

The Market in Review

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This week's articles and insights

1. *Groundhog Year*
2. *Ten Themes for 2022: Carrying the Torch*
3. *Thinking About Babies*

My Goals for 2022:

~~Avoid negative people~~
~~Avoid positive people~~
Avoid people.

- *anonymous*

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	36,236	-0.69%	- 0.28%
S&P 500	4,696	-1.73%	- 1.47%
TSX	21,072	-1.04%	- 0.71%

Groundhog Year

Some have called 2022 the Groundhog year, after the 1993 movie Groundhog Day where Bill Murray is forced to relive the same day, over and over.

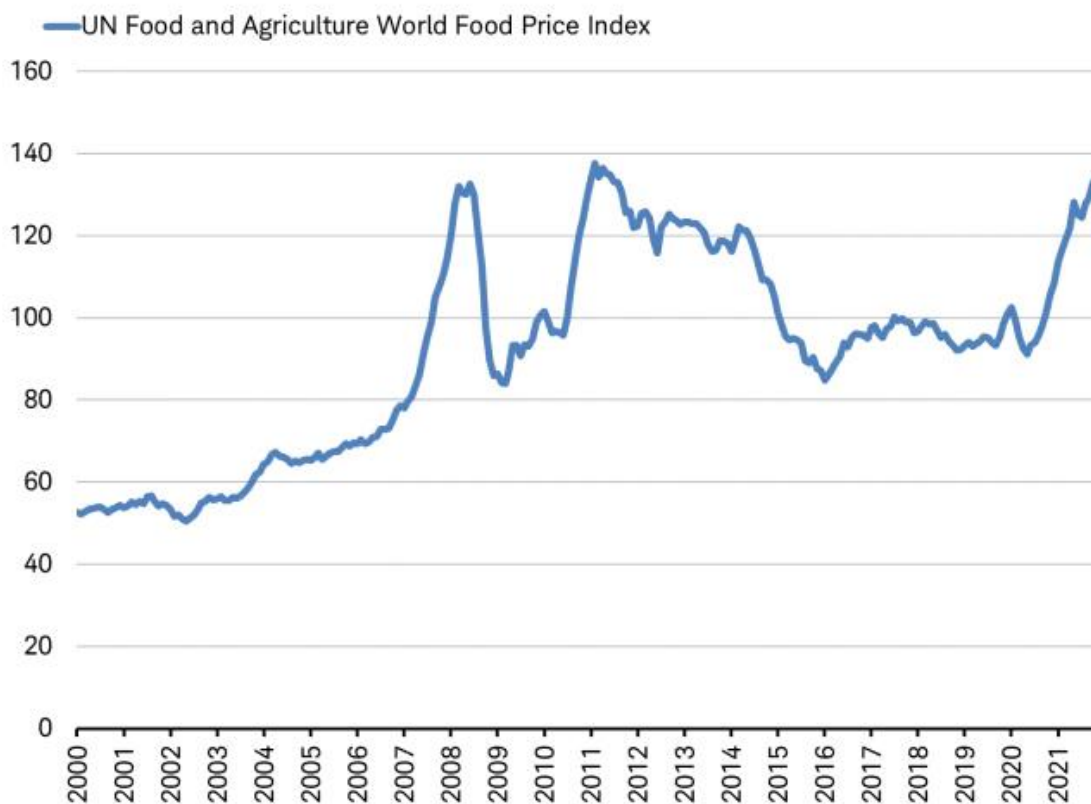
We began 2021 in lockdown, eagerly awaiting the first vaccine rollout. The weather was extremely cold in certain areas, leading to a near-collapse of the Texas grid, which pushed up oil prices. We begin 2022 in lockdown, eagerly awaiting our first booster shots. The cold weather in the interior of North America is hampering energy production from Alberta to North Dakota, which is pushing up oil prices.

Happy New Year – same as the Old Year.

There are some key differences, however. Despite the ongoing pandemic, economies in Canada and the U.S. are very strong, and corporate profits are soaring. Many crises start with banks in trouble, but banks today are enjoying immense profits and are increasing their dividends. And unlike most recessions, many people have more money than they had, thanks to rising stock markets, government assistance, and nowhere to spend. So, they've gone shopping.

The inflation genie is also out of the bottle now, where a year ago there was little sign of rising prices. Food prices are increasing at the fastest pace since 2010, a year that saw the Arab Spring protests cascade across North Africa and the Middle East.

