The Just Word Podcast

Transcript of Episode 26 – 2021 In Review

Guest: Frances Horodelski

Pat Bolland 00:00
Francis, so great to see you again.

Frances Horodelski 00:03
Nice to see you again to Pat. Always, always a pleasure.

Pat Bolland 00:07
Frances, I gotta tell you, I read your blog on a daily basis. I love your market commentary. How do you keep up?

Frances Horodelski 00:16
I guess because it's been a passion forever. And I have no other hobbies, I don't golf, I walk. You know, I read I do all those other boring things, but it's a passion so, and people feed me things. And I read everything. I read voraciously. And I try and I just, yeah, try some days. It's harder than others, of course, because the markets are moving so quickly these days ... always move quickly.

Pat Bolland 00:42
Yeah, I was gonna say they've always been like that. But this year, in particular, it's been a very odd year. So let's, we're gonna do a recap of what's happened in this past year. And I think the biggest thing that I noticed, and maybe you can differ on this, if you want, is that in 2020, 2019, for that matter, the tech space was the be all and the end all for the stock markets, especially in the United States, less so in 2021. And yet, there was a clear rotation into other areas. What do you see as the key driver, both in the decline in the tech, and then the rise of other sectors,

Frances Horodelski 01:22
I think it's my old phrase, you know, everybody shifted, it's either the pendulum shifting or a different metaphor, everybody going to one side of the boat, and then to the other side of the boat, you know, just before it tips over, and rotation this year was, you know, in and out of tech, I mean, it started the year with, you know, the meme stocks and the SPACs. And all that which had some tech flavor to it. You had the big ARK funds, who were well followed earlier in the year, and that was all the future and tech, we had crypto, which came up and down and back up, and maybe it's going down again, we'll talk about crypto in a little bit. So it was really, it was the swings, as so much money was being made available into the system, you know, you had everybody being paid to stay home to some extent, you have the liquidity of the Fed, and all of that money just sloshing around. And causing, as I said, the pendulum to swing. And there was that growth versus value fight as well that we saw a number of times over the course of the year. And we may even be doing that right now. As we move into 2022 kind of the tech trade is cratering a little bit, you know, I don't want to put too much emphasis on that, and the value trade starting to pick up. So it's really just, you know, to some extent, fast money to some extent

the pendulum swinging. And to another extent, the difficulty predicting right now, what's going to happen next. So, but with, you know, various COVID variants running through our lives. So it's, it's changed both the way people look at the market to some extent, but also at any point in time. What makes sense as an investment because he's staying home and going to work. You know, do you have new technologies, old technologies? Do you need your toilet paper? Do you not need your toilet paper?

Pat Bolland 03:30
I want to come back to the pandemic. But before we do, I want to talk about earnings. Because as you and I have been in the market long enough to know that earnings drive the market. Do you think there's a point at which earnings have been unsustainable or that the market is overvalued earnings?

Frances Horodelski 03:49
Well, certainly, in 2021, earnings were huge. I mean, you know, because you were comparing off of what was, even if it was a small recession, in 2020, earnings collapsed, energy collapsed, all kinds of things collapsed in terms of profitability. 2021 saw the flip side of that we saw the easy comps, I think for the S&P 500 earnings, end of the year, probably up about 45%. I mean, you know, that's because you had this denominator that was so low. And so you had that as the tailwind for equity markets in 2021. 2022 it just can't get that much more profitable. You know, the comparisons in 2022 are going to be you know, pick a number, maybe 10%. Year over year growth in on average for the year maybe a little higher in Canada for for a variety of reasons. And the first half of 2022 is going to be single digits. So you know, it's not it's not a headwind, but it's not the tailwind. It was in 2021 For sure.

Pat Bolland 05:07
Okay, let's go back to that COVID concept because pandemic was certainly talked about, but was it acted upon?

Frances Horodelski 05:16
Hmm. Well, if you were early enough and it sort of started in 2020 with the lockdown trade, you know, the Zooms, the Pelotons. So people did act upon those beneficiaries of the lockdown or the stay at home, you know, Amazon, ecommerce, all those kinds of things. So I would say yes, people did act upon it, you know, it's hard to and you see that in the profitability numbers earlier for some companies like DocuSign, for example. Not I don't know if I want to call it earnings. I mean, revenue. For a lot of these companies who saw this big, you know, revenue boost profitability is for a lot of those companies is non-existent. I saw an article from UBS that said, for Peloton, for example, that profitability is unattainable. I don't even know what that means for a company. I don't know. You know, ultimately, we want to be profitable. So did people act upon it? Yeah, I think for sure, whether it was sectors that they wanted to be in, whether it was an emotional response to not being in the market at all, because of heightened volatility and health worries and heightened concerns, staying away from some sectors, that would be hurt by the, by the variants and COVID itself, including companies that do surgeries on knees and hips, for example. And those companies haven't performed because nobody's going in the hospital. Or, you know, fewer people are going in the hospital to have those kinds of things done. So I, Yeah, I'd say people act upon, they're still acting upon it, because, you know, depending on what somebody says, any particular day, whether it's Moderna, about a booster's efficacy or Glaxo SmithKline, with a pill, an antibody pill, you know, that those kinds of things get acted upon pretty quickly.

Pat Bolland 07:29
Okay, towards the end of 2021, we started get changes in the outlook for interest rates. Does that ... is it warranted? Number one, and and inflation is probably part of the equation. But also, does it affect the outlook for the stock markets in 2022?

Frances Horodelski 07:48
Well, there's a lot of academic research done on that. Certainly, in terms of how well ... there's a couple of things to keep in mind, we're at historically low level of interest rates. So even if the Fed and the consensus said the Fed will increase rates three times, maybe four, in 2022, the Bank of Canada is on the edge of raising rates, the Bank of England did raise rates near the end of December. So, but we're off like ridiculously low levels. We're not in a recession, we don't need those kinds of, of liquidity measures, you know. So the big central banks are getting rid of quantitative easing, buying back bonds, and they're going to move towards rate increases, everybody gets antsy about it. But the history suggests that, you know, it used to be, you might remember this from the old day, the old days, it was, you know, three, I think it was three jumps to the tumble. So you needed at least three rate hikes before equity markets responded. Equity markets have a history of going up into the first rate hike and even beyond. So it will have an effect at the margin when you look at things like P/E multiples, hard to get expanding P/E multiples, in an environment where rates are going up, but they're still so low. I mean, I think that's, I think that's the thing you really, we really have to and maybe they're not going to stay low forever. But, you know, going back to 5% on the Fed funds rate is my my view, you know, you may go to 2 over the course of the next couple of years. Geez, remember, you know, you would've given your left arm for that kind of rate environment in the past so

Pat Bolland 09:40
Absolutely true. But isn't inflation a going concern?

Frances Horodelski 09:44
Well, yes, and no. You know, everybody always that phrase from some very smart economists that everywhere in anywhere inflation is a monetary issue. I don't know if it is really and I'm not smart enough to argue with some of the greatest thinkers over the world in terms of economics, but there was a confluence of things here that have caused inflation to rise, you've had energy coming back from the abyss, you have all of the supply chain issues that have jammed up the works, you are getting wage inflation, and that's going to be a factor in 2022. But some of these other issues will not be as you know, as the rate of change issue, you're not going to get another 0 to 70 in the price of oil. Supply... People who watch these things suggest that supply chain issues are being solved as we speak. And there's gonna be, you know, a wealth of things, cars, stuff that has been affected, semiconductors, that has been affected by the supply chain issues, that's going to ease a lot. So you know, when again, we're not going to probably go sub 2% inflation in 2022. But I don't think we're going to stay at 5 or 6 either. So it's an issue. All of these things are modest headwinds, but they're not a they're not a tornado coming at you in terms of where we might be over the course of next year.

Pat Bolland 11:22

Fair. Now, you brought up energy. When you think about the Toronto Stock Exchange and the three dominant sectors, at least traditionally, and I can't say it's true anymore. The TSX seems to be a lot more balanced with companies in the tech space, like Shopify, for instance. But traditionally has been energy, it's been mining, and it's been banks for the TSX. How have those sectors, in particular, done?

Frances Horodelski 11:46
Well they've done well. Mining has been a little choppier, because in mining, you've got gold. So while some of the copper players have done well, the zinc players have done well, gold has been a mess. And in fact, if you look at the top performers for 2021, on the TSX, or sorry, the worst performers in the TSX composite, a good chunk of them are gold stocks, and marijuana stocks. So but you know, there's sub sectors of the mining space that have done okay, banks have done very well, they were a place to hide, they're always a place that people hate for a variety of reasons, but they've done very well. And of course, we just saw after the fourth quarter report reports, big dividend increases, we'll probably see more in 2022, for the banks. And energy came back from being you know, a dead sector. And even in 2022, the forecast is from bottom-up, analysts expectations, that energy could be one of the best sectors in this coming year in 2022. I worry about energy a little bit that they'll do some stupid things with all the capital, and they're generating huge amounts of cash and the bulls say, they'll, you know, it's even at $70 on oil, they make a ton of dough. And they've been giving it back they've been pretty disciplined on on capex, but you know, like the banks too, sometimes all that excess capital, excess cash flow ends up burning a hole in their pocket, and so they do something stupid. Having said all of that, I would probably, I wouldn't be overweight oil, I think oil is going to be choppy in 2022 ... probably be market weight. Banks, I'd continue to hold my banks selectively. Because there's just not very many places that give you that kind of long term stability and that long term dividend growth. And I'm kind of partial to gold. So although it might be a relic, the way people talk gold, now the minute able to get out of its own way here.

Pat Bolland 14:06
You know, it's interesting what you say about gold because I've never considered supply and demand the issue for gold for instance, I've always thought of gold as a competing currency. But while we're on the topic of currencies, crypto, I'd love your thoughts on crypto because it's experienced some of the same volatility as gold this past year.

Frances Horodelski 14:28
And I think you hit it on the nose in terms of gold because now there are so many opportunities to, whether it's a store of value or it's a different currency from fiat currencies, crypto seems to be taking, to some extent, the place, you know, there's still ... Gold companies are making a lot of money there all-in sustaining costs are low. They're generating a lot of cash flow. It's gonna be a lot of consolidation in that business. Crypto, I've been there for a while. I'm wimpy. I like to say I'm a wimp the way I've been playing crypto through closed end funds and through ETFs. I will say earlier in the year my son, is part of the crypto atmosphere if you will, my son and I were playing quote-unquote NBA NFT's, non fungible tokens, earlier in the year, we had a blast, not a lot of money, but we had a blast playing NFTs ... So, as far as Oh, yeah. It was so much. I must say it was so much fun. But you know, it was like $100 here $200 there kind of thing. It was, it was just fun. And NFT, I mean, I missed all the big NFT's for sure. But on crypto itself, it is going to be, it's not going away. It will there will be some regulatory pushback,

there will be digital currencies from central banks. Although I my sense about digital currencies from central banks is they kind of defeat the purpose of a Bitcoin. They're not anonymous. You know, and they're regulated. And I think people really like the freedom that a Bitcoin or the platform of Etherium I guess... I mean, there's way too many coins, just way too many. There's 1000s of coins, there's joke coins. And so there will be a Fallout, we may be going through it right now as some of the cryptos pullback. But they're going to be the basis for, whether it's all these things I don't understand, like the Metaverse and the Multiverse and Web 3.0. Technology is moving very fast. Bitcoin might in fact, not be the place to be because it's technology is static, I think is the way people talk about it, where other things are moving so fast and developing so fast, and be it Etherium or some of the other new platforms, I call them platforms. So I think you have to have some in your portfolio, it's like you like saying in 1995 or 6 that you didn't want to be involved in the internet? I mean, it's the way of the world is my simple view. Well, I'm a simple person. You're a gambler

Pat Bolland 16:40
Well, you know, the other thing, you know, I'm gonna go from one end of the spectrum, if you will, the volatility, to the other end of the spectrum. The stock market is a market of stocks, as you and I both know, but ETFs, especially broad ETFs have been extremely popular, especially in 2021. Why do you think that is?

Frances Horodelski 17:42
Um, well, because the, I mean, there's a variety of reasons. One, is there just so many, so you can you talk about the broad ETFs, you can buy the TSX, or the S&P 500, or the world index. So you don't have to make any really sophisticated decisions, you can say I want to be in the stock market. And so I can go there, simply, cheaply. The other thing is, and that's strong in people who didn't have any knowledge, really, of the stock markets, and how to analyze individual companies. So it's simplified portfolio development a lot. But you can also drill down I said, I own some bitcoin ETFs I own an Etherium ETF, or you can buy a mining ETF, you can buy a consumer products ETF, so you can ... marijuana ETF, so you really boil it down and build a whole portfolio. But it's interesting, in 2021, there was this, earlier in the year, discussion about, you know, passive investing was overdone, you really got to get into active investing even through ETFs. But at the end of 2021, it's interesting that you really were better off being passive buying an index ETF rather, underneath, you know, so many stocks, the average stock in the Russell 3000 is down 28% Where the index, you know, the the index was up 25%. So, you know, there's something to be said for passive, but I think it's just simplicity is made and cheapness. People focus on the cheapness of ETFs. So, you know, in terms of management fees,

Pat Bolland 19:31
We're running out of time, but I do have a question that's a little bit different. Because I'm reading on something called Muckrack when I don't know what Muckrack, that you're a former BNN TV host. I knew that. You love stocks, music, words, and time travel... where'd time travel come from?

Frances Horodelski 19:52
I don't know I've always been intrigued by the side and I'm not a big science fiction reader, but I've always been intrigued, by that ability to go back and forward. So you know, and there's all kinds of books written about it. And it just always intrigued me that, I don't know, I know nothing. But you know,

are there other parallel time universes and that we can switch between them? You know, that whole idea of you, you can't change time, but you could relive it. I don't know. It just intrigues me. Maybe I want to live forever. So immersing myself in time travel might be able to do that.

Pat Bolland 20:35
We'll just start calling you the Highlander.

Frances Horodelski 20:37
Yeah.

Pat Bolland 20:39
Frances, as always a pleasure to chat to you. Maybe we'll do this again.

Frances Horodelski 20:43
Been great Pat. All the best in 2022.

Pat Bolland 20:47
Thanks so much. You too.

Frances Horodelski 20:48
Okay.

Pat Bolland 20:49
Yeah.

Frances Horodelski 20:49
Take care. Thank you.