Manulife Investment Management

Episode 83: Uncertainty shock—looking at bank failures

Macan Nia:

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Kevin Headland:

I picture the Big Bang Theory, remember? I think it was Leonard's mom. I picture that, your childhood being like that.

Frances Donald:

I'm not going to comment further in case my mother ever listens to this podcast.

Macan Nia:

The bar to stop hiking is probably lower than the bar to cut. After the volatility that ensued following the recent stress in the banking sector, investors were paying very close attention to the Fed's most recent announcement to gauge whether the events of the past few weeks would impact their policy decisions moving forward. Here are our team's three big picture takeaways.

One, the market does not believe the Fed's path over the next few years. Two, the Fed has incorporated SVB events as an alternative form of tightening. And finally the Fed appears slightly less concerned about inflation. In a nutshell, the Fed is near the end. The markets are overwhelmed by uncertainty today and it's a very fluid environment, one that seems to be changing daily and likely to continue into the near term.

Join us as we're joined by Frances Donald, global Chief Economist and head of Global Macro Strategy at Mani Life as we discuss what happened, its impact on the Fed, recession risks and ultimately investment implications moving forward. Listen on, this is Investments Unplugged.

Welcome to Investments Unplugged. I'm your host, Macan Nia, co-chief investment strategist at Mani Life Investment Management. And as always, I'm joined here with my partner in crime, Kevin Headland. Hey Kev.

Kevin Headland:

How's it going Macan?

Macan Nia:

Well, I wish I was still on vacation. We are recording this on March 27th and surprise, surprise, I was on a vacation, would've been two weeks ago. And the joke is whenever Macon's on vacation, markets decide to throw in some sort of volatility. What's happening with the European financial institutions and American financial institutions and we're going to talk about that today. Well, the idea for today was actually a Q2 outlook. We are still going to do that, but with the backdrop of what has unfolded over the last couple of weeks.

And we have a special guest today, which I think the timing is amazing. We're joined here today by Frances Donald, who's the chief economist at Mani Life. She's also the head of macro strategy and more importantly, she is our new boss. So a big round of applause for Frances for joining the call.

Frances Donald:

I'm not sure if I need applause or sympathy.

Macan Nia:

Well, I think with us you'll find out out you'll probably need more sympathy from the advisors. But before we get into the meat of the conversation, Frances, let's chat very quickly in terms of what this means. So Kevin and I guess formally moved under your umbrella as of Jan first of this year. And what does this mean from your point of view?

Frances Donald:

And that's such a good way to put it mock on because one of the things that both of you continue to teach me is to bring it back to what are the ways in which these events, and it isn't the first and it's not the last event that we're going to experience, how does that come back to the individual investor in Canada and what do all of these big events mean? There is so much noise. And one of the things that you two do so well is really separate the signal from the noise when we experience these events. So thank you for doing that. Thank you for teaching me how to do that as well. I learn from you every day.

The big challenge here is that what we're in the midst of is effectively, in my view, an uncertainty shock and a pretty sizable uncertainty shock. Because even though we can parcel through a range of things for what it means and there are things we know for sure, we're still processing whether we're in the middle of systemic risk. Will the failure of one bank have had ties or tentacles that feed through the broad economy? We're still trying to figure out is there a risk of bank runs?

And certainly policy makers in the US especially are doing their best to contain those. To shore up confidence by saying, "Look, we're going to make sure that your deposits are insured." Of course then there'll be a headline saying that's not the case. So again, an uncertainty shock.

And then the biggest question of all, and something that three of us have discussed a lot is maybe this isn't systemic risk. Maybe there are no bank runs. But we've just seen the fastest rate hike cycle of all time. And is it possible that maybe what we've witnessed is just signal of what's to come? Is it just the first of many things, the canary in the coal mine, say? So the issue is that policy makers can come forward and give us a lot of new programs and policies to try to stem this uncertainty, which becomes a confidence shock. But one of the only ways to really cure us of it is time itself. And that that's really why this is so difficult as strategists but also as individual investors as we continue to digest the headlines.

