JG 05.12.2025

Mon, May 12, 2025 1:20PM • 10:42

SUMMARY KEYWORDS

stock markets, tariffs, interest rates, central banks, US economy, GDP, imports, inflation, job growth, Canadian election, portfolio management, equity allocations, market trends, client calls, economic stability

SPEAKERS

James Gauthier, Pat Bolland

Pat Bolland 00:00

Stock markets this year have definitely been a roller coaster, but Justwealth has its own pilot, so to speak. And James Gauthier is going to join us ... James, great to see you again.

James Gauthier 01:18

Alright Pat, always great to be here

Pat Bolland 01:20

March the stock markets around the world declined sharply, and then kind of, since the beginning of April, they've been recovering. And just this week, we find out that the tariffs have been lifted. Tariffs cause things, I think, to go down. Tariffs are being adjusted with China. Is it all about the tariffs? What do you think is going on?

James Gauthier 01:41

Yeah, there's a lot of news coming out, and it seems to be offsetting news most of the time. So it's it's getting hard to keep track of, and sentiment is changing along with the tone of the headlines that are coming out. So tariffs going on. That's bad. Investors react in a negative way. Tariffs are being reversed. That's positive news. Investors react immediately in a positive way, net, net. You know, the stock market is basically exactly where it was when all of this started.

Pat Bolland 02:13

It's amazing how that worked. How about interest rates? Because you're going to get the central banks around the world, not just in the United States, responding to some of the pressures they're seeing. Is that happening in interest rates as

James Gauthier 02:24

Well, I mean, each each independent central bank is going to be making decisions based on their own relevant economy. So the Bank of Canada is going to act independently of the US Federal Reserve, the

ECB, you know, Bank of England, all these different banks are going to take a look at their own economy and focus on their own mandate, which is to keep price stability for most of them. The US has a dual mandate to also look at employment and try and encourage full employment at the same time as price stability. So their mandate is more complicated, but everybody else is just looking at price stability within their own region. And there are different, I guess, interest rate, well, inflationary pressures in different economies. So overall, we're seeing a net easing. But it's, I would say, stable at the moment, waiting to see further weakness, which hasn't materialized yet.

Pat Bolland 03:25
Against that background, what does all this tell you about the actual economy? And let's just focus on the States from the time being, and then we'll get to Canada later on

James Gauthier 03:34
So the US economy, it is interesting. We're getting a lot of data that is making people scratch their heads a little bit. So the last US GDP read was negative, which is contrary to the labor force data, which is coming out quite strong, but it's a bit of an anomaly. And even though it was worse than economists expectations, the problem was a surge in imports that happened in the first quarter of 2025. When imports go up, that's actually a drag on GDP. But because of the tariffs coming on, a lot of companies were stockpiling in advance of the tariffs, so they tried to front run the tariffs a little bit, built up their inventories, and that increased imports, which decreased GDP. So although it was a weak reading, it's kind of a false weak reading. The labor data which the US, well, at least the Federal Reserve looks at a little more closely, is still quite strong. Inflation is still persistent or stubborn, stubbornly high. So from from that viewpoint, the economy in the US has not really seen negative impacts yet from from the tariffs coming on.

Pat Bolland 04:48
Well, interesting. So the tariffs have people importing more, and the GDP is affected. Is the opposite true? In other words, if the tariffs are being lifted or or if the shipments slow down, will GDP bounce back more than it should or could?

James Gauthier 05:05
Yeah, that's the expectation. So the surge in advance is going to mean a decrease in imports, basically effective whenever the tariffs, and again, the tariffs have been a moving target at best. So it's hard to predict when that exactly is going to come through in the data. But if you figure that the surge came before basically the end of March, it's going to slow down after that. So depending on what the rest of the economy does, I mean, the imports and exports, or net exports, as it's measured in GDP, is just, you know, a fraction of the overall GDP, consumer spending, business investment, government spending, they all affect it as well. So it's it's more than just one variable, when you look at GDP.

