



## WEEKEND READING

Shedding the light on what's happening - our world - our finances - our times

### **Trick or Treat? Skeletons in the closet, ghouls back from the dead.**

The ghosts and goblins are back. Some are coming up the driveway looking for candy. Other's want our vote.

The BC Election brought mostly tricks for all provincial parties. Voters handed out more rotten eggs than candy. The Green's lost their leader, the Conservatives came oh so close then faded hard. The NDP hoped for a solid mandate...and didn't get one.

We've been predicting a BC NDP government either by slim majority or minority with Green support. The NDP may have the required 47 seats to form government. A judicial recount is in the works. As the Greens and the BC Conservatives are most unlikely bedfellows, we can safely assume the BC NDP party will form the next government. While provincial politics can lead to frustrating outcomes at home (if you're district elects the opposition, good luck with those potholes), the results rarely move financial markets.

Speaking of frights, the US Presidential Election is next Tuesday Nov 5<sup>th</sup>. The US polls have shown a narrowing of the race. Pundits say it's too close to call. We can't argue. There are signs the Trump team is getting nervous. The biggest tell is the volume of 'voting fraud' allegations in the swing state of Pennsylvania from Mr. Trump and friends. If the Trump side was confident of winning, allegations of voter fraud would fade to black. Ballot boxes aflame by arson in Washington and Oregon (containing Democratic votes). Ballot boxes falling off the back of unlocked trucks. Both sides referring to US citizens as garbage. Former Trump aid Steve Bannon released from prison this week, immediately pounding the 'voter fraud' drumbeat. If Harris wins, sadly Nov 5<sup>th</sup> won't see an end of the drama.

## What does the stock market think?

If the majority of US investors saw Candidate 1 = good, Candidate 2 = bad, given the close polls, prices for US stocks should be going sideways to down. That's not what we're seeing.

### S&P500 weekly – 3 years



Prices have been rising since Oct/2022. Investors don't seem to view the election as binary. Broader macro-economic trends dominate. Inflation and interest rates are falling, inflation feeding excess money supply is contracting, uncertainty in Europe and SE Asia continue to point to North America as a safe haven. No scary surprises there.

### What about the bond market?

Bond traders regularly point out the bond market is much larger than the equity markets. A bond holder has only three concerns. 1) Will I get my money back? 2) What will inflation do to my principle? 3) Oh....and will I get my money back? The longer the term of the bond, the more time there is for things to go wrong. 20-year plus bonds tend to respond to worry faster than short-term ones.

### iShares 20 Yr + Us Treasury ETF (TLT-US-\$92.45) weekly – 2 years.



US longer term maturities are priced within the past two-year range. In response to rising inflation brought on by excess money supply, prices sagged in 2022-23, bottoming in Q4/2023. As excess cash has been working through the system, inflation has abated, bond prices have been sideways to up since. The bond market doesn't appear to view the election outcome as binary.

### Our view

We maintain inflation will continue to contract, with interest rates following. We do NOT believe inflation will decline to and then stay in the 2014-2022 sub-3% range. We think those days are gone. We expect inflation to bottom in 2025 then begin a slow march higher during this business cycle. We may have seen Peak Globalization. Global supply chains are probably going to come under pressure, leading to contracting supply and commodity driven inflation. This scenario explains our staying away from International markets focusing on North America, with a tilt towards Canada. The weak Loonie and low equity premiums point to bargains north of the border. If we're right, the Loonie could strengthen, and Canadian stocks could perform well.

If we're wrong and globalization doesn't break down, great! The US will benefit more than Canada, and our US stocks will continue to perform, the Loonie will just flounder around the low 70's and we'll do just fine. There's a Canadian general in October 2025. We've done OK under the current one, a more business-friendly government wouldn't hurt.

We're maintain our stock holdings and shortening up our bond maturities as rates fall.

### Happy Halloween!

#### Steve & Anna Hilberry



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#### FOR THE RECORD October 31, 2024

DOW INDUSTRIALS:	41,763
S&P 500:	5,705
S&P/TSX COMP:	24,156
WTI:	\$70.50
LOONIE IN \$USD:	\$0.7179 \$US



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