Kevin Headland:

You mentioned a really good point there, Frances, is a confidence shock. And one of the issues with the financial system is it's all a belief system. You have to believe in the financial system and trust it. So if you are losing trust and you start to pull money out, it becomes a self-fulfilling prophecy. And I think that's important to understand that this is not necessarily the issue can become an issue very quickly. And one of the things I think we talked about over the last two weeks is the question that you're getting from our chief investment officers and whatnot in terms of has what has transpired changed the view of the macroeconomic landscape? I think that's a really important aspect.

Frances Donald:

Yeah. And actually the economist segment of Mani Life Investment Management is in the process of reviewing our key economic forecast. So those boring things like GDP and CPI, which frankly I'm not even really sure I understand what they mean in the grand scheme of thing. But they do feed through into our earnings forecasts and they are really important for how the sausage is made to a lot of our views even if we don't come forward with a specific number externally all the time. And one of the things that surprised us on the economic side was how little our actual growth and inflation forecasts are changing right now. We actually have a very similar outlook for the rest of the year than we did three, four months ago.

However, that's because three, four months ago we were already penciling in a recession and we were already penciling in downside risks to inflation. So there's a few things we know about uncertainty. Uncertainty is very powerful through, as you mentioned, Kevin, the confidence channel. Not a lot of people know this about me, but my mother is actually a doctor of psychology.

Macan Nia:

That explains a lot, Frances. Explains a lot.

Frances Donald:

Yeah, I have a healthy respect for behavioral, psychological, and confidence channels and how powerful fear and greed can be. It's also why if you ask me how am I. "How are you Frances?" I kind of stand there for a second and think, how am I going to answer this question? In any case-

Kevin Headland:

Sorry, France, I picture the Big Bang Theory. Remember? I think it was Leonard's mom. I pictured that, your childhood being like that.

Frances Donald:

I'm not going to comment further in case my mother ever listens to this podcast but. Will I will say she is responsible for both some of my success and also my healthy respect for confidence channels. So we have this confidence channel and we know that when we experience issues like this, we do see business household confidence kind of stall out. And it makes sense. If you're not sure what the economic outlook's going to be, you don't think, oh, now is a great time for me to buy that pool or hire a few people or go the most overweight stocks I've ever been in the portfolio. Nobody's really making those types of decisions when you're experiencing uncertainty shock.

Now on top of that, there's other things we know which is that when we have historically experienced banking sector stress and volatility in the banking sector, the universal response is actually tighter credit. So financial institutions hold back on how much they're willing to lend, but also who they lend to. So some of the fear right now is what we've experienced will lead to a credit crunch. And yet that was a concern that we had prior to the banking stress we've experienced because we have very clear data.

The indicator is often called the senior loan officer survey or SLOS. We just like to go fun with our acronyms. And that data was already telling us that banks had been pulling back pretty aggressively on lending. That's one of our most powerful leading indicators for where the economy is going to be in one year. And the three of us have spent a lot of time talking about how right now the economy is strong, the consumer in the United States and Canada has been strong. And part of that has been their access to credit. Credit card bills or credit card balances have been going up, saving rates have been going down, people were adding to debt to fuel spending.

That was already decelerating and now we're in an environment where we know that one of the responses from banks is going to be to pull back. So that's going to further reinforce our conviction that we are probably going to see some recession in the second half of this year. I will say however, that we get really scared about this concept of recession. But recession, we have a playbook for investing in recessions. The word recession to me doesn't scare the pants off me just says, oh, I need to shift my asset allocation. So I sit on the asset allocation team and nobody panics. We just say, "Okay, well this is a different playbook than what we have used in a reflation environment, for example." It just means that we shift things around to a certain extent. So I don't typically as a investor get overly concerned about that. I do of course as an economist who cares about Canadians get concerned about that because it means a rise in unemployment rate.

