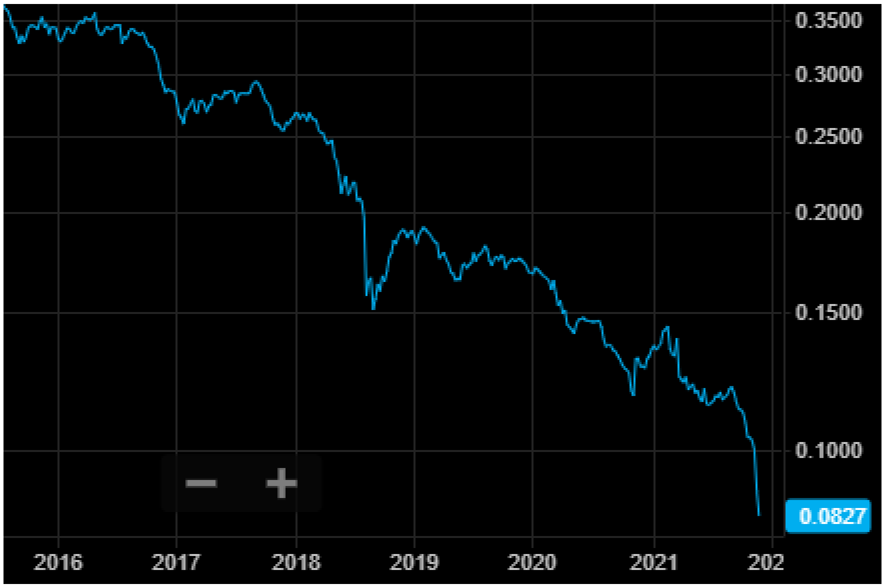
Sensing weakness, Germanic, Goth, and Hun tribes attacked repeatedly. Even though the imperial legions remained some of the most formidable armies in the known world, when you are stretched too thinly and aren't paid well, your willingness to fight shrinks accordingly.

The biggest problem, however, was <u>not</u> the barbarians. It was Romans themselves. The Roman Empire had so many coups, plots, and civil wars that the majority of Roman casualties in the 3rd century were at the hands of fellow Romans. All the barbarians had to do was wait until the empire was exhausted after another civil war and they could plunder with abandon. Rome finally collapsed in the year 476 A.D. after the city had been sacked numerous times. The emperor had long since moved to Milan and then to Ravenna before the Ostrogoths delivered the fatal blow there.

So, Rome did not fall from defeat. It fell from decay. Its military crisis began long before as an economic crisis.

The parallels to today must be heeded. We have fractious governments fighting vicious political wars and, while the major currencies have not suffered from excessive spending (yet), some minor currencies are in crisis.

Just have a look at Turkey today. Inflation is running at over 18% and the Turkish lira has declined by over 40% this year. Turkey has borrowed too much from foreign lenders - a very bad move when you are paying back in a falling currency - and has tried to print more money as a solution. Turkey has expanded its money supply by 80% since March 2020. Investors have completely lost faith in the value of Turkey's currency. Citizens there are racing to buy euros, dollars, gold and bitcoin before the lira falls even further.



Factset

In just the last five years, the Turkish lira las fallen by over 75% against the U.S. dollar. It is following the same path as the Mexican peso in 1994, the Thai baht in 1997, the Russian ruble in 1998, and the Argentine peso in 2002.

Rome had a defense budget that never shrank, a bureaucracy that mushroomed in size, and a policy of free bread for everyone. Still, it had plenty of time to right itself before the end came. Political infighting prevented necessary reforms and painful retrenchments, and the short-term solution was always to mint more money of lower and lower value.

Sound familiar? It is a parallel to today's world. Like the Romans of 200 A.D., we face an uncertain decade ahead. Rising inflation is telling us that investors trust currencies less than they used to, and what worked for the last decade may not work as well in the next decade.

Rising inflation and rising interest rates benefit these groups:

Banks and financials
Energy, mining, and other commodity producers whose underlying 'product' keeps rising in price
Producers who can produce more while keeping costs down
Semiconductor manufacturers

While impacting these more:

Expensive technology stocks
Media
Travel, entertainment, and those companies offering services people can do without
Producers whose components are expensive to buy

The mystery right now is gold, which should be thriving in this high-inflation environment. Over the centuries of Roman misery, gold maintained its real value almost perfectly. Those that could hang on to it preserved their wealth and spending power, even though it wasn't easy to carry quickly when the barbarians arrived!

