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SPEAKERS
James Gauthier, Pat Bolland

Pat Bolland 00:12
Once a quarter, James Gauthier, who is the Chief Investment Officer at JustWealth, who is the sponsor of this show, sits down and writes a market commentary, and we get the opportunity to talk to him about his thoughts overall. After all, he's running all the money at JustWealth, so he better have some interesting ideas. He always does. James, great to see you again

James Gauthier 00:37
Hey, good to see you too, Pat.

Pat Bolland 00:39
You know, James, I was looking at your commentary. I thought it was interesting. You highlighted the distinct disconnect, if you will, between what's happening in the markets, like the S and P 500 had a really good time, up 17 percent or so, and what's happening in terms of war, trade, inflation, like headline risk. How do you explain that to the average investor and look at the whole media take doom and gloom versus what's happening in the marketplace?

James Gauthier 01:11
It's you know most of the conversations that I have with clients when I get calls, they're not expressing happiness with returns; they're expressing concern about the future, which is which is reasonable to understand. I mean, they will point to yes, the returns have been great, but but what's going to happen if the war gets worse, or what's going to happen if inflation gets worse, or what's going to happen if Canada and the U.S. don't get a trade deal? These issues have been going on for, you know, in some cases years now, in other cases quarters. These events always pass, and what keeps happening is the markets just keep going up. The returns that we've seen so far, year to date, we're at the mid-year point of the year. Every equity market, every major equity market in the world, is up double digits, and that's with all of this nonsense or doom and gloom in the media happening. There's been no resolution, but companies keep making money, and that's and that's what pays the bills for for equity investments.

Pat Bolland 02:16
Yeah, in your article, you do talk about corporate profitability, you talk about debt management, those kinds of things, earnings being more important than the macroeconomic noise. What actually gives you confidence that those earnings can continue and absorb things like inflation and geopolitics?

James Gauthier 02:38
Well, companies tend to have very long lifetimes. You know the successful ones. Some have been around. You know really since the early days of the stock market. Some companies still exist, and they can be profitable for a long time. They they outlive generations. They outlive politicians. They outlive plagues or other pandemics. You know the companies have a a will to survive, just like humans do, and and the people that run these companies. When you talk about the leaders of the largest businesses, they're smart business people, and they know how to make profitability. They know how to keep you know the companies funded so that they can go through the hard times. Companies are quite intelligent, and and when that's the case, and that's who you're investing in, you're putting your money in good hands.

Pat Bolland 03:30
Speaking of good hands, down in the United States, the Federal Reserve changed. Jerome Powell is out, and Kevin Warsh is in, and Kevin Warsh is facing inflationary pressures overall, and it's not expected he's going to change interest rates much, but he is expected to change interest rates. How does that change your fixed income strategy or your portfolio positioning?

James Gauthier 03:56
Yeah, the the tone has definitely shifted, and I, you know, I felt bad for Jerome Powell in his latter days as serving as chairperson of the Fed. He was openly criticized by President Trump. You know, and and not not in a subtle way either. Publicly being called a moron by the president of the United States is not a real good feeling, I'm sure. So I feel really bad. And Kevin Warr steps into this knowing what was done to the last Fed governor. So there's there's a lot of scrutiny and and pressure to make the right decisions. So he's not in an easy position because inflation has really been a problem since 2022. If we go back and think about what Jerome Powell did to save the world economy when COVID crisis hit, he he just took drastic measures and prevented a financial crisis. The the repercussions of that, however. Emerged a couple of years later in the form of inflation, and it really hasn't been solved since then. I've always maintained you have to feel some economic pain to to get inflation out of the picture, and it just hasn't happened. You know, people are reluctant to inflict pain, particularly presidents. So it's it's a conflict that that Kevin Warsh has to deal with, but if we just look at inflation as the evil that has to be addressed, it has not been addressed. So it's I think it's inevitable that interest rates will have to go up. It's only the shorter part of the curve that the the Fed has control over, the rest of the yield curve is determined by the bond market. So, so we are cognizant of of the changing shift in terms of sentiment where the short part of the curve is, but we're fairly confident the long part of the curve is is intact, and we don't expect dramatic changes there. So, I mean, we'll monitor it. We don't like to move things around too much, but if we think there are structural changes that will have long-term implications for bond returns, we will make adjustments.

Pat Bolland 06:15

Canada, though, doesn't have the same issues, or at least their inflation rates are lower than what we're seeing in the United States, but it's offset, if you will, by the trade war that we're having with the U.S. What are the key developments that you're watching in terms of reigniting, if you will, growth in the Canadian economy?

James Gauthier 06:36
Yeah, trade trade has been a drag. There's no question about it. It's also caused a lot of emotions. I think the the emotional impact on Canadians has been greater than the economic impact. Trade is still happening. Kuzma is still in force. That's that's the U.S. Canada Mexico trade agreement. So a lot of trade is still happening. It's just the rhetoric, the war of words in the media between you know the powers that be on both sides of the border, that are leading people to think it's worse than it is. The fact is, is it's depressed. I mean, it's definitely suffered as a result of the tariffs and and ensuing actions and lack of progress in new deals, but the fact is, is companies or countries can't operate in a vacuum. They need to have international trade. It's efficient from an economic viewpoint, but in some cases, you know, countries lack certain raw materials. You know, whether it's resources in the mining sector, or the forestry, or you know, staples, food, there are things no country is completely 100% self-sufficient, and that includes the United States. So I think you know it's inevitable that that some type of agreement or cooperation will happen, whether it happens during Trump's administration or the next one. It's it's bound to happen. It's inevitable. It has to for countries to survive.

