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HERE'S THE THING!

As a bit of a gut-wrenching year in the markets draws to a close, I thought I would look to the new year and beyond for some hope, possibly even some joy.

So, I looked, and I looked, but certainly the economy and the markets offered little to lift the spirits. If you are heavily invested in the stock and bond markets and subject to depression, you may want to skip this issue of QJ … or just look at the funny pictures.

Either way, may the Season and the New Year bring you much joy, peace and love. And remember, you can improve the probability of that outcome if you heed the advice ("NMTM") captured in the title of this issue of QJ.

"NMTM"
"NEVER MIND THE MARKETS"

Gee, 18 months now, since my last post to the QUAERO JOURNAL, and a year before that since the previous post – I guess "prolific" would not be the right word here. But you can't call me a quitter and here I am, back with my maiden voyage into the very murky world of ***Economic Forecasting***. Full credit for the inspiration to the very enjoyable daily postings of John Authers, Joe Weisenthal and others, at Bloomberg News. But for the ideas expressed herein, I must take full responsibility. And one caveat, if you please; my ideas tend to reflect an agonized search for simplicity in the form of an overriding macro determinant of economic, social and political conditions which, in a highly complex world, is a little silly, really. But since I can't help myself, here are my latest ideas for your consideration.

THE NEW PIVOT

The MARKET, not the FED is PIVOTING. Now that the Stock Market has accepted that the Fed has no intention to Pivot on interest rates, rather "Higher for Longer", the Market is taking the lead, pivoting its focus from HOPE that inflation has peaked and interest rates will abate, to FEAR that severe recession is around the corner. Once again, in recent months investors have had the audacity to "Fight the Fed", and once again, they have lost.

Although earnings forecasts and stock market behaviour historically show little correlation, expectations for a severe recession and thus for weaker corporate earnings in 2023, have risen over the past two weeks. Is there any reason to expect otherwise? I think not.

Based on what reasoning do I hang my hat on this idea?

THROUGH THE LENS OF DEGLOBALIZATION

Based above all, on the overriding, under-reported and poorly understood impact of deglobalization.

In his speech last week, following the Fed Rate Hike announcement, Jerome Powell spoke repeatedly of the "very strong" labour market, presumably a function of labour shortages that we understand as a global concern since the easing of the pandemic.

But let me postulate that the very strong labour market, i.e., labour shortages, is:

- first, not simply a short-term adjustment to increased economic activity since the pandemic, and
- second, not about to succumb to further Fed Rate increases.

Labour shortages, indeed all supply-chain disruptions, will not abate for many years because they are part and parcel of the painful long-term adjustments we must endure in a world that is deglobalizing. Developed nations outsourced their expensive jobs to low-cost, developing nations and are now at the beginning (since 2016) of a reversal of the process without the benefit of immigration policies that might alleviate labour supply tightness.

This implies persistently high wage inflation, and price pressures in certain other supply-chain dependent (i.e., "globalized") sectors of the economy. Thus, reduced corporate earnings and recession are in the cards and we must expect these pressures to carry on through a multi-year period of adjustment to the deglobalization process.

AND THE STOCK MARKETS?

Although, as we have noted, earnings forecasts and stock market behaviour historically show little correlation, If the above hypothesis[1] bears out over time, sectors and companies less dependent on labour and other inputs that may suffer from complex supply chain disruptions

[1] a supposition or proposed explanation made on the basis of limited evidence as a starting point for further investigation

are likely to outperform. What those sectors and companies are, I have not a clue – ask your portfolio manager.

TO CONCLUDE:

Voltaire said: "Doubt is not a pleasant condition, but certainty is an absurd one."

LET US POST YOUR IDEAS TO OUR WEBSITE!

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- CONTACT US:

Ralph Loader
QUAERO Investment Solutions Inc.
428 Strathcona Avenue
Westmount, Quebec
Canada H3Y 2X1
(438) 386-3861
ralphloader@quaeroinvest.com
WEBSITE:
http://www.quaeroinvest.com

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