Release Without Relief

The U.S. government is planning to release up to 50 million barrels of oil from its Strategic Petroleum Reserve (SPR) to help lower gasoline prices. This will be coordinated with several other major nations adding smaller amounts. The U.S. holds about 600 million barrels in salt caverns around the country – about 3 months' worth of average consumption.

The world consumes close to 100 million barrels of oil per day, so 50 million barrels is equivalent to about 12 hours' worth of consumption. Does 12 hours even matter? Oil production fell sharply in 2020 and has yet to fully recover. Meanwhile, demand is almost back at the old highs. Less oil and more demand for it is an imbalance that is pushing prices higher. Adding just 12 hours' worth of oil to the world won't make much difference.

And the 50 million barrels sold from the SPR must be replaced by 2024. This could mean selling cheap oil in the market today, but buying it back at more expensive prices in the future when companies refill these emergency tanks.

As soon as the rumours of an oil release were confirmed, oil prices rose over $1 per barrel. That was the sound of a market that wants to move higher.

And one more thing. A prominent Canadian energy analyst pointed out that whenever OPEC gains control of the oil market, prices rise:

- 1973: OPEC regains control of oil prices. By 1980, oil prices had risen from $4.75 per barrel to $37.
- 1989: OPEC regains control. By 1990, prices had risen from $17 per barrel to $40.
- 2021: OPEC+ regains control. U.S. gasoline prices have already reached multi-year highs.

Bye Bye Boomers

One of the “push”factors of today’s inflation is the drop in the labour participation rate. This is a complicated way of saying there are fewer workers in the labour pool, and we are having to pay more to keep the ones we have. We are not sure where they all went.

Here’s one explanation: the Baby Boom generation is finally retiring.

Between 1946 and 1964, approximately 4 million babies were born per year in the U.S. and about 400,000 annually in Canada. It was the largest generation in history and every time they moved, the world proverbially shook. From car ownership to music sales, from clothing styles to home purchases, the Baby Boom generation moved like the proverbial pig through the python over the decades.

After ruling the world, Boomers are quietly stepping aside. The Millennial Generation is actually larger than the Boomers by several million, and Generation Z (born after 1996) is not far behind. But more importantly, the first Baby Boomers turned 75 in 2019 and that is an important age.

Since 2008, when the earliest Boomers were turning 62, the U.S. workforce has lost one million workers, largely due to retirement (source: RBC Economics). Many Boomers continued to work, however. More people than you think work into their 60’s and it is not until people hit 75 when almost every person retires. About 10,000 people turn 75 in the U.S. **every day** now.

Over the next three years, another 600,000 U.S. workers are expected to retire, many of them some of society's most productive employees. Thankfully, Generation Z is entering the workforce to replace us, but they have different expectations than we had. The Covid-19 pandemic showed the merits of work-from-home as well as in the office. New productivity tools like Zoom helped this trend, and we can expect even more technology enhancements to appear in the decade ahead.

The labour shortage should get better as benefits to stay home end and people come back to work. But, the headwind of accelerating retirements from the 1946-1964 generation means unemployment could remain low for years to come. RBC reports that "more than one-third of businesses are now dealing with labour shortages, and there are currently more than 870,000 job vacancies in Canada."

Do You Feel Lucky? Well, do ya?

In the 1971 hit movie 'Dirty Harry', Clint Eastwood asked this question in the final scene. It didn't end well for the bad guy, but it is an appropriate question as we approach the season of giving. Many investors have benefitted disproportionately from the sharp rise in stocks in 2021, even as those further down the economic ladder have suffered equally disproportionately.

Most people have a fondness for a cause, whether it is their community, the arts, the environment, or their family. My wife Sue and I helped set up a scholarship last year at Thompson Rivers University to help an indigenous student in the business program. Why this? There are very few indigenous students who make it through to a degree in business. And with a growing number of resource-sharing agreements being signed between companies and First Nations bands, they will need to learn how to manage their profits prudently.

The scholarship just paid its first award to a young fellow named Austin from the Driftpile Cree Nation.

His words of thanks make it all worthwhile.

"I couldn't be thankful enough for this award. It couldn't have come at a better time. And, I am a bigger believer in things happen when you need them most. Recently, Canadians like myself have been struggling, financially, mentally, and physically. Additionally, this year has not been easy for me personally. This award comes in a time when I needed some financial aid, but most importantly came in a time when I needed a little push behind my studies. This award has motivated me beyond belief. It has impacted me positively.

Thank you for motivating me to get through my studies, thank you for watching out for me, and thank you for making 2021 a much better year."

Please let us know if you plan on donating stocks to your favourite charity as the deadline to do in-kind donations is close at hand.

And Happy Thanksgiving to our U.S. clients!

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

Disclaimers
