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“If it weren't for electricity, we'd all be watching television by candlelight.”

George Gobel

-American Comedian-



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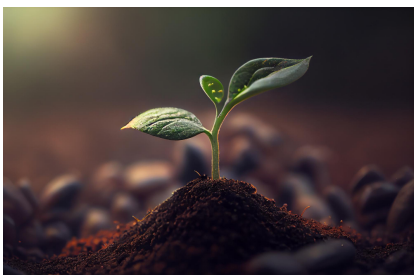
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As we move closer to the mid-point of the year, I'm reminded that for much of the time in 2023, a small handful of technology/AI stocks drove returns and until late October almost half the S&P 500 names were negative on the year. In real estate, there is an expression, “location matters” and in equity investing, your emoji was likely smiling or frowning depending if the basket of stocks one owned had resided in the metaphorical boom town. In other years, that rising tide lifted all ships but last year was not one of them and returns were selective. **Morgan Stanley's** insights report looks at the widening divide between the winning stocks and households and how it can increase odds of a boom-bust scenario in the U.S. With economic growth and inflation stronger than expected, interest rate cuts have continued to push out further into the future. Corporate earnings have been surprisingly robust, and consumers have continued to spend heartily. Although this would seem to be cheery news for investors, it is a tale of two cities with large multinationals and wealthy households seemingly able to shrug off the high interest rate borrowing costs while the more vulnerable struggle. Admittedly, **Morgan Stanley** has had one of the more pessimistic outlooks amongst the strategists for some time, yet still has a “soft landing” as the most likely outcome. However, the fact they are now increasing their odds of a more painful hard landing or stagflation scenario in the U.S. is notable and given Canada's weaker economic profile, it is likely sensible to pay attention to their warning of unexpected fat tail risk in investment portfolios.

With increasing discussion of AI use across organizations and the huge dollars flowing into the space, what is sometimes overlooked is a huge ramp up in energy requirements to feed it. In a **Bloomberg** article earlier this year, they observed how power grids are struggling to meet demands from data centres, new onshoring battery and semiconductor factories and the accelerating need from EVs and other users of power. After years of sluggish growth in electricity demand, utilities are struggling to match supply. Several jurisdictions want to build new fossil fuel (natural gas) power plants rather than close them and the nuclear energy option is entering the conversation. The need and use of coal powerplants has also meant their planned decarbonization sunset is being delayed to meet this electricity appetite.

Not unrelated to the story above, last month, many around the world witnessed spectacular displays of the aurora borealis (northern lights) as the sun emitted a solar storm pointed in the earth's direction. These storms are rated G 1-5. As the energy of this G5 event was forecasted to impact our magnetic field, warnings about disturbances to electrical grids and satellite communication were issued, and power companies made defensive plans. Ultimately, there was minimal disruption and a major light show instead. In a piece from **Big Think**, the authors outline that this was neither the first or likely last time the planet will encounter powerful solar storms and some of these in the past have been much larger than what we just experienced. In 1859, a giant solar flare caused the *Carrington Event* and in a barely electrified world caused telegraph cables to catch fire or go silent. Had it occurred today, they suggest the effects would be much more debilitating to our economy. Somewhat ominously, a Japanese researcher Fusa Miyake discovered another similar event that occurred in 992 AD. It was similar in design but multiples larger in scale and they argue a storm of that magnitude today could cripple electric grids for months or longer. Fat tail events are considered low in probability but high in impact and so in the desire to quickly reduce carbon emission risk by shifting from fossil fuels to electricity power one hopes we don't trade one tail risk for another.

Morgan Stanley: Why Recession Is No Longer a Remote Risk



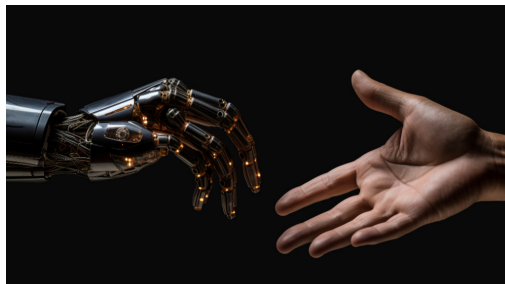
Equity investors spent most of April adjusting to the reality that economic growth is proving stronger—and inflation stickier—than previously expected. This means that the Federal Reserve may keep interest rates higher for longer: Morgan Stanley Chief U.S. Economist Ellen Zentner has raised her estimates for U.S. gross domestic product (GDP) growth in 2024 and 2025, while reducing her forecasts for Fed rate cuts.

Considering that the prospect of interest rate cuts had helped buoy stocks in the first quarter, equities have actually held up reasonably well against this backdrop. The S&P 500 Index closed up 2.7% last week, only 2.9% off its late-March all-time high, thanks to decent first-quarter 2024 company earnings results thus far as well as investors' hope that above-trend economic growth could offset any negative effects from higher rates. While that view may prove correct, Morgan

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Bloomberg: AI Needs So Much Power That Old Coal Plants Are Sticking Around

In a 30-square-mile patch of northern Virginia that's been dubbed "data center alley," the boom in artificial intelligence is turbocharging electricity use. Struggling to keep up, the power company that serves the area temporarily paused new data center connections at one point in 2022. Virginia's environmental regulators considered a plan to allow data centers to run diesel generators during power shortages, but backed off after it drew strong community opposition.



In the Kansas City area, a data center along with a factory for electric-vehicle batteries that are under construction will need so much energy the local provider put off plans to close a coal-fired power plant.

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Big Think: The Carrington event of 1859 disrupted telegraph lines. A "Miyake event" would be far worse



A little after midnight in the late summer of 1859, campers dozing beneath the night sky in the Colorado Rockies woke to a display of auroral light "so bright one could easily read common print." In their account of the event, published in the Rocky Mountain News, the party recalled that "some insisted it was daylight and began the preparation of breakfast."

Thousands of miles away, crowds gathered in the streets of San Francisco with eyes turned skyward.

"The whole sky appeared to undulate something like a field of grain in a high wind; the waters of the Bay reflected the brilliant hues of the Aurora," wrote one journalist in the San Francisco Herald on September 5, 1859. "Nothing could exceed the grandeur and beauty of the sight; the effect was almost bewildering and was witnessed with mingled feelings of awe and delight by thousands." City dwellers around the world shared this experience.

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