And then the last thing that we know about banking stress is that it tends to be disinflationary or it tends to lower the speed of the economy and that puts downward pressure on inflation data. So we had already expected that inflation would kind of go to three to 4% by the end of this year. So it is really surprising that as meaningful as the last few weeks feel, our outlook is effectively the same, which is we're going to go through a tough economic soft patch. Inflation is going to come down, it'll still be a little too elevated. But again, we have plenty of playbooks for how to navigate that.

Macan Nia:

And I think that's the key thing here is the uncertainty around it. And I think when we look back at previous Fed tightening cycles, they always seemed to break something. Right? So I guess in 1819 it was the repo crisis back in '09 was the great financial crisis. 2000 was a tech bust. Towards the end of the '90s was the Asian currency crisis, the tequila crisis in the mid '90s. SNL crisis, which is kind of similar to what we're potentially experiencing today. But the key thing is as much as there's uncertainty, there's a lot of certainty as well in terms of the playbook, Frances, as you alluded to. In terms of when these things happen and we are all of the same view.

As much as I think we would like to think that what's happened over the past couple weeks is the end of it. Historically, and Kev always laughs at me when I say this, but it's like a whack-a-mole. If you think of the game, you hit one of them and and then one pops out. And it's likely to continue in the near term and will add to volatility. But as Frances, you've alluded, we have the playbook to how to as asset allocators, which asset classes to go into, what type of style, what type of quality. And all that I think the past couple of weeks have done, it's kind of moved forward our projections of 2023. If we were thinking that something was going to happen, let's say Q1 of 2024, Q4 2023, it may have just brought it up a quarter.

Interesting to note, I think, we know that the Fed went 25 basis points last week. But they made a point of highlighting what has happened with financial conditions over the last couple weeks has added an additional 25 basis points. So in fact we've already got 50 basis points. And Frances, you nailed that there. I think that's a key one is the playbook from an investment perspective. Inflation was coming down trending towards four, we know that these type of events are disinflationary. So it's going to add more pressure to that. And in fact in terms of the global economy which was already deteriorating, we've referenced leading economic indicators countless times on this podcast. There's other measures, the inverted yield curve. This just adds I guess more structure in terms of the odds of the recession happening this year.

Frances Donald:

And the Fed made some really powerful comments because there was some question going into the recent Federal Reserve meeting as to whether they would try to differentiate between their financial stability mandate, which by the way is not in their formal mandate. But as the lender of last resort, central banks tend to have this implied financial stability mandate.

Macan Nia:

So Frances, for those of those listening to the call that might not really understand what financial stability means. What is that from a simplistic perspective?

Frances Donald:

You know what I ask this to myself all the time, what does it really mean? I think policy makers like to say these broad terms so that they have optionality as to what they mean in any given time. But generally what it means is that we have a financial system that is resilient and sound and that there are no cracks in the financial system that could create broader systemic problems.

Macan Nia:

Could we simplify it and just say how easy it is for consumers and corporations to get access to credit?

Frances Donald:

I think that's a component of it, but remember that behind the scenes here we have banks lending to each other. We have banks that are constantly engaged with operations with the Federal Reserve. Our system is so much more exposed to the banking and financial sector than it ever has been despite 2008 and some attempt to regulate it. So when a small regional bank goes under on the west coast of the US, it should not create a broad systemic panic, but it still did to a certain extent. We saw bond market moves over the course of several days that we've never seen in history.

Kevin Headland:

Yeah, it was nuts.

Frances Donald:

So what this says is that the central banks and their financial stability mandate is to ensure those types of things don't happen so that we don't experience that powerful confidence shock. In a perfect world, the central banks would prefer it if a bank fails, nobody blinks an eye except those directly exposed. So this is what central banks are grappling with, that their actions maybe contributed to this broad confidence shock, which could be so much more painful than just a recession.

And yet what Chair Powell, the head of the US Federal Reserve told us in their recent meaning is that they were taking this very seriously. They were incorporating the stress in the baking system as the same as a 25 basis point hike, Macan, as you said. That it was equivalent forms of tightening in the system. And Chair Powell also said instead of in past statements when they said higher interest rates are going to be necessary, he said, "Some policy firming may be necessary."

