So long TINA!

The punchbowl was nowhere to be found in 2022. Under the specter of the highest rates of inflation seen in more than 40 years the major central banks across the globe felt forced to bring the party to an end, tightening financial conditions drastically.[i] The fallout was felt across the investment universe with stocks, bonds and the housing market all suffering from steep declines in value. But there was a silver lining to consider is when the party ended so did TINA.

There Is No Alternative (TINA), was first coined in the 19th century as a justification for political and financial decisions. [ii] It postulates that when interest rates are below the rate of inflation for longer periods of time, savers will have no other choice than to seek out riskier investments for their capital stores. In the decade that followed the Great Financial Crisis of 2008, as yields continued to fall in developed economies under various quantitative easing programs enacted by the Fed and other central banks, many savers felt they had no choice but to buy stocks. [iii] Global investment bank Goldman Sachs even put out a report in 2021 suggesting that the popular 60/40 portfolio (stocks/bonds) actually might be dead. [iv] At the time it was really hard to argue with them as yields on bonds were close to cash as far as the drag effect they appeared to have on investment portfolios.

What a difference a year makes. Both the Bank of Canada and the Federal Reserve increased rates by 400 basis points in 2022 (1 basis point equals 0.01%). Although this sent prices of financial assets into a tailspin it set up a new paradigm for when the tightening cycles were to come to an end. Bonds would offer a yield again. It is widely considered by economists and strategist alike that the central bank rate hike cycle will come to an end in the early part of 2023. [v] With this being the case, the risk to bond valuations due to rising rates could reverse to become a great opportunity for investors.

Consider the investment marketplace of the previous decade for an investor requiring a 7% return on their savings to meet their retirement savings goals. With bonds yielding sub 2%, the investor was forced to decide between underperforming assets and perhaps not achieving their retirement income goals. Alternatively, they would need to choose to increase their exposure to riskier investments that offered higher potential returns to make up for the 5% shortfall. Neither choice was ideal or easy to make. Fast forward to the market we find ourselves in today. Investment grade bonds now offer yields of 4% or greater. Savers are no longer faced with the TINA concept as the necessity to over allocate to more aggressive investments are no longer present. The famous 60/40 portfolio may have resurfaced in our time!

Saving and investing are always decisions that require careful analysis. No one ever said it was easy, and it often doesn't help that so may so called experts share their opinions all at once often in direct contradiction to each other. But at least we don't have to deal with TINA anymore. Investors are well advised to start by establishing goals for their savings and then to work backwards on establishing the right strategies to achieve those goals. We highly recommend seeking out the advice of qualified advisors to help with this process and to set up regular reviews to ensure that the investments you have are set up correctly to protect you from unnecessary risks while delivering the returns you need over the long run.

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[i] https://www.cbsnews.com/news/inflation-june-cpi-report-hit-new-high-40-years-9-1-percent/

[ii] https://www.investopedia.com/terms/t/tina-there-no-alternative.asp#:~:text=TINA%20is%20an%20acronym%20for%20the%20phrase%2C%20%22there%20is%20no,can%20explain%20a%20price%20bubble.

[iii] https://www.forbes.com/sites/carriemccabe/2018/11/27/the-end-of-tina-or-there-is-no-alternative-to-equity-buying/?sh=4a18a0c15982

[iv] https://www.gsam.com/content/gsam/no/en/advisers/market-insights/gsam-connect/2021/is-the-60-40-dead.html

[v] https://www.forbes.com/sites/simonmoore/2023/01/09/two-more-rate-hikes-left-from-fed-according-to-markets/?sh=4ee9337a2e74