JW S05E07 James Gauthier

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SPEAKERS
Pat Bolland, James Gauthier

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Pat Bolland 00:17
Welcome back to the just word podcast. Well every two months, we sit down with James Gauthier, and here we are, middle of the year, give or take, and we've seen geopolitics at play. We've seen wars, and yet the markets keep moving higher. So we're going to get a summary of what's going on with James ... James, great to see you again.

James Gauthier 00:59
Good to see you, Pat. Hope you're having a good summer.

Pat Bolland 01:03
I am, indeed. But that's the point of our call today, because here we are, halfway through the year. Six months have been very volatile for a lot of the markets out there. How have we done overall?

James Gauthier 01:17
Well, year to date, it's been a pretty good year. Canadian markets are up about 10% international markets are up even higher, about 13% US markets haven't done quite as well. They're up about 6% in US dollar terms. But when you take into account the fact that the US dollar has actually declined a bit throughout the course of the year, when you translate that the Canadian dollar terms us, markets are basically flat. So the equity markets overall, when you look at those three regions, it's pretty strong. And I would even extend that look back a full year. So if you take the one year ending June, instead of just year to date, the numbers are quite strong. Canada's up over 26% and that really stuck out to me when I was when I was doing our second quarter commentary. Other markets are up strong as well. Both the US and international markets are up 15% or more. So when you look at that for one year returns, those are incredibly strong numbers.

Pat Bolland 02:17
Yeah, over the longer period of time, it plays out, doesn't it? To stay in the marketplace despite all that volatility. But the focus right now is, is earnings. We're getting a lot of the high tech earnings coming in. I want to talk, if we just could, because we've done it in the past, about tariffs. Are they kind of by the board now, or are these peak tariffs? Are they done?

James Gauthier 02:40
Well, I think a lot of the major anxiety is out of the way, but we've got, you know, if we talk more broadly about let's call it the Trump Effect, that's still alive and well. So at any given point in time, he could go off on something, whether it's tariffs or something completely unrelated. He can move markets and his let's call it unconventional ways. Are things that markets are not used to, and they're not sure how to analyze it, and they panic, and that's why you get the violent moves that we've seen so far this year in both directions. So I mean, we've got a big date coming up ahead of us, August. 1 is the deadline, the revised deadline for the deals to be struck with the US government. And right now, Canada does not have a deal in place, and so August 1 is right around the corner, and that could cause, you know, another short term impact. But you know, the way these things have played out. Calm heads prevail over time. It's just in the short term, things can get a bit erratic.

Pat Bolland 03:48
You know, there was an expression in the business years and years ago, "sell in May and go away" because, you know, the Wall Street and Bay Street are just deserted these days. Was that something you used to do?

James Gauthier 04:01
No, that's a terrible, terrible, terrible, terrible advice. I mean, selling at any point in time usually doesn't make sense. Traders might like to say that, but traders are not the same thing as investors. Investors should have a long term view, and selling at any point is probably a bad idea because you're not following your long term strategy. I came up with my own phrase Pat, and I had to write it down, so I have to read it. So I said, stop looking at your account balances in May and keep it that way. So don't let short term impacts, or other you know, current events affect the way you think about your your investments. So if I get famous because, because that phrase was mentioned, and I get credit for it, you know, it's, it's good for you too, because it was on your podcast.

Pat Bolland 04:51
Well, we'll put it out on Tiktok or some other place. Okay, so that we did mention the earnings and The Magnificent Seven, the techs, you know, Microsoft ... earnings came in ... staggering numbers. So I get what's happening with the Magnificent Seven. But you mentioned earlier that international markets, global markets, are doing well. Why is that?

James Gauthier 05:12
Well, no economy operates in a vacuum, even though there's kind of some trade issues at the moment, the world is a globally integrated economy. So it makes sense. You know when, when the United States is doing well, in the United States is the largest economy in the world, when it's doing well, others should do well as well. It's just there's high correlation. You know, when things do poorly, everybody

does poorly. So you know that's the over time, as more information gets disseminated, as technology enables trade transactions, electronic commerce, all of these things are so integrated that it's it's inevitable when you know, when things are clicking on all cylinders, everyone is going to benefit, and their stock market should reflect that.