Don't ask me to define policy firming. Okay? I can't know. I don't know what policy firming means. Again, I think everyone likes some optionality, but this was really powerful. It told us we are at or near the end of rate hikes. And the next big questions are not going to be how many more times is the Fed going to hike or even is the Fed going to hike this meeting? It's going to be for the next year or two years I think. Are we on pause or are we cutting? That's the next focus for investors.

Macan Nia:

So let's talk about that because expectations of what both the Fed or Bank of Canada are going to do have changed dramatically over the past year and a half and over the last two to three weeks. Where we were in the early phases of kind of pricing in some small raises at the next meeting and the one after. But now across the board, Kev, when you look at it in the US for example, there's basically a 50 to 75% chance of cuts in each one of the July, September, November, December and January meeting of 25 basis points. Funny enough, in the past two weeks the Bank of Canada has now become again hawkish relative, but Bank of Canada right now is July, September are cuts and then basically pause. These can change day to day, week to week. What has changed, Kevin, in terms of our team's view in terms of what we expect from the Fed in terms of cuts, pauses, raises moving forward?

Kevin Headland:

First off, I think it's important for us to look at what the market expects from a timeframe perspective. So at no meeting is a full rate cut priced in, but through the end of January right now you have roughly a full hundred base points of rate cuts priced in. So that's four 25 base point rate cuts but not in any one meeting. And Bank of Canada is pricing in or the market is pricing in roughly 75 base points of rate cuts to Bank of Canada. So a little bit less dovish, shall I say, not hawkish but less dovish.

But from our perspective, when you look at what we're trying to do is trying to determine the balance of risks and say is the market perhaps too aggressive or not aggressive enough? And right now we would expect the market perhaps as overpriced, shall we say rate cuts. I'll bring Frances in on this as well. But the balance of risk here, as she said, is perhaps is the Fed at pause now? When are they going to start cutting rates? And is the market overreacting to the current news?

And as we've seen over the last two weeks, this has changed materially even on a daily basis, intraday basis. So it's a very fluid situation and I don't think we should be really too aggressive in our expectations for starting rate cuts. So Frances, our expectation, I think obviously your team, we've talked about this multiple times. Walk us through the view here. Is the market overreacting? When do we think the Fed is going to start to cut rates or where do the balance of risks lie?

Frances Donald:

Okay, are you two game for me to talk a little bit about how the sausage is made with the forecast? Kind of give you the dark side of how we do this, maybe share some industry secrets that not a lot of economists want to share? Can I do that here?

Kevin Headland:

Sure. Pull back the magician's cloak, whatever it is.

Frances Donald:

Okay, look, so here's the thing. Every economist has to have some form of forecast so that when you go on TV you say, "I believe the Fed will do X." Now when I go on TV, I'm going to say, "I believe the Fed will be cutting probably once before year end." But any economist worth their salt is also going to have a range of scenarios that they apply probabilities to. Very few of them are going to say this is absolutely what's going to happen and nothing else is going to occur. So right now we have a range of scenarios that could occur and we have to apply probabilities to them. And I got to tell you, the probabilities are pretty even.

Now, on one hand it's entirely possible that the Fed chooses to stay on pause as long as they can. And that's because inflation is still running really high. I mean we're talking about North American Canadian, US inflation, five to 6%. This is so far from 2%, there's political pressure and people are still really struggling with inflation. It's really hurting. And so this is going to create a scenario where central banks feel much higher bared to cutting than maybe they have historically. And this is why I think the three of us have felt like pushing back against some of this market pricing. I mean I'm looking at my screens right now and everything changes, but this is a market that's pricing in a 17% chance of a cut in two and a half weeks, two weeks and two days. So April 12th, which is going to be closer by the time everyone hears this, right? A 17% chance of a cut by then.

