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A Point In Time

By admin

There are moments in time when significant economic shifts occur that alter the future. One such moment occurred in late August 2019 at the close of the Jackson Hole Economic Symposium. This is an annual and exclusive central banking conference to foster open discussion about important and current policy matters.

Bank of England Governor, and former Bank of Canada Governor, Mark Carney noted at the close of the conference that the world's Central Banks were resolved to do whatever it took to keep banks solvent and liquid. Shortly thereafter, in September, the global credit system experienced a problem that could have led to a repeat of the 2008 credit crisis.

This event occurred in an obscure area of the "financial plumbing" known as the overnight lending or "Repo" market. This market is where various entities (corporations, Governments, and other large institutional players) go to fund short term cash flow needs at reasonable interest rates, calculated, and paid daily.

Global financial problems usually lead some type of eventual market correction, and the COVID-19 pandemic was a likely trigger for the first business cycle recession since 2008.

Back in March 2020, fast and unprecedented action by the US Fed and global Central Banks led to massive amounts of liquidity being pumped into the economy. This resulted in a sharp four-week market correction and a quick recovery that saw the US and other global markets recover and go onto new highs by early August.

After the actions by the US Fed and other global Central Banks, everyone breathed a sigh of relief and resumed life as usual. Some Canadians used their COVID-19 support payments to speculate in the stock market. As one young person commented they could live comfortably on this Government largesse of \$2,000 monthly.

Except there is no free lunch in life. She became concerned, when it was suggested that so much free money may eventually lead to the monthly income support payment buying a lot less because of increased inflation.

After COVID-19 hit, the Federal Government ferociously ramped up spending levels not seen since the Second World War. The Federal budget debt, once at a \$30 billion level, ballooned to over \$350 billion. And then it happened again in 2021 adding close to a Trillion dollars to our national debt in 18 months. The US spent even more than we did, adding an estimated 25% of new debt to the total debt accumulated by the US since its inception.

Which brings us to the present and some questions that must be asked.

Where are you in your wealth building program? How much debt are you carrying? What scenario planning have you considered for events that may seem like a low probability, but which could dramatically affect your long-term financial goals? Can you increase your savings rate while trimming your lifestyle? Or can you buy quality assets during a crisis? Finally, how will record global Government debt levels impact your financial strategy over the next 2-5 years?

[Contact our office today if you have questions](#) [1] about how to ensure that your financial plan is resilient enough to weather a range of possible economic scenarios.

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