The Market in Review

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This week's articles and insights

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"April Fool's Day is cancelled this year.

No made-up prank could match what is going on in the real world right now."

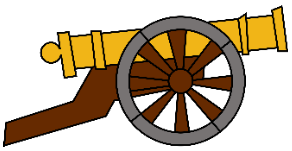
Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	34,678	-0.09%	- 4.52%
S&P 500	4,530	+0.22%	- 5.19%
TSX	21,890	-0.22%	+ 2.60%

Buy Cannons, Sell Trumpets

In 1810, during the Napoleonic wars between France and England, the London financier Nathan Rothschild reportedly said:

"Buy to the sound of cannons, sell to the sound of trumpets."



To be fair, there were a lot of wars going on in 1810. The Spanish Empire was breaking apart, with Mexico and Colombia starting wars of independence from Spain. Haiti decided it was a good time to say goodbye to France, and the newly-born United States of America was caught between all of them. The U.S. finally declared war on Britain in 1812. They sort of lost.

Rothschild had no doubt noticed that people become fearful when war breaks out. They sell their investments in order to buy supplies in case of scarcity. Once hostilities end, conditions normalize and the panic buying stops.

In other words, the start of a war is a good time to invest, and the end of a war is a good time to sell.

Did Nathan Rothschild's advice work this time around?

So far. Russia invaded Ukraine on February 24th, the day the U.S. market set its low for the year. This week, markets hit their highest point since early February on the possibility of a ceasefire.

Markets react to ***surprises*** most of all, and while the Ukraine war was a surprise in February, it is no longer. Yes, we would be shocked if chemical or even nuclear weapons were used, but these are low probabilities.

Markets have had a whole month to price in higher food costs, disrupted travel routes, surging oil prices, as well as sanctions. People adapt.

For example, buyers of sunflower oil, which is a product dominated by both Ukraine and Russia, know it is going to be in short supply this year. They have sought alternatives, such as canola oil, which Canada produces in abundance. We are already seeing recipes suggesting switching canola for sunflower oil.

There will be shortages in the short-term, but high prices mean farmers will often plant 'fencepost to fencepost' when grain prices rise. The possibility of peace has already sent wheat prices down 22% from their highs of three weeks ago.

We have not seen a formal peace in Ukraine yet – the trumpets have not sounded. But we are certainly closer than we were just weeks ago.

Market Outlook

While Canada's S&P/TSX index is at all-time highs and the S&P 500 has risen 10% in just the last two weeks, we remain cautious on the stock market. This doesn't mean we are selling stocks and heading for the hills, but we feel the need to stick to high quality companies and be mindful of the risks.

What risks, you might ask?

Well, as mentioned above, there is still the ongoing war in Europe, even as it appears it has passed the point of shocking us.

Then there is the threat of rising interest rates and supply shortages. Diesel fuel, fertilizer, propane, neon gas are just a few commodities that are suddenly in very short supply.

And out of the blue, China is locking down again because it is only now experiencing the Covid-Omicron wave we just passed through. Companies like Restoration Hardware (**RH NYSE**) expected things to be back to normal by now, but they are struggling to get shipments:

"The supply chain - I think many of us thought it would have been caught up by now. I mean, we'll be lucky to be caught up by the end of the year."

- Gary Friedman, CEO

Meanwhile bonds have just experienced the worst quarter for the overall bond market in more than *40 years*.

Which makes them interesting once again. Central banks have told us they will be hiking interest rates through 2022 and possibly into 2023.

We will see. There are signs that such moves could cause a recession sooner than later.

Just a year ago, short-term government bonds paid 0.5%.

Today, bonds are actually paying a decent yield once again:

Alberta	3-year bonds yield approximately 2.5%
Bank of Montreal	2-year bonds yield approximately 3%
Bell Canada	5 year bonds yield approximately 3.5%
Telus	10 year bonds yield approximately 4%

These are attractive rates for risk-averse investors wanting security for their long-term savings.

Rhyming With the 1940's

The top single of 1946 was "Prisoner of Love" by Perry Como.

The United Nations held its first meeting.

The bikini swimsuit was unveiled in Paris, named after Bikini Atoll, the site of the first atomic bomb.

The first baby boomers were born.

History rhymes, and we are rhyming with the 1940s right now. Both periods involved an enormous outlay of cash, followed by a decade-long battle to pay it down.

Starting in 1943, Canada and the U.S. took government debt to over 100% of their annual GDP to finance World War II.

In 2020, Canada and the U.S. spent similar proportional amounts to combat the pandemic.

This money had a profound effect on prices several years later.

- Inflation hit 8.5% in 1946, 14.4% in 1947, and 7.7% in 1948 (TheBalance.com).

The post-pandemic is having the same effect.

- U.S. inflation today is 7.9% (YCharts.com).

This money came from borrowing, which we had to repay. How did we manage this in the post-war years?

It took years of what they call *financial repression*. Short-term interest rates were held at 1% in the U.S. and 1.5% in Canada. Long-term bonds were capped at 2.5%.

This meant savers lost money to inflation – when you make 2.5% but prices are going up 14%, you are falling behind.

People noticed – there were a lot of strikes for higher wages – but people were so busy having babies and building the nation, they accepted government's use of inflation to erode the size of the massive government debt.

Some people think interest rates today are going back to 10% because of all the debt countries have amassed. History says otherwise. Long-term bonds were never allowed to rise above 2.5% from 1942 through 1951.

The average inflation rate during that time was 5.6%, meaning savers went backwards.

Long-term Canada bonds today yield 2.4%. They may not be allowed to rise much beyond that – central banks have shown they have many tools to keep interest rates artificially low.

Stock investing was not very popular in the 1940s, but those who did invest returned an average of 7% per year from 1942 through 1951.

It was a bumpy ride, but stocks kept pace with inflation.

A good reminder for the years ahead as governments grapple with how to pay off their Pandemic-era debts.

The Great Realignment

You know how things often turn out exactly the opposite of what you planned?

You set two perfect people up on a date and they hate each other. You plan the perfect vacation and it ends up like a disaster movie.

Consider the partnership between Russia and China. It was designed to exploit the weaknesses of the western powers.

"A friendship between the two States [that] has no limits."

- Sino-Russian cooperation agreement, signed on February 4 2022

The western countries that make up the G7 and NATO have been bickering for years. They can't agree on much with everyone pulling in different directions. Russia craftily made Europe dependent on its energy, and China made the U.S. dependent on its manufacturing.

2022 changes everything. It marks an abrupt change in world geopolitics, all because of Ukraine. And these changes may well benefit the West.

- NATO has not been this unified since the Cold War.
- Countries that outsourced everything are now realizing they need to bring those industries home. Minerals like rare earth metals are now a top U.S. priority, as are energy and drug manufacturing.
- Expect massive amounts of new infrastructure and business investment, with jobs coming home.

- Who benefits? Mexico, Canada, Brazil, Europe, the U.S., and parts of Southeast Asia.

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

http://www.dividendvaluepartners.com

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Disclaimers

Prices shown as of March 31st, 2022
