

# Investment Update

MAY 2022

## IS A RECESSION ON THE HORIZON?

BY GEOFF KIRBYSON



Photo c/o CFA Society Winnipeg

**DAVID ROSENBERG SAYS IF THERE'S ONE THING WE'VE LEARNED FROM HISTORY IT'S THAT PEOPLE DON'T LEARN FROM HISTORY**

One of Wall Street's most notorious bears believes Canada is on the verge of a recession as central banks have their hands full with rising inflation.

"The trick (for central banks) is going to be to quash this inflation without creating an outright recession. That is, by far, the biggest risk right now," says David Rosenberg, president and chief strategist at Rosenberg Research & Associates, a Toronto-based economic consulting company.

There have been 14 hiking cycles by the Federal Reserve in the U.S. and 11 of them ended in a recession, he told more than 450 people at the CFA Society Winnipeg's annual forecast dinner at the RBC Convention Centre on April 19th. Recessions typically follow the kind of fuel and food squeeze that the world is currently experiencing, he says.

Canadians should brace themselves for rising inflation as long as Russian tanks and soldiers are on the ground in Ukraine and China continues with its zero-tolerance for COVID-19, including shutting down port cities that are critical to the global supply chain.

Rosenberg says you have to go back more than a century to the First World War and the Spanish Flu to find a double economic shock to rival the one-two punch of the COVID-19 pandemic and Russia's invasion of Ukraine.

The war is a "huge detriment" to the global economy and to real consumer spending power and the impact is being

## ROSENBERG ON BITCOIN

If you'd like David Rosenberg to question your financial sanity, ask him about his feelings on crypto currencies and if they could one day be viewed as an asset class by investors.

While Bitcoin and its ilk make "perfect sense" as an efficient means of payment, why they would ever be viewed as an asset class is beyond him.

"Nobody has ever said to me, 'Hey Dave, should I blend in the Swiss Franc, Sterling, the Yen and the Euro into an asset class?' A currency is a currency," he says.

Valuing Bitcoin is quite complicated and Rosenberg feels if you're looking to add some stability and diversity to your portfolio, you should buy gold because it has a much longer track record and is far less volatile.

"Why would anybody want to have an asset class like crypto that can up or down 20 per cent in a week? How is that even a store of value?" he said.

"Gold has always exhibited classic safe-haven characteristics in troubled times. You own gold as an insurance policy. Nobody ever said 'buy gold to get rich.'"

Rosenberg questions how you could ever do a cash flow analysis on a crypto currency. He says investors wanting to take on higher-risk investments should just buy the stock market and "lever it up."



felt not just on energy prices but on food, too.

“This is a major de facto tax on the poor, the middle class and the elderly,” he says.

Most prognosticators however, have a positive outlook for the Canadian economy. TD Bank, for example, predicts GDP growth of four per cent this year and about three per cent in 2023.

Despite his overall pessimism, Rosenberg is quick to note that regardless of what the market is doing, there are always investment opportunities. You just need to be more selective than during a strong bull run.

Food production, farmland and farm machinery are high on his list.

“Anything related to food security and food supply is a bona fide opportunity,” he says.

Evan Mancer, president and chief investment officer at Cardinal Capital Management, says while Rosenberg is certainly a very knowledgeable speaker, his contrarian views aren’t always widely held.

“We like to consider different points of views on the market. We’d be a lot more nervous if the only thing we saw was that everyone was bullish. It would be a dangerous sign if every market observer was in agreement. The fact that there are

a few bears such as David Rosenberg out there makes us feel more confident in our strategy,” he says.

Whether a recession is just around the corner, or a year or more out, Cardinal stays true to its approach – owning great businesses over the long term. In fact, when investors fear a recession, many turn to blue-chip, dividend-paying stocks for safety. Our strategy, of course, is to own these great businesses during the ups and the downs.

Rosenberg also believes the Canadian real estate market is experiencing a significant housing bubble similar to the mid-2000s.

Sheila Wilson-Kowal, vice-president of investments at Cardinal, says Rosenberg’s discussion on housing was particularly topical as there’s growing concern that the market is overheated.

“It’s hard for a prospective new homeowner to afford to buy a house. As interest rates and mortgages rates continue to rise, we could see housing prices stop ascending and potentially weaken. If it’s your primary residence, then most people will weather any decline in prices. But it may lead to a more balanced real estate market,” she says.

Rosenberg says the Canadian dollar does not typically do well during global recessions because commodity prices usually go down but this year might be the

“Bitcoin is the poster child of investor greed and get-rich-quick schemes. It’s just a speculation, a torque, on greed. It’s really more of a symbol of human nature. As an asset class I would never recommend it,” he says.

He’ll get no argument from Cardinal on that front.

exception to the rule. There are currently a trio of factors backing up the loonie – high and rising commodity prices, fiscal expansion and a “much tighter” Bank of Canada policy, he says.

“This could be one of those few times in history where we have a global economic downturn but the Canadian dollar holds up reasonably well,” he says.

Surging oil prices, while lightening wallets all over the world right now, may actually prove beneficial in the long run, he says.

“It has awakened the world to the reality that the sooner we get towards diversification away from fossil fuels, the better. I think it’s going to hasten the greening of the world,” he says.

Previously, Rosenberg was chief North American economist at Bank of America Merrill Lynch and a senior economist at BMO Nesbitt Burns and the Bank of Nova Scotia.

**You have to go back more than a century to the First World War and the Spanish Flu to find a double economic shock to rival the one-two punch of the COVID-19 pandemic and Russia’s invasion of Ukraine.**

—David Rosenberg

**TELEPHONE** 204.783.0716  
**FAX** 204.783.0725  
**TOLL FREE** 800.310.4664

400-1780 Wellington Avenue  
Winnipeg, Manitoba  
R3H 1B3



**Cardinal**  
CAPITAL MANAGEMENT

**30**  
YEARS