But when I look at this market pricing and you're going to hear a lot of commentators say things like there's a 17% chance of a cut. I think that markets and the way that we talk about this is very similar to economists, which is that this is not a market saying there's a 15% chance of a cut on April 12th from the Bank of Canada. It's a market that's probabilistically saying there is a possibility small that we are in full-blown crisis by April 12th and we have to have an emergency reaction. This is the same way I construct my forecasts. I don't think that it's really plausible that we only have one rate cut by year end. I think we're either on pause for much longer or central banks have had to have very dramatic cuts to respond to financial crises.

When you look back in history, and Macan you're so good at doing this, we don't see slow cutting cycles. We see urgent quick fast cutting cycles. That is typically what we see and that will likely be what the next situation looks like when we hit a moment maybe the recession is much worse than expected or there's much more financial stress. But we have to develop base cases. So this is the challenge that we have in an environment like this one. And let's remember the average time between the last hike and the first cut. You know what it is? Eight months.

And this is why I say our focus needs to turn away from interest rates are really high to the next big move. The next big move is going to be downwards and it's probably going to come with uncertain timing and it's probably going to be large in size. If you gun to my head or TV camera in my face ask me, I'm going to say, "By the end of this year they've started their easing cycle." But it's way too simplistic to just apply a date to it and say this is the way we should be managing either our investments or the risk around our investments.

Macan Nia:

Yeah, that's a really good way of looking I think in terms of hikes, we're talking about pennies here right now. Do they go 25 beeps? When is it? The bar, I think Frances, you said it, the bar to stop hiking is probably a lot lower than the bar to cut.

Frances Donald:

Exactly.

Macan Nia:

I thought that was a really nice way of capturing the environment that we are in. Why are we focused on maybe 25 beep increases at these levels where that's not the investment implications for a medium term investor? Now let's go to that. There's a lot going around. There's a lot we are still trying to digest and there's probably a lot in the background that we're not even aware of yet that are going to pop up along the way, but we're still investors and there are investment implications and when we look at this environment, there's a lot of uncertainty, a lot going on.

It just screams to me the importance of quality in this type of environment. The last thing when it comes to investing, there's the reasonable thing to do, but there's also the realistic thing to do. Our advisor's going to go, not that we're saying you should go a 100% cash, but even if an advisor wanted to, how hard is that to actually implement in your client's portfolios? So I think there's decisions to be made at the margins, but the emphasis should be on quality.

Now, Kev, talk to us. We started the year of 2023 in terms of three phases of bond investing. So phase one being clipping the coupon. Phase two is basically adding duration. And phase three is adding risk. And we still believe we are in the early stages of phase two. But going back to what Frances said, it's just fast forwarded when we're going to be going into phase two. Speak to us in terms of what phase two means from an investment perspective and what type of solutions, like what the focus should be both in bonds but also for equities.

Kevin Headland:

And just to go back on what Frances was saying in terms of scenario analysis, I think it's so important to look at in what scenario would the Fed need to start to materially cut rates. And I think that's important to understand how you look at investments. So if things happen, how would you manage a portfolio? So if the Federal Reserve needs to start to materially cut rates, it's likely because inflation is already well under control and we have a worse recession than expected. And that's important to understand that the Federal Reserve is unlikely cut rates unless they have very good confidence that that is going to be the case that inflation is low because they're unlikely to make the same mistake perhaps Paul Volker did in the early '80s where they cut rates too quickly and inflation was still elevated. So I think they're very mindful of history as well in terms of that impact.

Now when we look at the serial based analysis and the phases of fixed income is this idea that we were clipping the coupon. Phase one yields were still rising slightly, the Federal Reserve was slowing their rate hikes, but we are already starting to embrace quality. Phase two is when we arrive at the increased risk of recession. And what happens in that environment is the yield curve starts to shift, especially the longer end of the yield curve that tends to fall. And that's when we want to embrace duration and higher quality. 10-year treasury yield indexes or the index tends to outperform in that market and so does invest grade bonds. So this is where we want to again start to embrace duration, embrace quality.

