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Steadyhand

When it comes to markets, it's hard to define what 'normal' is. But this isn't it.

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By Tom Bradley

In many aspects of our lives, we know what normal is. Normal body temperature is 37 degrees.

The longest day of the year is June 21. Slow traffic stays to the right. In Vancouver, it rains in the winter and in Toronto the Leafs' season always starts with great promise and ends in disappointment.

In capital markets, it's much harder to determine what's normal, or to use an economic term, equilibrium. What's perceived as normal in the stock market changes with each new high or low. That was evident last week when the indexes wobbled. Investors were asking questions like, 'What's going on?' and 'Why is this happening?' The implication behind each query was that the market level a month ago was normal.

There are lots of reasons to believe that today's investment landscape is anything but normal.

Consider the following.

First off, we have recession-like interest rates at a time of strong, broad-based economic growth. Yields are at such low levels that bondholders are losing ground to inflation (U.S. being the exception). How addicted the world is to hyper-stimulative monetary policy showed through last week when President Trump called the Federal Reserve "loco" for gently normalizing short-term interest rates. History is unequivocal on this — zero or negative real interest rates in good economic times are not normal.

As usual, the growth of the world economy is being fuelled by many cyclical and secular forces. What's not par for the course is the extra octane it's getting from a rising debt load. Governments are running deficits and expanding their balance sheets at a time when employment is tight, home and auto sales are near cyclical highs and corporate profits are strong. This 'spend now, pay later' approach is being led by two of the strongest economies in the world, namely China and the U.S.

Corporations are also running up a tab at a faster than normal pace.

There are always some businesses that are in the sweet spot of the economy and are loved by investors. What's testing the bounds of normalcy, however, is the stratospheric valuations being put on companies that are using technology to shake up established industries. There's limitless capital available for disruptors in retailing, electric and driverless cars, on-demand broadcasting, robo-advisors and alternative energy.

If the technology helps people share things, capital is even cheaper. Businesses that enable the sharing of cars and bicycles (e.g. Uber), offices (WeWork) and bedrooms (Airbnb) aren't making much money (and in some cases are losing billions) but carry valuations that make the incumbents in these competitive industries drool.

And then, there's a small matter of the pot stocks. The emergence of a new consumer industry is exciting and will create tremendous wealth, but the trading volumes and speculation is off the charts. I now feel left out at parties because I don't have a story to tell about my profits from flipping Tilray or Aphria. This isn't the normal reason I'm awkward at parties.

There are other things I could mention. In a world built around the free flow of goods between countries, increasing tariffs is not normal. Labour shortages in the trades and tech industry aren't either. House prices in major cities, including Toronto and Vancouver, are totally out of line with what people who work there are earning. After spending a week with my four 20-something nephews, I'm realizing the number of hours people spend on social media each day is slowing our growth in productivity. And speaking of Twitter, the White House is more unpredictable than it's ever been.

After nine and a half years of rising stock markets, any correction is a jolt. But history tells us that both minor and major downdrafts go with the territory. When you pull up long-term charts of the major stock indexes, you'll see they all follow a bumpy path that goes up and to the right.

Wobbly weeks are as normal as 37 degrees and June 21.

Tom Bradley is the President of Steadyhand. A version of this article was published on October 20, 2018, in the National Post.