Pat Bolland 05:49
Fair, but we're getting job growth. We're getting an economy that or the GDP that's going to potentially bounce back. What does that do for you when you're managing your markets? Are you looking to buy now in the United States?

James Gauthier 06:03
No, I mean, we take a longer term. We're not worried about the current quarter's GDP or the last quarter's GDP, or even the next year's GDP. We're concerned about GDP trends over the next 10 years. What are the growth rates going to be like? What will that affect? You know, the growth rates expected to come through in the stock market. What is that going to do to do to interest rates over time? How's that going to affect bond prices? So we look at long term trends, so any short term ticks, we don't get too concerned about but we do worry about the long run. And in some of the impacts of tariffs are probably going to be a bit negative in terms of longer term growth rates. So I would say overall, what's been happening early this year is modestly negative. But you know, nothing that's going to change how we manage the portfolios.

Pat Bolland 06:51
Okay, let's turn our attention to Canada now, and we've obviously had an election. Did that affect the stock market?

James Gauthier 07:01
Well, it removes some uncertainty I guess. Anytime you have an election, there's uncertainty as to who's going to win early on in the polls, at least shortly after Trudeau resigned, Conservatives were favored to win the election. That sentiment did change leading up to the election, and they weren't predicting a Liberal majority win after they announced Mark Carney as the successor. They didn't get the majority. They came very, very close, but I think it did remove some uncertainty. So the elections out of the way, I would say that, you know, the election is a secondary issue at the moment. It's still the tariffs and the overall sentiment emanating from the US that is affecting all of the other stock markets in the world, because they're so highly co-related. Anytime the news comes out of the US, that's more influential than anything that comes out of Canada applies to our own stock market, which is kind of hard to believe, but it's the truth,

Pat Bolland 07:56
Okay? But if you're you're sounding a little bullish on the American economy and potentially, I guess, longer term in the stock market, are you looking at Canadian stocks as well then?

James Gauthier 08:09
Well, I mean, we we have kind of set rates of what we expect to hold in terms of equities in our portfolios. So, you know, our high growth portfolio is always going to contain 80% equity. That's not going to change. What we could do is shift a little bit from Canada to us, or us to international or any combination of those. We're not changing anything at the moment. Based on the current view. We've always kind of held that the US is the most attractive market. But there is a good reason for Canadians to own Canadian based stocks, even though it's called sometimes the home country bias, there's a currency factor as well that makes it a good reason to have that in your portfolios. So our allocations, or our planned allocations, have not changed as a result of anything that's happened recently.

Pat Bolland 08:59
Wow. And that's true of all foreign markets then too

James Gauthier 09:04
Effectively, yeah. I mean, we've made some subtle adjustments, but, I mean, these are ongoing portfolio adjustments that could happen anytime. You know, if a market does particularly well for a while, we may take profits in that market a little bit, reallocate elsewhere, but that's normal course of business, nothing that's been triggered by any events that are currently happening, affecting markets.

Pat Bolland 09:26
Well, you and I are going to talk again in two months time. I guess in the meantime, you're going to continue to watch tariffs.

James Gauthier 09:35
Well, it's moving markets, so, yeah, we have to at least be able to answer to clients. You know what is happening and probably why they shouldn't be concerned. We've had a lot of client calls recently, people nervous, you know, despite our newsletters coming out and saying, This time is not different, people are coming back to me and saying, Yes, this time it is different. No, it's not different. It's the same thing. There will be short term turbulence, everything will settle down. I mean, basically everything that we put in the newsletters and our previous podcasts that we did, it's all played out exactly as we would have expected, I would say, a lot quicker than what we expected. I didn't think things would recover this quickly, but the news is moving pretty quickly, and markets are reacting pretty quickly. Andnet-net, like I said at the beginning of the podcast, you know, we're basically back where we started a few months ago.

Pat Bolland 10:26
Yeah, James, always great. See you in a couple months.

James Gauthier 10:30
Okay, thanks, Pat. J

Pat Bolland 10:32
James Gauthieri, Chief Investment Officer at Justwealth.