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To: Ermes Monaco <e.monaco@iaprivatewealth.ca>
Subject: VALUED CLIENT MAIL LIST: Economic Outlook - Spring 2024

iA Private Wealth

MONACO
CAPITAL
MANAGEMENT

TWO SIDES TO EVERY COIN

(HOLDING OUR BREATH PART 2)

SOURCE: Google Images

SOURCE OF ALL CHARTS: Trading Economics.com

IN MY LAST NEWSLETTER IN FEBRUARY I suggested the possibility a cut in interest rates might not be coming soon despite indications by the central banks and financial market anticipation *(Holding Our Breath newsletter)*.

IT NOW APPEARS to be the case with the Governor of the Bank of Canada indicating the earliest it may come is in June another two months away ***(source: Globe and Mail April 10/24).***

IN THE U.S. the Chairman of the Federal Reserve Bank indicated they were not prepared to cut interest rates at this time ***(source: CNBC March 6/24)*** **.**

INDEED, CURRENT GEO-POLITICAL TENSIONS have contributed to higher energy costs which continue to fuel inflation.

WHAT IS HOLDING UP RELIEF ON THE INTEREST RATE FRONT?

WE'VE HIGHLIGHTED the case for the cost of goods being kept opportunistically inflated particularly for non-discretionary items such as food and fuel in several newsletters. However, the other side of the inflation coin is that consumer has also continued to contribute to the situation particularly in the areas of housing and labour costs.

Canada: Inflation vs Wages

Cost of housing vs Interest Rates

Workers have continued to demand wage increases post Covid even as inflation has declined. Clearly this flows into the cost of goods.

Home owners have also been unwilling to sufficiently adjust sale prices post Covid even as inflation has declined to help offset high mortgage purchase costs. This has resulted in many prospective buyers turning to the rental market which has become expensive because of the shifting demand versus supply.

WHAT DOES THAT MEAN TO US?

A LOT OF THINGS:

- **As a general economic rule, higher wages for the same amount of labour reduces productivity which contributes to higher cost of goods.**
- **While the current level of interest rates is itself inflationary, the central banks will not move downward until the worker/consumer also demonstrates a willingness to help ease the inflation picture.**

- **If the Bank of Canada lowers its interest rate too aggressively the Canadian dollar will weaken, making imported goods more expensive which is inflationary.**
- **If the consumer increases consumption aggressively as this is happening the central bank will then be constrained to raise rates again.**
- **Ultimately prolonged economic uncertainty and volatility could lead to a recession as supply and demand once again struggle to cope with the cost of inflated goods and labour, leading to the likelihood of higher unemployment.**

IN THE MEANTIME THIS CONTRIBUTES TO STAGFLATION WHICH IS EFFECTIVELY A FORM OF WORKING RECESSION.

GIVEN THE POSSIBILITY OF EXTENDED HIGHER INTEREST RATES OUR ADVICE REMAINS:

- **A gradual re-balancing of the defensive component to core sectors sustaining strength while continuing to include income, distributions and dividend generation as an alternative form of return.**
- **Take advantage of near term higher interest rates from investments to help meet monthly requirements and contribute to income growth while interest rates remain in the high range.**
- **Maintain liquidity to have the immediate capital to take advantage of the new opportunities as they occur.**
- **Continue to hold only the highest quality core industrial names because of their critical contribution to economic renewal when inflation abates and recovery resumes.**
- **Do not try to second guess the markets; speculative opportunity only really occurs when economic conditions are at a high pitch.**

IMPORTANTLY, CONTINUE TO FOCUS NOT ON WHAT IT MAY BE WORTH AT THIS TIME BUT HOW MUCH IT CAN PAY YOU IN THE MEANTIME. CAPITAL VALUE WILL OCCUR AS STAGFLATION WINDS DOWN.

Regards

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