But we've seen actually over the last couple weeks is this choppiness of the yield curve and that's actually almost provided a additional opportunity for active income managers to take advantage of that volatility in the yield curve to adjust their duration in a very short period of time to increase performance per potential. And that's one thing in what you don't usually see in a traditional environment. So this is one area where we're kind of in this crossroads of end of phase one, early phase two and kind of bouncing back and forth in terms of the opportunity set. But it's definitely not the time, we believe, to be increasing our risk or trying to add performance by going high risk or low quality within the credit. I think that's what you want to make sure you're kind of avoiding because if things do get worse, we're going to see spreads widen out, default risk increase and that's going to hurt lower quality fixed income.

Macan Nia:

And I look at what's transpired over the last couple weeks from, it's added a little bit of murkiness to the profile of the returns for equities. But when it comes to bonds, it's just actually confirmed our entire team's view in terms of the bond opportunity this year. Look at it this way, okay, let's say financial contagion does happen and it spreads globally. Then you're basically going all the way back down to zero. Short term stress, yes, but bonds will do extremely well in that environment, especially if you're positioned in higher quality credit, higher quality government bonds.

And let's say we don't get financial contagion and let's just say this goes away, but we keep continuing to absorb the interest rate increases we've seen all of last year, the economy will continue to slow, inflation will come down and they may start cutting rates maybe at a more gradual pace in 2024. But again, positive for bonds. So when you look at the environment today, nothing's really changed for bonds, Kevin, Frances. It's just more in terms of how quickly we've maybe transitioned now from phase one to phase two and then phase two to phase three.

Now equities will be a little bit more murkier. I was looking at the St. Louis Fed stress index today it's at one and a half. It's only happened four times in 30 years. The other periods are 2000, 2008, 2020. When this measure is at these levels, the VIX goes up to, I think the last time it has, it's gone up to at least 45. In two of those three periods it gets 80. So that's indicating that we're probably going to get more short-term volatility in the near term. But again, I think for especially the retail clients that listen to this call, this is not the first time we've seen this. We've seen this in previous fed rate tightening cycles. Something ends up happening as Jonathan Popper says, bump in the night. But the playbook is the same.

And when you look over the long period of time, and we're going to put something out, is when you look at periods of three, five, 10 years, your odds of being positive are north of 80% with an average return of 8%. And this goes back to the '50s. That incorporates all these other blow ups that we've experienced since that time and I think it's important to keep that in mind as a retail investor.

Kevin Headland:

I think the idea here is from an equity perspective, it's kind of the same messaging from fixed income. It's embraced quality. There's all this choppiness of the market, you say volatility but I like to say choppiness, provides opportunity for active managers to add quality. These quality businesses tend to outperform in this environment and I think the idea of avoiding some of the riskier aspects of the market will tend to provide a much better total return and experience, right? You're going to have less choppy experience from a investor's perspective point to point, right? Uncertain near term but opportunity long term.

Macan Nia:

So we're coming to 30 minutes, let's wrap it up because we all know the attention span of a human is 12 minutes. When it comes to financial material it's probably two minutes, so people have already tuned out. I'm going to give each of you a last word in terms of what's really developed, how we should look at it as investors moving forward. So let's start with you, Frances, in terms of really what, not keeps you up at night because we know it's your child, but you know what you think about in terms of financial markets today?

Frances Donald:

I'm a macro investor. I've always been a macroeconomist. And one thing that's been humbling over the years is that macro is not always as relevant as sometimes economists think it is. Its value comes in and out in the investment cycle, and so sometimes things are not really trading off of what GDP is, in fact with a lot of the time. But over the years I've learned that the real value of the macro story comes into play at inflection points.

And we are in a really important macro inflection point right now. The inflection point when central bankers turn from hawkishness and hiking to cutting, we're at an inflection point where the economy is probably going to go from pretty strong reflation. Remember we were supposed to be in the roaring '20s, down into recessions. And we're probably at an inflection point for inflation where we've gone through a period of very high inflation that's going to moderate. And we have playbooks for all of these things. There are some areas where we maybe don't have playbooks or at least they're not as recent.

