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Market Outlook:

Divergence

"Two roads diverged in a snowy woods……"

As the economy ponders in which direction the vectors will move next it is incumbent upon us to remember that any period of uncertainty is always a volatile time in the markets. Of course, the specifics of the variables are much less important than the overall trend itself, which means that one's macro view of events is more highly significant than trying to micromanage individual inflection points. "*Two roads diverged"…* is more than just a poetic metaphor….it is a warning that needs to be heeded.

Many parts of the global financial landscape are dealing with instability and social crises. Corporations are caught in the foment, both internal and external, wreaking damaging effect upon their labor force and hiring practices, costs, inventory development, and delivery systems. Those that can absorb these variables will emerge robust and competitive. Unfortunately, we are also seeing the demise of businesses that are outdated or incompetent and which have difficulty adapting to the commercial disruptions caused by war, Covid, inflation, and supply chain issues. The nature of competition is that you cannot "protect" the vulnerable and still maintain integrity in the system.

Not in dispute, however, is that the financial system is having difficulty adapting to many factors not of its own making. Central banks' efforts to reign in inflation and reduce the money supply is an artificial impingement upon the natural order of things. Any effort to combat runaway pricing pressures by raising interest rates only prolongs the cycle of discontent. Rising prices, although onerous, cause the consumer to reduce his purchasing, leaving rising inventories, and resulting sometime later in a reduction of prices. Such cycles, if interfered with by central authorities, cause greater dislocation than if left to be resolved by the free market.

No matter the industry, there are disruptions occurring to the bottom line in a post-Covid world. Job number one is always to *stay* in business. So no matter the cause we are seeing more companies trying to be nimble and unfortunately focusing upon the here and now in lieu of strategic planning for the future.

However, we would suggest that there is *too much* aggression and emphasis upon managing the short term. How much fat can be trimmed before irreparable harm is caused to one's brand, one's internal organizational structure, or one's community? Globally integrated entrepreneurship has gotten so "micro" that the most important thing considered in most boardrooms today is quarter-to-quarter viability and how to appease Wall Street analysts. True capitalism is being impeded by that kind of thinking. The withdrawal of the consumer has put business on the defensive. The reduction in discretionary spending and the lack of confidence in the future has shifted the business culture from *expansion and reform* to *perish or becoming extinct*……and, of course, no one in the boardroom is seeking the latter option. The loss of a true predatory climate has softened and diluted today's capitalism to a "bail out" quotient that makes irrelevant a company's product or mission statement. Indeed, it is social consciousness, not social justice, that produces a fair market. Individual users and producers have a much better understanding of the demand/need curve than do central bank engineers who take all the spontaneity out of the economic cycle. As the upcoming "earnings season" unfolds we expect to see more carnage and more accounting calisthenics to weather the storm.

This is so prevalent as a socioeconomic phenomenon that even with fiscal and monetary support behind them businesses and households would rather withdraw from the contest than try to get in and possibly fail. Untold billions are *not* being spent (where once they were) because of fear about politics, war, migration, ecology, inflation, and such. City boulevards might be teeming now with people in the wake of the Covid pandemic but there is still an underlying concern about *endemic* issues such as hunger, poverty, crime, homelessness, and lack of empathy.

We have recently been using the fortuitous rate increases to dabble in short term time deposits, thereby establishing "baseline" floors to our portfolio returns while reducing volatility associated with concentrated equity positions. There are no indications that the market has established equilibrium at its bottom quite yet, so we welcome the chance to deploy cash reserves into yield enhancing opportunities for the time being.