WIMAN & WONG
Wealth Management Group

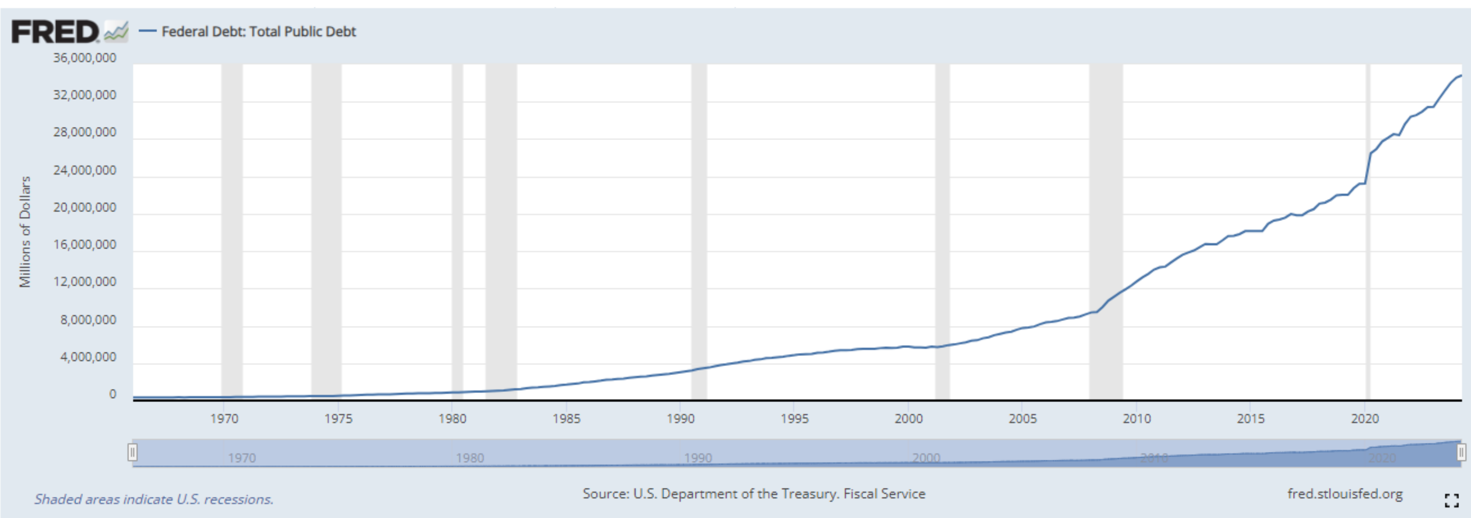
Monthly Newsletter

November 2024 Comment

Never Ending Stimulus – November Commentary

They say the stock market does not equal the economy and vice versa. I guess today that is a good thing because if they were equal the economy would be growing at a very rapid pace, inflation would be grossly out of control, and we would all be at Disney Land!

In looking at the world today we can see some completely explainable changes that don't appear to have any end point. The first and biggest is government debt. It has been the elephant in the room for many years and with new or front burner theories like Modern Monetary Theory debt or the proverbial monetary printing press remain alive and well. The chart below is of the US Debt level at $35 trillion.



Source St Louis Fed

We can see that at times of extreme stress or recessions the degree of stimulus escalates. Perhaps the most recent pandemic or closing down the modern world was the most acute in this regard as US Public Debt jumped about $3 trillion in a short time. HOWEVER, the period after that saw debt go from $26 trillion to $35 trillion. While not as steep it was still pretty robust.

Just to review Modern Monetary Theory simply put, is a theory that decrees that such governments (Canada, US, UK, Japan) do not rely on taxes or borrowing for spending since they can print as much money as they need and are the monopoly issuers of the currency. Since their budgets aren't like a regular household's, their policies should not be shaped by fears of a rising national debt.

Clearly politicians have no worries about the current debt levels. It is almost like a blank cheque or Black Amex card that never has to be repaid and we mean NEVER….. Something more interesting is that given its size and current cost of financing this debt it will NEVER be paid back! NEVER in our lifetimes.

Economic theory in a very basic sense suggests that if you keep printing money the price of goods and services will rise. This we know. As my parents purchased a house back in 1973 for $25k, we know today that that number barely in most cases does not even justify a down payment.

Now this as we know can bleed into the prices of all assets including housing, stocks, private equity suggesting that if this state of economic affairs and monetary stimulus continues in perpetuity longer term, we are in for more inflation and higher prices for everything. UNLESS something breaks.

Modern Times

In the last 45 years the economy has had recessions or major events about every 8-11 years. There is no rhyme or reason for this timeline it is just data. If one was to think that history repeats itself (not always true) we have some room for the economy to the upside before the next recession. Now we have some noise in the system today with significant geopolitical issues and major election here in North America that will get people or keep them worried. No matter what time in modern history you look at there has always been noise. Today's noise seems louder than most of modern history but maybe all the risks are understood in real time today making the concern more real time? I suspect this is why we may have heard the FED repeat time and time again over the past few years that they remain data dependent. Why worry about something that might happen until it happens and when it does, we will just print more money. (sorry digression ☺)

So here we are heading into the last couple of months and looking forward to another Santa Clause rally, not that we need it, but everyone loves big Christmas gifts right!? I guess big gifts of any nature like more debt ☺. The markets for today seem to like it and or pay absolutely no attention to it.

Near Term Expectations

We still think rates are heading lower here in North America (Canada and the US). AKA more stimulus, not the printing press type, but sort of. By the time we get this out we will likely have new leadership in the US and A. Markets generally like certainty so that should be positive. Earnings are generally coming in better but those companies that disappoint and have been higher fliers have been punished. Proctor and Gamble missed a bit and the stock was higher. ASML Holdings (semiconductor supply company) missed a lot, and the stock was down a lot! Warning sign? Maybe...

Final Thought

That is it for the monthly chatter.

Thanks for reading and enjoy the holiday rush as it ramps up.

Click here to access your online account and tax statements.

Click here to learn more about the team.

Click here to contact us.

Jason Wong, CIM®
Wealth Advisor & Portfolio Manager
416-869-7142 | jason.wong@nbc.ca

130 King Street West, Suite 3100, Toronto, ON M5X 1J9

NATIONAL BANK FINANCIAL WEALTH MANAGEMENT

WIMAN WONG WEALTH MANAGEMENT GROUP

CIPF Canadian Investor Protection Fund MEMBER