And one of them is that as much as I do believe inflation is going to come down to a point where central banks feel comfortable cutting, we've still experienced a mammoth price shock. And even if inflation were to go to 0%, the cost of our groceries wouldn't decline. This is going to continue to weigh on the way that we think within our economy and it's going to continue to weigh on that central bank mentality. They're going to have to adjust with that for a while to come. And I think we're all still internalizing what is different about this environment than not.

But at the end of the day, I've now been around a little bit of time. I know everyone thinks I'm 22, that's just great wrinkle cream. And we've seen the data do what the data's doing many times in the last 20 years. We have seen it go up, we've seen it go down. We have seen recessions, we have seen hiking cycle and easing cycles. And while the playbook sometimes switches more violently than many of us are comfortable with, I think we do have the playbook for what lies ahead. And we just have to remember not to be overwhelmed by the uncertainty, but to really capture it and use it to our advantage.

Macan Nia:

Yeah, very well said. Kev?

Kevin Headland:

Yeah, I think from my perspective, again, it goes back to kind of our discussions with Frances and her team, the macro strategist, globe macro strategist. Going back to discussing, talking with Sutran from Asia Sunday night at midnight our time because Asian markets had opened. And identifying what the read-through of that was and expectation of how the North American markets would react. And despite trying of to identify the nuances of the current environment, what I go back to is it kind of just gave us confidence that we were on the right track two months ago, three months ago coming to this year. That economic data had slowed the information that we were receiving is that things were slowing, inflation was coming down, and that mindset of investments was that we should reduce risk and increased fixed income.

And nothing has really changed in the near term. This current environment has just kind of added to that confidence. We never know what straw breaks the proverbial camel's back, but we kind of have an indication of where that's happening or when that's going to happen. And I think that's the idea here is nothing's really changed, it's provide confidence. And this is just the issue that's actually happened to get to the point where we expect the recession to happen.

Macan Nia:

Yeah, I never understood that straw that breaks the camel back. Maybe I'll Wikipedia that one afterwards. But I think my message is more to the end client listening in. And I thought, Frances, the one sentence you said, overwhelmed by uncertainty. And we are seeing that in the numbers in terms of the net flows into money market funds in the US close to 5 trillion. And I just want to remind clients narratives change very, very quickly. It was a little bit more than 15 months ago when we were talking about bonds. We were talking about negative yielding debt. That seems like ages ago, but in the whole context of a timeframe of investing, a year and a half isn't that long. And I think that's an interesting thing. And I always tell and clients, Kevin will laugh when I say this, is investing is like soap. The more you touch it, the smaller it gets.

And I think we are, end clients are unaware, they're uncertain about the environment. They may want to make knee-jerk reactions and get out of the markets. When you got to remind yourself when you sat down with your advisor, you are making decisions based on timeframes that were much longer than a year or two years. These are three, five, 10 year timeframes that you made decisions. So you should not react to the short term because all the odds and all the data suggests that you're doing yourself a disservice from doing that.

Perhaps this is a good spot to stop. In a nutshell, the markets are overwhelmed by uncertainty and this is likely to continue into the near term. That being said, we shouldn't feel paralyzed by the uncertainty and risk as there is playbook to navigate this environment of high inflation that is slowing and an increased risk of recession. I want to thank Frances for taking the time out of her very busy schedule and joining Kevin and I as we discuss where we are, what may happen and our implications moving forward.

Kevin Headland:

Macan and I got to even more thank you to Frances and the team because you left me an lurch by going on vacation in the midst of a big volatility spike and uncertainty. And people reaching out constantly for information. And so thankfully having the access to resources, I wasn't left on island by myself.

Frances Donald:

Yeah, listen, as everyone's new boss, next time market starts to go down, we'll put you on a very immediate vacation. We'll fly you down to Mexico or something so that you can be off and Macan can take over.

Kevin Headland:

Macan's not allowed to go on vacation anymore.

Frances Donald:

Fair, yeah.

Macan Nia:

Well thank you so much for listening. If you find this podcast helpful, please rank us highly. It helps move us up the tables in terms of connecting us with other like-minded investors who may find this information useful. But again, thank you so much. And this is Investments Plug. Thanks.

Kevin Headland: