

2021/2022 Let's Twist Again!



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Happy 2022 All!

I have already received questions on where I see markets going, and when I see the next pullback or crash coming. To that I say:

The folks that predict where the world is going to be on an absolute basis in twelve months are doing nothing but guessing and I would not trust my assets with someone just “guessing” where we will be in the future. Period.

We had many successful calls in 2021, and a few poor ones, as proper investing goes, and I believe that 2022 will also have twists and turns.

Sadly, the start of a new year does not wipe the slate clean, and we get to just start anew. The markets look at investing for future growth and trends that are six months or more ahead of today, regardless of what calendar date it is. Wiping the slate clean only works on reporting performance.

We can spot these trends, new technologies, and opportunities in assets as information comes in and we prognosticate on what that should mean for expansion (or contraction) of that asset class as economies readjust to the changing environment we now face.

I believe that much (but not all) of the inflation pressures we continue to face have more to do with increased energy costs and transportation costs, which are similar but not the same. It has a domino effect and almost always gets transferred on to the end user. As we had a massive increase in fuel-related and shipping costs in 2021, much of that has already been passed on to the consumer for everything from lettuce to fridges, as companies struggle to keep pace with re-supplying inventories and compete to ship supplies on overcrowded ships. Will this continue to increase or abate? Only time will tell, and we will adjust accordingly.

The world has had countless disruptions with factory shut downs and supply related issues that resulted. I believe it will take time to repair it.

Is that a true-life example of Cause and Effect? If you break your arm, it takes some time to heal. After it heals, hopefully, you're better, but had to deal with some pain and suffering to get there and you probably will be different forever after such a misshap. Are we healing yet or still in the cast and have a way to go to fully heal? Maybe early 2023?

This is extremely bullish for economic expansion in the first and second parts of 2022 and leads me to believe we are in for some more twists and turns as companies re-stock goods amid continuing Covid-related healing that will continue to be with us through at least the first half 2022, if not longer. This too shall pass. It feels to me like we are getting a bit closer to the end as variants decrease in severity. Only time will tell.

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I also believe as factory activity remains strong, that travel will become another catalyst to keep economic expansion very strong. As I write this, I am presently in my Mexico condo, and after owning it for seven years, we have NEVER seen our area as busy as it is right now. It seems there are almost double the number of people here at this time! Last night my daughter and her friends went to get pizza. Seems simple, right? They went to three different pizza restaurants in town and all three of them were out of pizza dough! Those consumer discretionary stocks may look pretty good going into Q2, 2022.

I like to invest in hard data, and this is about as convincing as it gets, folks. When you can see it with your own eyes, it is real. I believe we are positioned well for moving through 2022 with companies like Expedia, and recently acquired Disney. I am still very bullish on energy stocks and mall REITs as well as travel picks up. People will spend more at higher-end stores and fuel consumption will continue to grow as we move forward. Accordingly, some energy inflation may persist. From our team this morning, "Crude oil prices are higher this morning after OPEC+ agreed to increase output by 400K bpd in February as planned. The American Petroleum Institute (API) reported oil inventories decreased by 6.43 million barrels last week, compared to the 3.4 million barrels drawdown expected." This remains very bullish at present.

Also, housing remains strong as millennials are getting older, better employed, and finally deciding to move out as interest rates remain historically low. We have recently positioned into two lumber stocks, and they hit 52-week highs near year-end so I do hope that trend continues as they look to be ridiculously cheap.

Concerning inflation, as the media talks incessantly about rising inflation and the necessity to increase interest rates, I feel a bit contrarian to this thesis moving into late 2022.

Absolutely nobody seems to be discussing the imminent US mid-term elections in November. I do not see the Federal Reserve wanting to influence either party as they are supposed to be non-partisan, so they better start doing it sooner rather than later. I just cannot see too many increases coming this soon as we are still in a very fragile spot with some governments continuing to try to limit any social activity.

Maybe there will be a few "obligatory" increases in March-August, but I do not think they will be substantial enough in size or influence to cause any market chaos. I also believe if interest rates increase, we want to own the "things you can touch" stocks like materials. We have a few and I am happy right where we are, for now.

On China and Emerging Markets. My worst call of last year was my reluctance to move from the emerging markets sooner. Presently, I believe that China has the Olympics on its near-term radar and will do nothing whatsoever to risk embarrassment of a Covid crisis prior to the games. Thus, this area will remain under-weight until the Olympics are over and China then possibly moves its attention to reinvigorating its economy amidst many issues they have caused and the de-bottlenecking issues that they face. I love the idea of buying into this sector monthly as they will recover at some point and will be back on the dance floor doing the twist at some point.

More on China: many companies realized the risks of having most of their factories so far away. Also, there are continuing political risks as the Chinese become a larger influence globally, and some companies will continue to try to diversify their exposure. They must do this very carefully though as much of their future growth will come from emerging economies and not the fully developed ones. This chart shows the importance of China (and other emerging markets) to the world and cannot be ignored. We need them and they need us: <https://flip.it/kKk0pa>

One must also be careful of the difference between a fad and a trend. This seemed to get very convoluted in 2021. Not many investors wanted to stick to energy stocks through 2021 and continued to like the "clean" energy trade. This did not play out very well on many of these "clean" positions as the year progressed. Many suffered large losses as the year ended. One must be careful of what is real and what is sold to us as the next big thing. We are not losing our reliance on oil and natural gas anytime soon.

Electric Vehicles and Solar. I think this is a real trend as governments globally push for the change, but it could be a short-term fad that can be very costly if one gets it wrong. There are a select few on my very close radar that I may purchase on positive news or pullbacks, but again these have years to play out and to move the needle on our immediate energy needs:

<https://www.cnbc.com/2021/12/29/electric-vehicles-are-becoming-more-affordable-amid-spiking-gas-prices.html?source=iosappshare%7Ccom.apple.UIKit.activity.Mail>

<https://www.cnbc.com/2021/12/14/us-solar-industry-will-grow-25percent-less-than-expected-in-2022-report-finds.html?source=iosappshare%7Ccom.apple.UIKit.activity.Mail>

I always will continue to own a diversified portfolio and unfortunately not all asset classes will do what we want when we want, but as Warren Buffett states, "Diversification is protection against ignorance."

I think that played out extremely well for us in 2021 and will continue to play out as importantly in 2022 and going forward. I do like the positions we own moving forward and continue to try to focus on both growth and cash-flow. I also think that there will be many twists and turns along the way that test our tenacity and judgement, and as always, I will try to adjust our portfolios in an intelligent and timely manner to what information and news is at hand. No guessing folks.

I would be dumbfounded to see a recession anytime soon on all information I have at hand today. Unemployment and interest rates are historically low. We don't get people stopping their spending until they have lower or no wages and that is just not the case. If the cost of goods goes up, too many people will also stop buying, but right now I just don't see that happening. It seems to be getting absorbed... for now. We will adjust if that changes.

There will be many twists and turns, politically, economically, environmentally, and sadly, Covid-related.

Keep on keeping on and we will be here to walk you through all of them. No guesses. Just timely adjustments.

Happy 2022!

Let's twist again: <https://m.youtube.com/watch?v=im9XuJJXylw#dialog>

Cheers!
Steve

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