Food prices in instability danger zone



Source: Charles Schwab, Bloomberg data as of 12/19/2021. The UN Food and Agriculture Organization (FAO) World Food Price Index is a measure of the monthly change in international prices of a basket of food commodities. It consists of the average of five commodity group price indices weighted by the average export shares of each of the groups over the 2014-2016 period.

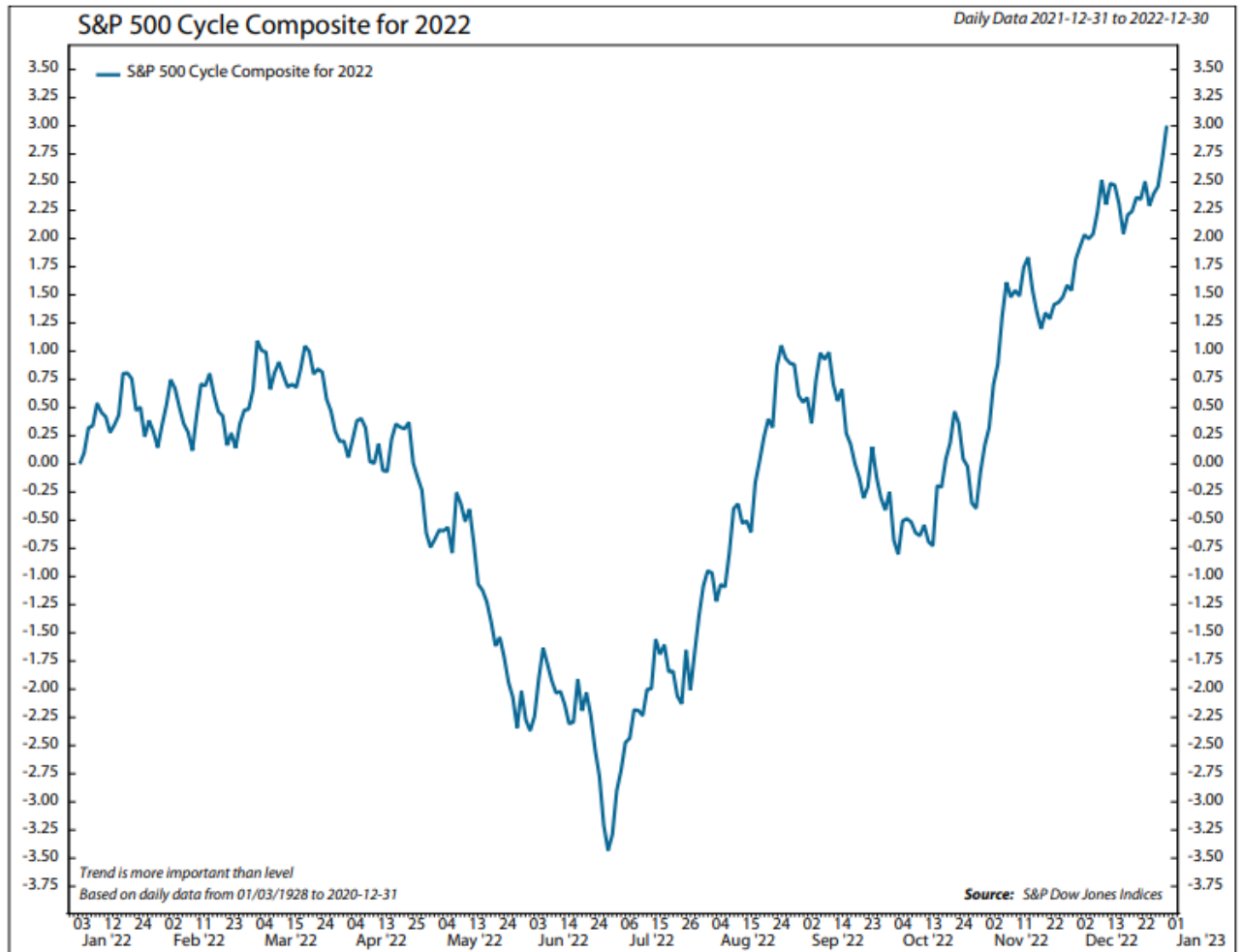
People get jumpy when food and fuel prices go up too fast. For example, Kazakhstan is experiencing riots over a doubling in fuel prices. Why should we care? The country is an oil producer and oil production is impacted (oil prices are up) and it is also the world's largest uranium producer (the price of uranium is up 8.5%).

