WIMAN & WONG
Wealth Management Group

Monthly Newsletter

September 2024 Comment

An Anomaly Inside an Anomaly!?!

As we head into back-to-school season and take a quick glance in the rearview mirror, it begs the question – was August another anomaly inside an anomaly? First, let's set the stage for what we are seeing and what may be happening. Consider that post the pandemic we have had and seen some really creative funding and support for the global economy.

We had the strongest financial support for a closed economy the world has seen in modern times. We also experienced global interest rates basically going to ZERO and in some cases trading below ZERO.... To us this seems to be an anomalistic environment. BUT maybe not, maybe this is the normal thing to do when the wheels fall off the economy.

Clearly as we all may have noticed by now, this created a spike in inflation, free money can do that apparently☺! Now fast forward to this month of August 2024 (as we write) and we see Japan start to raise rates for the first time in 17 years and another free lunch, the Yen Carry Trade, come into compromise. For argument's sake we will blame a majority of August 2024 volatility on this factor. Check out the image below of the S&P 500 – just in case you missed in the 10 days of action due to your vacation☺.

Source: LSEG, Wiman Wong

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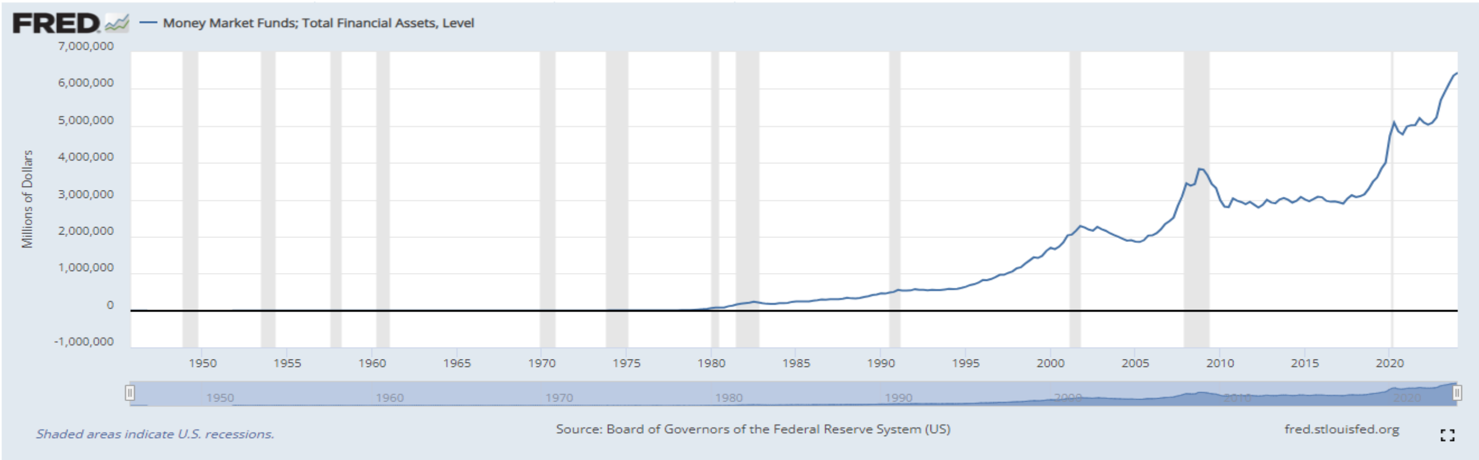
Yes, this happened this month, for a moment everything was bad and after a few days everything was back to, well normal. Thank you, Mr. Volatility! Once again it feels and seems like a "not normal" event or just another anomaly.

This takes us forward to the world of expectations. It is well reported now that Canada is lagging the US economically and we know interest rates in Canada have started to come down. The US has yet to act on interest rates, but it is widely expected that the FED Funds rates will decline by 25 basis points in the September meeting. If you read the tea leaves and or have any belief in futures markets the rate cut in September will be the first of several to come. Yes, I said several. The brain trusts out there are predicting that we will see the FED lower rates down to 3% by 2026. To get there would take several cuts.

This is where things start to get interesting considering that in the past year, we have seen escalated interest rates to combat inflation. For the most part this action of central banks has worked. One of the side effects of higher rates has been another steep climb in money market balances. 'If you can get 5% risk free. sign me up' seems to be the mantra. The chart below shows how money market funds have increased over the past several years.



Source: St Louis Fed

A question worth pondering is what happens to this balance when rates start to come down? Where does the money go when and if rates get to 3%? An easy answer to a degree is that some of that money gets put back into the markets, bonds and stocks. Some funds are also likely to be moved into buying homes – because they are basically more affordable. The reality is that this balance above contains a lot of zeros…. And those zeros can move markets.

When we see this, we can get granular on certain types of investments. Consider the recent quarterly release from a company that could be a direct beneficiary of this sort of rotation of funds.

Q3 – Company name omitted

On Tuesday the company boosted its full-year 2024 guidance across virtually all key metrics after its fiscal Q3 earnings and revenue each came in stronger than Wall Street had expected.

The company now expects 2024 unit sales to beat expectations.

Adjusted gross margin for the year is now expected to be 28.3%, up from the prior view of 28.0%.

"With mortgage rates at their lowest point in a year and trending lower, favorable demographics, and continued imbalance in the supply and demand, we are optimistic that demand will remain solid through the end of fiscal 2024 and into 2025,".

During the quarter, (The Company) bought back $246M of its common stock, bringing its year-to-date repurchases to $427M. Some $600M of share buybacks are expected in fiscal 2024.

We are already seeing some of the cash get deployed and companies using their own cash to buy back their stock versus potentially having it in money market funds.

The World is not a bed of roses!

Outside of geopolitical events, the private debt crisis is becoming apparent in America after car repossessions jumped 23% during the first half of 2024. Data shows that 1.6 million Americans will have their car repossessed before the end of the year. This is a slight increase from the 1.5 million autos repossessed in 2023 and a drastic upturn from the 1.1 million in 2021.

Cox Automotive believes the trend of repossessing cars will increase into 2025 when they anticipate 1.7 million cars being repossessed. As of Q1 2024, US household debt stood at $1.77 trillion; $12.44 trillion held in mortgage debt, $1.62 trillion in autos, $1.12 trillion in credit card debt, and $543 billion in other forms. Bank of America, Citigroup, Goldman Sachs, and others recently reported a stunning $4,139,000,000 loss in unrecoverable debt.

The data is clear that what has transpired over the last couple of years has created unprecedented times and a wider variety of anomalies than normal times.

Maybe it's just more anomalies inside of anomalies.

Enjoy the back-to-school season ☺!

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