Employment Growth Thwarts Recession

Welcome to 2019 and time to weigh in on expectations.
I will candidly say that predicting "big macro" events is so unreliable, I would rather look at the equity and bond world from the bottom up.

I do certainly feel that we are still in the middle of this "Newsie" Bear Market and failing anything to derail its end, should come to a close near the end of March. The next real Bear market or Recession is still some time away, and my rational is very simplistic. Employment continues to grow on both sides of the border, with the US firing on more cylinders than here in Canada. Here is why I feel employment is of major importance to this discussion.

Strong Employment has to end to lead into a Recession
High employment continues to add consumers with cash and that helps economies.
The last 3 recessions (1990, 2001, 2008) did not start until pretty much 12 months after employment growth slowed. Auto sales just hit highs, although replicating that will be unlikely going forward. However, it is an indication of consumer spending in high employment environments.

By the Numbers - US that is
We need to pay attention to these numbers on employment as they definitely appear to be a leading indicator.
I am using US numbers as they are just far more representative when discussing Recessions.

June 1989 non farm payrolls at a robust 225,000/month. 12 months later had decelerated to 153,000/month and 1990's recession officially started in July 1990.

February 2000 payrolls rose to 250,000/month. 12 months later had declined to 137,000/month and 2001's recession officially started in March 2001.

And the last one started at the start of 2008. November 2006 payrolls rose to 173,000/month and than slide to 101,000/month 12 months later.

Compare this to the last 12 months and payrolls rose an average of 220,000/month versus 182,000/month in the previous 12 months.

If I am to have a big macro view, there does not appear to be a sign of a slowdown in job creation. Yes we must watch this very closely.

Positioning in 2019
GIC's versus Bonds
When it relates to the Bond side of your portfolio (if you have one), they have recovered thru December, however risk on longer term bonds is a concern. We are in a climate where short term rates are rising faster than longer term rates. This is called an "Inverted Yield Curve" and is often a precursor to Recessions. So yes it is concerning, however the solution is to use shorter term debt, and debt that has stronger covenants. By this I mean, swapping into GIC's for this part of your portfolio.

A fact: This is the first time in over 12 years that I have suggested their usage.

1 year GIC rates have nearly doubled in the past 12 months, where by at the start of the year 2.70% on 1 year money was readily available. So why would I buy 30 year Ontario Government debt and only get 2.9% for the all that risk? That makes no sense (more on this later).

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Maintain and add to Equity this year

There are some really good companies on sale right now as part of this Newsie Bear. I feel the Core holdings in portfolio's should remain and where cash is available consideration is given to adding to positions. An example, TD Bank shares are trading lower than Scotiabank shares at this time (on a price/share basis), a rare occurrence indeed. It is an odd metric, however I would suggest that TD is a stronger covenant than Scotia is, and when you can get a near 4% dividend yield on TD, that makes sense to add it to your portfolio.

US will outperform Canada yet again

Canada is a petro dollar no matter what contrarians might state. Every time I review statistics ex-oil (without oil) Canada's metrics are declining. With the continued lack of distribution of Canada's oily assets we will struggle. Add to this the growing red-tape, CPP rates, employers will continue to look elsewhere to locate their businesses. I predicted a $0.75 CAD to USD by end of 2018, and it was even lower in the $0.73 range. At this price hedging USD investments makes sense as the movement of the dollar will likely be muted and stay within a $0.72 to $0.77 range this year.

Government Debt is the Problem

I mentioned above, using GIC's instead of an Ontario Government bond. I feel the risk associated to the massive amount of both provincial and federal debt is the real problem. For when we do hit a recession this is where defaults will occur. It won't just be your neighbours defaulting it will be government agencies around the globe.

I continue to monitor all aspects daily, as the 2018 volatility has not left us yet.

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