Central banks around the world are hitting the brakes hard, cutting stimulus measures and getting ready to hike interest rates. The dramatic decline in the high-flying technology stocks is the most visible casualty of higher interest rates. This is likely to be the key theme of 2022 – interest rates.

So where to from here?

Well, most mid-term election years have positive stock market returns, but they can be bumpy. Going back almost 100 years, here is what the average 2nd year of a U.S. presidency looks like – a mid-year slump followed by a rally to end the year,

History's view of what 2022 could look like



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What else feels “Groundhog Day” about this market?

For the last five years at least, every year has started with a complaint that U.S. stocks are overvalued compared to the rest of the world. And commodities are cheap, so are due to rebound.

Every year, they have been dead wrong. U.S. stocks –led by technology – just kept going higher and commodities just kept going lower. The pandemic in 2020 pushed these trends to extremes, and then trillions in government stimulus pushed the extremes to extremes.

Rising interest rates could be the wind that changes which boats lead the race. Markets could end up modestly higher in 2022, but with far different participants leading. So far in 2022, the leading sectors have been those with the lowest valuations and the least media coverage:

Energy
Financials
Industrials

While the laggards are last year's high-fliers:

Technology
Real Estate
Health Care

It may also be a year to invest more overseas. One mammoth mutual fund company, the Capital Group, has been shifting money from the U.S. to Asia and Europe all through 2021. They have one of the best investment records in the world, so we pay attention to what they do. All eyes are on China, which is slowing down due to its overvalued property market. Chinese central bankers have begun stimulating with easier loans and lower interest rates, which typically lead to higher stock prices about 6 months later.

Ten Themes for 2022: Carrying the Torch

Our investment strategist, Larry Adams, hosts a monthly webinar that is quite popular. Please join us Monday to hear his outlook for 2022.

“2021 was all about speed -- the fastest economic recovery on record and a history-making equity market run. And while speed is important, winter Olympic champions have demonstrated that precise execution is equally as important, especially as they grapple with weather, equipment, and slippery surfaces.

Please join Raymond James Chief Investment Officer Larry Adam for our Ten Themes for 2022: Carrying the Torch as we outline our views for the markets in 2022. Execution will be center stage – from the Federal Reserve’s managing of monetary policy, to corporate CEOs’ ability to maintain healthy margins, to OPEC’s oil supply decisions.”

Register here:

https://raymondjames.zoom.us/webinar/register/WN_GQNIHAcJRYqR3Mmt8GSMvw

Thinking About Babies

I’ve been thinking about babies recently. Specifically, the lack of babies. Blame Elon Musk for putting the thought there.

At the most recent Wall Street Journal CEO Council, Mr. Musk was asked about the biggest risk in the years ahead. His answer surprised a few people.

"I think one of the biggest risks to civilization is the low birth rate and the rapidly declining birthrate. And yet, so many people, including smart people, think that there are too many people in the world and think that the population is growing out of control. It's completely the opposite. Please look at the numbers – if people don't have more children, civilization is going to crumble, mark my words."

Elon Musk can be a controversial figure. A U.S. senator blamed him for not paying enough in taxes, and he turned around and sold so much Tesla stock that he will pay \$11 billion in taxes in 2021 – the highest ever for an individual. China blames him for cluttering space with his 1,900 Starlink satellites, even as they seek to launch a competing service. Tall poppies get cut down first, and he’s one of the tallest corporate poppies in the world today.

Mr. Musk is also a visionary who has revolutionized electric cars and space launches, and will soon up-end internet access through his Starlink space-based system. Is he right about birth rates?

