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Topics:

- Another Crisis in Chinese Markets
- The "Slowing Recovery"
- Inflation and the Long View

This is the first week of fall here in Nova Scotia, and as beautiful as the weather is in the fall, I am still not very happy about it. Frankly, I enjoy the summer months best, with the warmth of the sun as well as the seemingly unlimited outdoor activities. I admit another reason I don’t look forward to the arrival of fall is that, perhaps due to the return to work after summer vacation, it often brings increased reporting of potential volatility in financial markets, and this year is no exception.

Global financial markets are experiencing a downward move, often referred to as a “risk off” trade amid concerns of a spillover from China’s once largest real estate developer Evergrande Group debt woes and impacts on the financial growth path for China. Aside from Evergrande, the financial media and investors were already focused on a slowing global recovery from the pandemic, accelerating inflation and the prospect of reduced Federal Reserve stimulus.

Over my almost 30 years managing money, every so often a corporate event emerges from China that is usually linked to regulatory uncertainty endemic to the Chinese investment market. It’s one of the reasons that investing directly in China is so challenging. Most investment managers will acknowledge this uncertainty and choose proxy investment strategies to gain exposure to the Chinese investment market without taking direct positions in China. That’s where the concern lies: how far will this contagion spread? Events like this occur, and while concerning, we will manage our way through this one as well.

Reports on the slowing global recovery from the pandemic have also been making news in recent weeks. The Delta variant and it’s much more contagious properties make it a greater challenge to contain. This surge has been referred to as the pandemic of the unvaccinated and the vulnerable vaccinated. It has impacted supply chains and slowed the juggernaut of a recovery we were experiencing since early fall last year. It is uncertain how much more impact it will have on economic recovery, but we remain confident that the recovery will continue. And continue it should, although the specific timing remains uncertain. Again, that is why we are focused on the long view in our investment strategy.

Also, potentially inflationary monetary policies implemented by central banks and governments around the world to protect their economies throughout the pandemic have fueled the fear of higher inflation. It’s easy to look at the topline inflation numbers and see nothing but challenges for economies. We need to note that ‘volatile’ items like food and energy are still responsible for the high level of inflation reported recently. It is these volatile items that are dominating inflation rather than ‘sticky’ categories like the cost of goods and services, underpinning the informed view that this is a transitory inflation period. I believe it unlikely inflation will continue to overshoot beyond next year. For inflation to continue at this pace, we would need to see it in major sticky categories, and for that to be the case, items such as used-car prices and car rentals as well as hotel prices would need to continue rise dramatically over the next year to continue this level of inflation, and those areas are already showing signs of moderation.

For each of these areas of concern, there are alternate perspectives to the dire predictions delivered in the media. As well, keep in mind that it is exactly these points of volatility and concern that drive an investment manager's ability to position portfolios for greater potential growth as these concerns fall aside. And fall aside they will, perhaps after more volatility, but they will.

As investors, we have dealt with many market events like those noted above, and of course many other events as well. Throughout all these periods of volatility, we have profited by remaining focused on the long view and on the diversified nature of our investment strategy. Our strategy does not focus on investing in China, makes no big bets on the economic recovery after the pandemic, nor is it heavily reliant on low inflation to drive portfolio growth. Each of those factors will have impact on portfolios, but the broadly diversified nature of our investment strategy means that volatility is typically lowered through principles of investment diversification.

I suggest you remain focused on long term perspectives and on the knowledge that we are always working to enhance your ability to achieve your goals. I am pleased to be your financial advisor and I sincerely look forward to our next conversation. I prefer that it be in person if possible; it's been too long since I met with many of you face to face. Please reach out if you have any questions.

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