

Frances Horodelski

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SPEAKERS

Frances Horodelski, Pat Bolland

Pat Bolland 00:19

Welcome to 2024 Happy New Year and at the beginning of every new season, we'd like to review what happened to the stock markets last year. And maybe they'll give you a little bit of a clue to the future. And Francis Horodelski has joined us for the last couple of years to do that job.... Francis, Happy New Year. Welcome to 2024.

Frances Horodelski 00:51

Happy New Year to you, Pat. Hope it's a good one.

Pat Bolland 00:53

Okay, let's start with an overview of how the markets, you perceive the markets, last year?

Frances Horodelski 01:03

Well, I think if you remember, we came in to 2023. With people, I mean to a man to a woman a recession was expected. I mean, it was across the board, it was going to happen imminently. But despite that, we still had central banks raising rates. We had a horrible 2022, the market was, you know, on its back in a bear market to use a term. So we came into 23 recessions expected. Thanks for still hiking rates, everybody was bearish. And guess what happened? We probably had the best year, especially in certain parts of the market, the best year maybe ever and ended the year at all time highs. Kind of crazy.

Pat Bolland 01:51

Interesting, I went back to our conversation a year ago and you weren't quite as bearish as that.

Frances Horodelski 01:55

No, because I'm a bit of a contrarian, more than this. And you know, you can feel there's always a wall of worry, of course, in in capital markets. But that wall was so steep, and every smart person was bearish, it seemed and when everybody's bearish, smart or dumb, there's usually an opportunity to take the other side,

Pat Bolland 02:21

Which you did. Okay, so then that's how the year started off nice little rally, it got a little wobbly.

Frances Horodelski 02:27

It did get a little wobbly, because the central banks was still tightening all around the world. And that caused havoc in the bond market. And if you remember last March, that bond market Havoc or prices falling as rates rose, that caused a lot of dislocation on bank balance sheets, and we saw some bank failures. And that got people unnerved. It didn't actually upset central bankers immediately, although there was some short term liquidity added, they went back to their tightening. But in the middle of the year, most central bankers kind of went on pause. And I was listening to somebody yesterday who said you can look at all the macro stuff you want. I mean, you know, housing starts and everything you want, or really pay attention to bankers, central bankers. And what they do or say, usually dictates probably more of what they do than what they say, dictates what happens in market. So once they started going on pause, and then that funny little thing called artificial intelligence, which was actually introduced Chachi BTW, I was an idiot chat GPT I think got first introduced in November of 2022. I was like an early adopter, I downloaded the app and I was on there never in a million years saw what happened in, as 2023 unfolded, but that got the speculative juices going. And you know, and so that's what took those tech names through the roof.

Pat Bolland 04:06

But let's talk about those tech names. Because it wasn't that long ago, couple years that we talked about FANG, you know, as Facebook, Amazon, Netflix and Google. Of course, Google changed names. Facebook has changed the names, but there's now seven of them that people look at: Invidia, Apple, Alphabet, which is the old Google, Microsoft, Amazon, Meta, which is the old Facebook and Tesla. That's the Magnificent Seven. And they really were driving the markets, weren't they?

Frances Horodelski 04:34

They were I think that a lot of people looked at that, you know, that disproportionate weight of those seven names in whatever index you look at. And it actually they did very well don't get me wrong. There were just tremendous with again, a lot of ups and downs. I mean, Tesla went up and down. And video got cut in half, I think at one point over the course of the year, and ended up I don't know how Many fold to fold three fold. They don't have it in front of me, but it didn't mask and some people were worried about that, and saying, oh, you know, it's only those seven socks, well, there was a lot going on underneath where other names started to percolate and get better other technology names, you know, and different names in each in each sector. And the new hire list actually expanded the new 52 week, hiatus expanded over the second half of the year, and so that it was actually broader than just the seven the seven were certainly leaders. But there was enough, you know, underneath, if you will, that allowed them the broader market to participate.

Pat Bolland 05:50

Let's talk about the stocks that didn't have, in part because they'll into the Canadian discussion, but I want to save Canada until later on, energy. I'm looking at kinda of a yoyo, but oil was still down 9% at the end of the year ... natural gas, I read your newsletter, down 44%. I kind of missed that one to be

honest, coal prices dropping 60% The only plus was uranium up 80%. What are your thoughts on traditional, if you will, energy.

Frances Horodelski 06:18

So energy was the sector of choice in 2022, it was the leading sector. So that was flag enough for 2023. I think there was a lot of different things that happened over the course of the year, including in 2023, a lot of Russian energy kind of filled the gaps. Smaller OPEC countries filled the gaps where there seemed to have been in 2022, where it is about supply constraints. supply constraint didn't actually happen in 2022, and 2023. To the extent that people thought it would, there was constant worry, of course, about the demand profile, and that demand was going to be hurt by a recession, which actually didn't happen. So there are all these little bits and pieces that I wouldn't underestimate the impact of so called Paper barrels and paper barrels are when speculators move the market. And I think that was a lot of what happened early or late in 2020. Too early and 2023. The speculators were really long. And then they got, you know, less long as the year progressed. And, in fact, you know, the hedge fund guys are paper, oil, paper barrel buyers, they're essentially out of the market. Now, the speculators are low in terms of their participation. So you see that ebb and flow, you know, every year, the supply demand profile, is relatively imbalance over the course of any one year, but you have all these swings, and energy stocks, you know, at \$70, where we are now give or take, these companies make a ton of dough, a lot of money, and some of the Canadian names, you know, by the end of 2024, or 2025, we're going to be debt free, debt free. And they are I mean, I hate to get so excited about it. But you know, and that an excess free cash flow is gonna go to shareholders not into the ground, it's going to go into shareholders pockets, like, you know, 2025 is a long way away, of course, but I think there's opportunity in this in the energy patch, always geopolitical, and all kinds of other things that, you know, drive you crazy. But I think there's, I think there's good valuation in the space.

Pat Bolland 08:49

I've got a good one down as an idea for the coming year. Hey, I'd love your thoughts too. On while we're on the subject, alternative energy, green energy, how investable is it? Do you think that's a real thing in the future?

Frances Horodelski 09:02

So 2022, more 2021. But 2022, a little bit. Alternative Energy was a thing. I mean, they were, you know, again, through the roof, there's a real speculative element to the, to the renewable space. Some companies don't make money. They've got, you know, ideas, but no revenue. So there's kind of a lot of that going on. And then last year, the bloom came off with the rose lithium went from, I think, 70,000, a kilogram to 12,000. You know, that these things are going to be needed, there is going to be a transition to more renewable energy. And I'm partial to some of the big names again, you know, those companies that that can buy other companies that have revenue that have profit? Is it so I think this is a transition year for renewables and you can see that in every a electron electric vehicle demand. Everybody say says it's going down? Well, it's not going down, the rate of growth is slowing. So that got everybody a little antsy. But I'm not a Tesla bull. But there are opportunities, I think in what they used to call it the pick and shovel side of the V. So your copper, which did not have a good 2023 lithium, I think over the next couple of years, you'd be well suited to have some of that in your portfolio. No, you know, you don't have to go nuts. But

Pat Bolland 10:37

Well, the province of Ontario is buying into that, too. They're looking at making major investments in electric vehicles. Let's move on. Because one area in the United States a lot of people were talking about was health care at the beginning of last year. What happened?

Frances Horodelski 10:52

Well, again, I hate to sound like a bit of a broken record. But rotation has been if you can take one thing away from this conversation, its rotation, rotation, rotation, three things as it happens. And again, you know, that was defensive positioning coming into 2023, because the recession was around the corner. And the recession didn't happen. Some of the big names struggled. You think of the Pfizer's of the world, Bristol Myers, the only the only two real winners in healthcare, or Novartis and Eli Lilly, because you can now take a pill to lose that weight. And right, yeah, it was epic. The GLP1's is what they're they're called. So that was the only area that really did well. A bit crazily, I think, but you know, the people smarter than me that know better. But again, it was more it was defensive positioning. And as we move through 2023, they become became more aggressive, or individual company problems. And we're starting this year, actually, with a rotation a little bit back to it. Some of them are good value names. There's a lot of m&a going on in biotech. So that's kind of the speculative end. And I think in the end, there's still going to be a need for new knees and hips. Everybody says, Oh, you're gonna not be fat. So you won't need new knees and hips. I don't buy that. So I think the medical device companies will do well, I think other companies that are investing in non fat that do see drugs will still be needed, whether it's cancer or or arthritis or, or other ailments.

Pat Bolland 12:45

Especially in light of an aging population. When you talk about the expectation for a recession last year, people said consumer staples were not the place to be. What What were your thoughts then? And what are your thoughts now?

Frances Horodelski 13:01

Well, so consumer staples would ordinarily be a defensive sector. The problem was that early in the year they benefited from widening margins, because they were able to push through price increases, you also had put, so they call it shrink Felician. So you know, your same price, smaller package. So margins, were under pressure for a number of those companies. And even just recently, if you've been following in France, Carrefour, the big supermarket doesn't want any Pepsi products on their, on their shelves, because they said they're, they're gouging them. So this is working through the market. Plus, you know, you're not going to eat as much because of these drugs that suppress your appetite. So you're not going to eat potato chips and pizza, whatever. And so there were a lot of cross currents, I'd say, and the group wasn't particularly cheap when you look at it relative to the market. So it's really stable companies, but not the cheapest. So you really have to cherry pick your way around, you know, where the opportunities are going to be.

Pat Bolland 14:16

Interest rates moved higher, or well, you know, they were in that transition at the beginning of the year last year. And banks were certainly, because their dividend yields, saw a lot of movement as well. Is that providing an opportunity to do you think now?

Frances Horodelski 14:30

If I'd done this a month and a half ago, I would have said, you know, load up the truck. They've had very, very good moves both in Canada and the US. So again, you want to be a little circumspect about jumping in. But that's more of a timing thing. I think the Canadian bank dividend yields are still very attractive. I think they'll do well, generally speaking, especially in areas like the investment The banking side because I think m&a is going to pick up this year, I think capital markets will be all right. You know, the mortgage side of the business in Canada may be interesting to say the least, in terms of both, you know, the ability to have to meet your mortgage obligations. So that's a negative for the banks. But also the ability to get a mortgage. And the size of that market in Canada is, is going to be tough, I think to really expand, but robots going to do an acquisition that's going to help the company, the Canadian banks are cutting back on costs. And if in fact, we see a little bit of easing in Central Bank, at least not continuing to go up at the pace they did over the last year and a half that would be benefit, beneficial to bank margin. So, you know, I remember, I don't know if you remember Fred Ketchen, but from years ago, and Fred used to always always say that the perfect investment strategy for Canadians was to buy Canadian banks and a lottery ticket. So I'm not big on the lottery ticket, but certainly having Canadian banks in your portfolio, you know, you do have to swing and some will have warts, I mean, certainly Bank of Nova Scotia has been the worst performer over, you know, you name it any period of time over the last five or 10 years. So, you know, some are gonna do better than others. But you want to have some banks in your portfolio, I think, and it pays you to wait.

Pat Bolland 16:38

Well, you mentioned Canada, and you think about inflation, for instance, on the sticky side, both north and south of the border, but we also have the housing issues, as you point out, in the big centers, in particular, Vancouver, Toronto, they seem to be softening a little bit that's gonna play in the banks, and a lot of other different areas. Nevermind that we've got, you know, politics galore, north and south of the border.

Frances Horodelski 17:02

Yeah, so I'll just housing first in Canada, I don't know how it gets solved in a, in any quick fashion. There's a lot of money being thrown at it by various provincial and federal governments to increase the stock of of homes available for purchase or rent. It takes time. So I mean, and in that environment, with immigration still very high. And so this country, people gotta live places, and many of the immigrants coming, whether they're temporary students that have a lot of money behind them, and they don't really seem to care about bidding up real estate, because they want money out of some wherever they're coming from. And so I think, I think housing keeps a firm bit under it, and still a problem. So in the US, it's an entirely different dynamic. You know, people can get a 30 year mortgage in the US. And you know, a lot of people have two and 3% 30 year mortgages. That doesn't happen here, of course, is you know, every five years at the at the max, you've got to roll it over elections. Well, there are at least 50, globally, from this in 2024, from this coming weekend, and while the 13, Taiwan goes to the polls, so it's bracketed by Taiwan at the beginning and the US at the end. And you can almost name any country in

between where there will be an election, including Russia, but that's like a done deal anyway. And will Canada have an election? Well, I'll leave that up to you. We don't have to go to the polls, of course. And it does not appear that our prime minister is willing to accept what the polls are telling him. So I doubt Canada will go the polls this year, but you know, they'll see.

Pat Bolland 19:09

Yeah, absolutely. We we haven't touched on inflation, sticky inflation, in particular, north and south and the central banks. And I mean, we began the discussion by talking about how central banks drive everything that's going on, what are your thoughts on inflation and central banks?

Frances Horodelski 19:27

So the inflationary and I may have said this in January when I talk to you is that I thought that 2023 would see an easing of inflation almost purely because 2022 was so bad. So it's that basic fact, you know, year over year, the numbers are really high, and then you get numbers that are a little lower, so you get some using on the back count. 2024 is going to be a little different on the comparative side. It will not be as easy but I think wages are still going to be the sticky component, both in Canada and the United States, the US has some different idiosyncrasies and how they calculate their inflation. So that's likely to continue to fall, Canada will be a bit stickier. And I think that will keep the central banks from cutting at the pace that people are currently expecting. You know, the Fed said, The Federal Reserve has said three cuts, and 2020 for the street saying six. So somebody's going to be wrong. And I think it's going to be the street. And so inflation will come down, but I don't think it's going to be at two. I could be wrong on that. I'm not an economist, the one positive could be imported deflation from China. China is deflating, and we get so many goods from China. In North America, that may be one modest positive, additional positive on the inflation front and in this side of the world.

Pat Bolland 21:11

So many markets around the world finished off the year in great shape. Do you see that continuing? Through the balance of the year? Or are we looking at a flattening? what's your what's your call?

Frances Horodelski 21:25

Yeah, I'm more glass half full than glass half empty. So I would say that I think we're going to get a more volatile next few months. And then a crazy volatile end of the year in the US. I think the Iowa caucuses 10 days away, maybe not it's or next Monday, maybe. So as I don't even want to go down that road. Sorry. So I think that's going to be in the end, it doesn't matter. But it will matter as we go through the process. So I think this year is going to end up higher maybe than it is now. But not a lot higher, with a lot of rotation in the in the middle of it. How's that for a wimp out in terms of forecast?

Pat Bolland 22:22

That's a nice safe bet. I'll give you that. But I mean, who knows? You could be have a perfect crystal ball.

Frances Horodelski 22:30

Somebody says nobody knows.

Pat Bolland 22:35

Francis, it's always great to come to you regardless, the start off the year.

Frances Horodelski 22:39

Thanks very much for inviting me...

Pat Bolland 22:46

Frances Horodelski