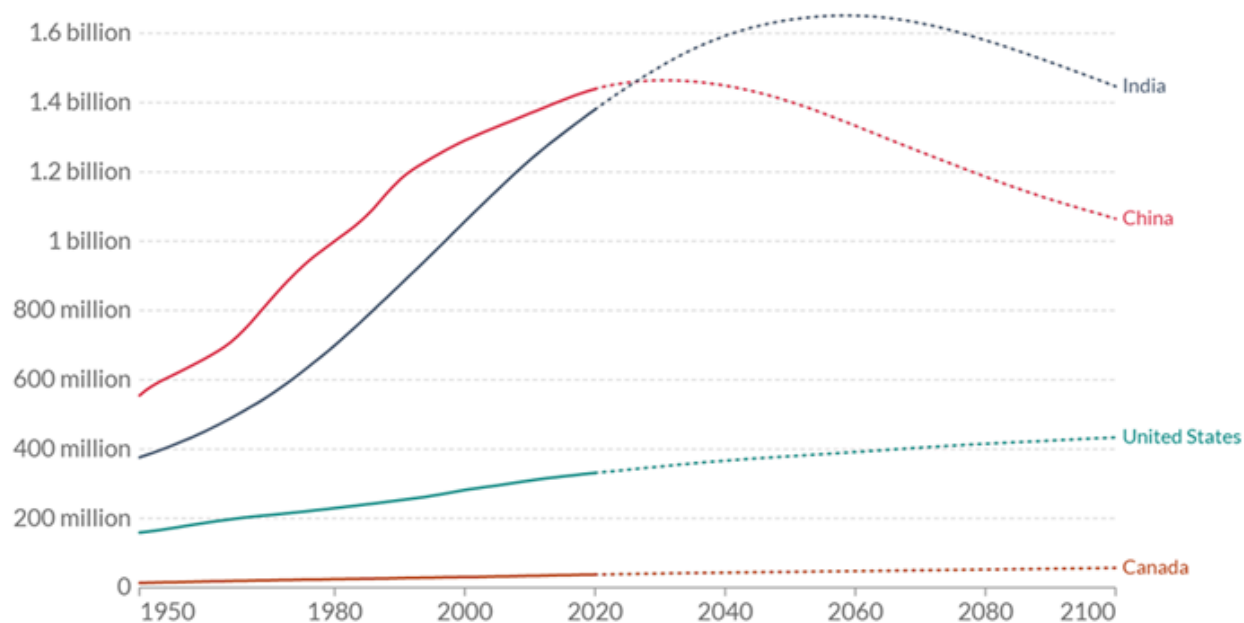
The UN says the global the population will reach 10 billion by 2055, led by countries such as China and India.

Historic and projected population

Past and projections of total population from the UN's medium fertility growth scenario.

Our World
in Data

+ Add country



Source: United Nations – Population Division (2019 Revision)

CC BY

▶ 1950 ○ 2100

However, *growth* is not the same as *rate of growth*.

India is expected to pass China in total population by about 2025, which is about when China's population begins to shrink. Like it or not, China has a rapidly aging population due to its one child per family rule dating back to 1980. They did this to slow their population growth, not knowing the policy would come back to haunt them. Starting in 2016, couples were allowed to have two children, but this failed to make much difference. In 2021, this

was increased to three children per family after the fertility rate hit an all-time low.

How low is low? To keep a stable population, couples must have, on average, 2.1 children per family. Canadian families have approximately 1.5 children per family, which is below the replacement rate. Our national population continues to grow because of our ambitious immigration programs.

The U.S. sits around 1.6-1.7 children per family while China just admitted its fertility rate is not 1.7, as previously claimed, but has sunk to 1.3 children per family. This is on par with Japan and Italy, two of the oldest societies on Earth. A recent article by Fuxian Yi, senior scientist in the obstetrics and gynecology department at the University of Wisconsin, thinks even these numbers could be too high.

“China’s 2020 population was 1.28 billion rather than the 1.41 billion census number reported and fertility rates were lower than reported.”

Rural Chinese have been known to report more children than actually exist in order to qualify for extra government supports. The Chinese central government keeps its population data very secret, so all estimates are just that – estimates.

If true, it is quite astonishing that 130 million people – three Canada’s – might not even exist.

Our global economy is built on growth. Sell more ‘things’ every year. If incomes are relatively flat, more ‘things’ means more people are needed to buy these ‘things’. If China’s population is already shrinking, then its growth is going the wrong way, and quite rapidly.

Some blame the birth control pill, introduced in 1964, for the decline in global population growth. For the first time, women took control of their body’s reproductive capability. Others blame industrialization, which saw millions of women enter the work force instead of staying home. This led to enormous productivity gains, as half the world’s population emerged as tax-paying workers, but at the expense of fertility rates.

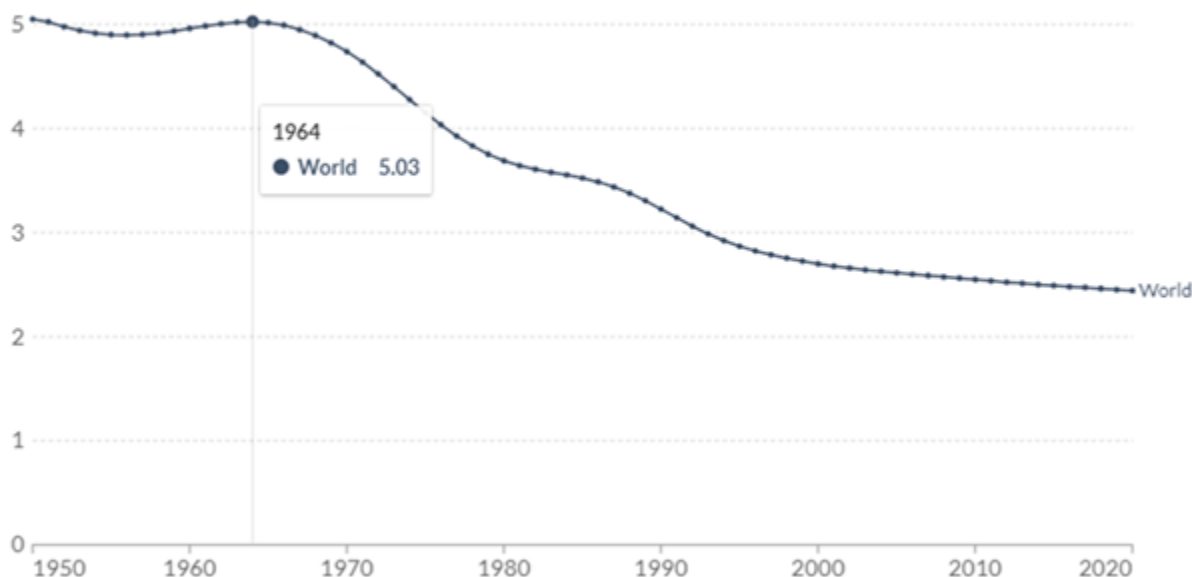
More recently, some blame cell phones and the internet for creating a “me first” culture where having kids is far down the list of life goals.

Children per woman

Measured as the total fertility rate, which is the number of children that would be born to the average woman if she were to live to the end of her child-bearing years and give birth to children at the current age-specific fertility rates.



+ Add country



Source: United Nations - Population Division (2019 Revision)

OurWorldInData.org/fertility-rate • CC BY



Whatever the reason, the reality is that the global fertility rate of the average woman is half what it was in 1950. Countries such as South Korea, Japan, and Italy are now shrinking due to the “Low Fertility Trap” and even India has fallen from 6 children per woman in 1960 to 2.5 today.

There is increasing competition for skilled immigrants. Expect this to intensify this decade. Just look at Canada’s need for nurses, doctors, and health care workers. As we age, we will need even more care. Will young hands and strong backs be there to help us get up when we need them in the years ahead?

As an investment advisor to many people, I try to look beyond the news to spot the trend. Not just looking where the puck is, but to look where it is

going (to paraphrase Wayne Gretzky). What are the trends happening as a result of the discussion above?

- First, there is as much research being done on birth assistance drugs as on birth control drugs.
- Second, the demand for fertility clinics and IVF procedures (in-vitro fertilization) is exploding worldwide, and yet it is a small and fragmented industry. This is because the average age of women having their first child in developed countries is now 31, an age when conception becomes more difficult.
- Third, China is not only encouraging births, it is now restricting access to abortion. In a command economy like theirs, will access to birth control be halted and *mandatory births* per family be far behind? It seems like nonsense to even imagine such a thing - forcing births - after decades of horror stories about the population explosion. Japan – the oldest nation on Earth - has never resorted to such actions, but they have relaxed their immigration barriers. China does not have that luxury – far more people want to leave China than enter it.
- Fourth, there will be an increasing demand for young and skilled immigrants. Canada already has a much-envied skill-based immigration system and we are now the #1 destination for global students. It may prove to be profoundly important in the decades ahead.
- And fifth, other than setting up space companies, what is one of the biggest areas attracting billionaires' money? Life extension research! People have chased the Fountain of Youth for millennia, yet never has the concept been closer. The decade ahead will see many new drugs introduced in this area (most will fail) plus new techniques to squeeze out a few more years on Planet Earth.

Unfortunately, little of this thought exercise is investable yet, unless you count the large pharmaceutical companies producing fertility drugs. I underscore the “yet” part, because everything above will become more mainstream as the decade passes. Mankind is not destined to age away into the sunset. The Fountain of Youth may be just around the corner.

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<http://www.dividendvaluepartners.com>

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Prices shown as of January 6th, 2022

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