Pat Bolland 08:05
I want to go back to fixed income just for a minute because one thing you point out in the article is that the Canadian fixed income managed a 2% positive return. I think you said in the second quarter overall. How should investors look at bonds? You know, people always focus on equity stocks, if you will. How should they look at bonds and asset allocation the way you run it?

James Gauthier 08:34
Well, bonds bonds are a few purposes. First of all, they they they're called fixed income in general. They're they're lumped into that category, so they do provide a steady fixed rate of income on your portfolio. It might not be large, especially when you see the equity market going up by 10, 15% in a quarter, but it does produce steady income. And for those people, particularly when they get into the part of their investment life cycle, where they're decumulating, dependent on the income coming into their portfolio, that's a reliable and fixed, predictable component, which is very important. So, so there is the income component which we look at. The other important part is the stability that bonds bring. They don't act the same way as equities. Equities are much more volatile. Bonds are much more stable. So you're never going to see bonds drop 2025, 30% like equities can. You know, a bad year for bonds is minus 2% So they add that stability to keep your portfolio a little more smoothly and where the market buys are going, so you don't see your wealth drop by an extreme amount in a year if you've got a significant allocation to the bonds.

Pat Bolland 09:55
To a lighter topic, because you touched on it lately, FIFA World Cup. Obviously, a benefit to places like Toronto and Vancouver, but how often can these kind of macro events actually result in long-term economic gains?

James Gauthier 10:13
Well, I mean, the thing about it is, it's the the people that that are in position to to bid on events, hosting events like this, there's a capital outlay for that. They have to provide infrastructure. They have to spend a lot of money to be able to host. So the idea is, is you want to make sure you're going to get a good return on your investment. If you're spending all that money, you expect to get paid back in some form. It's not easy to measure how you get paid on something like that. I mean, obviously, there's money for for broadcasting the event, and FIFA, I'm sure, as the organizer worldwide, they they probably provide some information on the returns that you can expect on an investment like that. But there's there's a lot of indirect benefits. So all of the broadcasting that goes on. I mean, that's that sport, that event, the FIFA World Cup, which only happens every four years. It's broadcast worldwide, so the entire world is watching a game in Toronto or in Vancouver, and they mention that on the broadcast. They'll display it. They'll see it in the newspaper and the write-ups. So there can be, you know, favorable impressions made. Wow, that that looked like a really nice place. They often do segments, you know, and intermissions where they talk about, you know, here's beautiful Vancouver and all of the wonderful parks they have and lots of wildlife, and you've got Whistler nearby. They can they can get benefits that could last, you know, for years or decades. People said, "I at some point I want to go to Vancouver, and it might not happen for a couple of years. So it's a very indirect and and many years down the road. But hopefully, that's the return that people will get for for making such a effort to host.

Pat Bolland 12:05
Time will tell. Speaking of time, I want you to pull out your crystal ball, if you will, for the second half of 2026, and tell me as far as tactical advice. You know, some people look at the stock market rally, and they want to cash in. Other people are going to chase it. Tactical. What is your advice for the second half of the year?

James Gauthier 12:29
My advice is try not to be tactical. I would I would tell anybody don't focus on the short term. It's it's a fool's game. You can be right, you can be wrong, but you're effectively gambling, and that's not a good way to invest. The investing process it involves long-term planning. Whether you're saving for a house, investing for retirements, kids' education, whatever the case might be, you have a long-term plan in place. And when you start investing, you have a plan, and the plan is to follow the plan. As soon as you start thinking, what do I do this week? What do I do next month? Where's the hot money going? You're gambling, and you're straying away from that plan. You can only inflict damage upon yourself, so don't do

Pat Bolland 13:13
it. Yeah, well, you know, funny. You talk about gambling. There's more opportunity, if you will, for online gambling in these prediction markets. Well, I've got you. I might as well ask you, what do you think of these things? And because they're involving not just sports teams, like they might have done in the past, but stock markets.

James Gauthier 13:32

Yeah, it's it's definitely propagated, and I mean it kind of started in the states, but it's coming it's coming to Canada, and I think it's shameful. It's it's it's bad for society. People when they they start getting involved in these gambling sites or or prediction markets, some people can can keep it in in touch and and see that it's entertainment. But these companies do this to make money. They're looking to take your money. Las Vegas is a city that's built on taking people's money, yet it gets lots of tourists every year. So there is obviously an appetite for it, but for a financial institution to offer prediction markets on their website, their platform that also offers investing is a travesty. I don't know how government and regulators can allow that. That's a terrible insult. the The number of claims of addiction has risen dramatically since this has become publicly available, and I would call it irresponsible for investing platforms to offer such a service to their to their clients. It's you know how can you trust someone that's basically saying we want to take your money in the prediction markets? Is that someone you want to trust your investments or your banking to? It's terrible. I I feel badly for people who get sucked into that.

Pat Bolland 14:56
I'm glad I asked the question, James. James Gauthier thanks so much.

James Gauthier 15:01
My pleasure, Pat.

Pat Bolland 15:02
Chief Investment Officer of JustWealth.