Pat Bolland 06:03
Let's take a look at fixed income and the world of interest rates. Let's start with Jay Powell, because Trump, as you pointed out, is an unknown, and he brought in Jay Powell, but he looks like he wants to send him out as well. What is your thought on how that's affecting the markets.

James Gauthier 06:24
Yeah, unconventional, even unprofessional, might actually be the way that that Donald Trump has handled Jay Powell, you know, tweeting out that he's too late, too slow, too stupid, a total loser. He's used all of those words in capital letters too to describe Jay Powell. And it's, it's shocking that even though the Fed has a mandate of independence, you know, it drives the president crazy because he wants to control everything, and right now, they're at odds with one another, because Trump wants lower rates, because that's good for the economy, but the Fed has a responsibility to keep stable prices. And we had the inflation scare, you know, a little over two years ago, and it still has not been tamed. Inflation is still pretty warm, not as hot as it was. I think we've gotten rid of the the the Doom associated with rampant inflation, but it's still more aggressive than what the Fed would be comfortable with. Their target rate is 2% we have not even come close to getting down to 2% so they should continue to maintain rates at elevated levels until it comes down to that point, and there is no sign that the economy is deteriorating in the United States. So there's really no argument for the Fed to lower rates, even though the President is pounding on their heads telling them to do so. In Canada, it's a little different. Yeah. I mean, it's, it's, we do have a weaker economy, but everything is just still so uncertain, because we don't know the full impact of the tariffs yet, or even where the tariff positions are going to settle. So as as long as people are uncertain, you know, they're going to want to wait to see evidence to suggest they should move one direction or the other, but until that comes through in the data, which might not be for another quarter or two, you know, the central banks aren't going to do anything, and they haven't done anything since March.

Pat Bolland 08:33
It's interesting. Against that background and the pressure from the President to lower interest rates, at least in the United States, you've got bond yields rising, and they say that the bond market is a better forecaster of the economy and of inflation, those kinds of things. What are your thoughts about the bond market? And then, how does that adjust? Or does it adjust your approach?

James Gauthier 08:58
Yeah, the bond market is definitely perceived to be the smarter. And I'm not sure if that's because they're more dependent on economic data than equity based companies, because equity is more about speculation on success of products or things like that. Bonds are more boring. They just they pay interest. So it's not, it's not quite that's fair comparison. Equities naturally are more speculative. Bonds are more let's call it logical or more mathematical. So I could see the perception that bond market is perceived to be smarter. Anyways, we don't really get too affected by I mean, the Fed is going to do

what the Fed has to do. Their their ability to control the short term interest rates affect the bond market. It's all based on their expectations of what they think interest rates are going to do at, you know, five year maturities and 10 year maturities and 20 year that's a lot of years into the future to try and speculate on where things are going to go. So and it can change so quickly. If we look at where interest rates were four years ago, they're nowhere near where they are right now. And of course, nobody predicted that, so there's no sense trying to speculate and move around, because the market is fickle. The market always adjusts and it always reacts. We plan for the long term, and over long periods of time, things are pretty stable. You know, the impact of moving interest rates or even sharp moves in in the stock markets, they all tend to even out. So having the long term view really helps tune out any type of short term impacts that you can get from the bond market or the equity market.

Pat Bolland 10:41
So as a summary for the general public. So not everybody's invested, how would you approach the markets right now?

James Gauthier 10:50
No differently. So our advice, I mean, it does not change. Individuals that are investing in the market for for whatever purpose they're have in mind. Focus on your time horizon. Focus on your investment objective, whether you need income, whether you're trying to preserve capital, or whether you're trying to grow your capital. Understand what that objective is, and know your realistic comfort with risk. Don't take more risk than you're comfortable with, because you're going to come to regret it at some point. When you can lock down those three things, you can identify what your perfect investment strategy should be, and then you just stick to it. It doesn't matter what, whether markets are at an all time high or if they're at a trough, the advice does not change.

Pat Bolland 11:39
James always a pleasure to speak to you. I'll see you I'll see you in a couple months.

James Gauthier 11:44
Okay, sounds good Pat. Thanks.

Pat Bolland 11:48
James Gauthier, Chief Investment Officer, Justwealth