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Market Outlook:

Almost done

It has been a bizarre year for earnings. Despite higher prices and blockages in the global delivery chain, a massive infusion of retail spending (mostly caused by two years of frustration with and pent up demand in the economy) has caused profits to expand beyond analyst's expectations. Although the aggregate demand curve is sloping upwards driven by the holiday gift-giving season, we believe that earnings acceleration will run out of momentum in the next year, limiting the percentage gain probabilities for equities.

Historically, the most potent bull markets in stocks are underpinned by significant consumer confidence. And while the spending component is certainly there, as noted above, confidence levels are mostly negative. The pandemic's effects are being felt not just in our healthcare and lifestyle patterns but also in our attitudes about how things are being *perceived*. Behaviors are changing and the fragility of "comfort" is being reevaluated household to household.

When the pandemic arrived everything shut down, affecting the demand curve as well as the supply chain. Everything we "knew" to be true was tossed aside in favor of survival mode. Distribution and acquisition of goods and services was a function of inventiveness and creativity, good fortune, and preparedness. We rediscovered the value of family and good health. Business' warehousing and inventories evaporated.

Today, supply issues are evolving, as they always do. Some trends, such as communication and medicine, were accelerated by the crisis. Our society's obsession with instant gratification comes at a cost…adaptability. One's expectations defines the limits of tolerance for any new paradigm: investing, lifestyle, or otherwise. Some adapt more easily than others. Consumption habits are evolving to the supply chain issues. Not surprisingly, those with financial means have adapted more easily and gained superior access to the necessities of life…food, healthcare, housing…. thereby widening the wealth and culture gaps that existed before the health crisis.

So, who is to blame? That, unfortunately is the subject of a tome at another time and place, although we see no value at present for recriminations about "what if?"

Wealth versus net worth

The dramatic rise in net worth during this post-pandemic market surge is being fueled by rampant speculation in financial assets, bloated expectations, and historically low interest rates. While balance sheets are expanding one must ask whether a double digit rise in the stock market is, at its core, the same thing as building wealth? It is worth noting that the percentage of the populace benefitting from the market's largesse is extremely small (as a percentage of the overall population) because much of that growth has occurred in real estate, machinery, and intangibles like patents and intellectual property.

Expansion in valuations can make certain investments unattainable for many, while also increasing the likelihood of an asset bubble like the kind which decimated the markets in 2008. Low interest rates might make the cost of money inexpensive but the increase in debt worldwide means a large bill is yet to be paid…and by whom?

Our thesis is that *productive wealth-building* is the best way to solve the planet's needs with investments in infrastructure, health, climate, energy, environment, and agriculture leading both our fiscal and moral compass towards capital gains and emotional well-being.

Happy Thanksgiving!!

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