Scotty C. George
Chief Investment Strategist

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The emerging shape of a fractured global order is signaling a vigorously unpredictable period ahead for the financial markets. One's capacity to withstand brinksmanship over national disputes, international conflict, and standard kitchen table threats will be severely tested in a post-Covid recovery. Indeed, the aftermath of the recent pandemic, worldwide, is not yet fully understood…economically, politically, or socially.

Thus, taking a macro view…although much harder to do…might put into context some of the fear and anxiety that currently grips the markets. Depending on how you choose to read the signals, one could conclude that the world is either teetering on the edge of a moral and economic crisis, or that the elements of any optimism for the future also encompass the predictable push/pull of emotions which characterize any secular outlook. Our view is that the latter is more persuasive; the sky is definitely *not* falling

Markets

A pragmatist looks at the world and tries to make sense of the myriad kaleidoscopic images all around him. He realizes that he personally doesn't *cause* the various arguments for or against trends, but he sees the logic in them nonetheless. He recognizes that a multiplicity of factors can be accelerants to recent developments. That pragmatist, too, would be in a state of shock over the many components that are aggressively in flux right now. It would take a mapmaker and a soothsayer to make sense of today's drama.

It is unrealistic to believe that there is a center of origin for all the world's influence, whether it be one nation, one continent, one leader. Therefore, we must first eliminate the pretense that *all of the globe's issues originate with one purpose: to stifle the resiliency and success of mankind.* No doubt, we are in a world in turmoil, both political and financial. History has taken us there before. But what makes today unique…at least in our lifetime…is a breakdown in tolerance and empathy. Today, one's birthplace and ethnicity is an implied Scarlet letter.

It should come as no surprise, then, that economic and market stability is also being affected by those same intolerances. Labor markets are highly stressed, capital is tight, and strategic goal-setting is more highly influenced by fear, jingoism, and geography than by need. The stable Western alliances are flourishing while the emerging markets are left to figure it out for themselves, making their fortune and future much less clear. Industry in those regions cannot even think about 5 year plans because of political and financial instability. Weather, too, is a factor that has adversely affected farming, construction, and population migration. Given these developments, fewer corporations are willing to lay down a bet on 19th and 20th century -style rules. And so the poverty and neglect long imbedded in those archaic populations dooms the whole process into oblivion. The consequence of being poor feeds into a never ending spiral.

However, we must accept that no industry or person is disconnected from the plight of everyone else. While it is sometimes said that all matters are "local", it is the attention we pay to the less fortunate, less well established, that could shift the paradigm from *dispassion and egotism* to *profitable* in a heartbeat. Attitude and empathy should be a line-item on every balance sheet.

"Lean and mean" has become a corporate euphemism for *"we can't afford to lose market share to the other guy".* It is an archaic depiction of a me-too era in which competition and profitability meant destruction of all forces standing in your way. Today, that kind of thinking only evokes an intransient chorus from the well-off who don't give a darn about anything but their own bank account. *"Not my problem"* is a phrase that can only be uttered by those who already have what they need. Consider that the "other" guy or woman once started out with the same potential as everyone else.

More and more, the market is fixated upon the near term costs inflicted upon the economy by shortages in product, price spikes, the supply chain, and profitability in the next two quarters. The dilemma for policy-makers is whether to step on the brakes aggressively or to "tap" on them sporadically. **Post-Covid induced inflation is an aberration from historical norms and might require a new calculus**. For certain, there will be short term downturns in earnings, output, and expectations but there is no doubt that market forces will sort them all out.

A demarcation of sorts was crossed at the end of last quarter when market selling and pessimism became "reactionary" to the Federal Reserve's pronouncements regarding their intentions to raise rates beyond the 75 basis points already enacted. In effect, what had been "known" previously became a catalyst for those determined to exit the stock market to run for the exits. Sometimes it is easy to make money in the markets, other times it is difficult. The key is knowing how to discern the difference and having the discipline…mental and methodological….to withstand the obstacles.

Strategy

The war in Ukraine, along with China's health-related (Covid) shutdowns, has exacerbated global supply chain issues. As noted above, those effects are being felt harshly in the emerging markets, where natural resources are less plentiful and self-sustaining industries are harder to find. One of the unintended consequences of Russia's war has been to strengthen political and financial alliances amongst nearby and neighboring countries which now enables them to share in the responsibility of distributing food, oil (energy), and other necessary product.

We see multiple sectors that are experiencing heavy selling pressure despite the fact that they are irrationally linked to stagflation and economic recession. For example, the food and agriculture industries are poised for extraordinary profit growth in the half-decade ahead, particularly after the inflation and interest rate data is digested by analysts. A few weeks ago these shares were dropping precipitously along with the rest of the stock market despite the fact that guidance forecasts were strong and these industries fill a pressing global need to feed the hungry. That is an encouraging sign because other businesses in the socially responsible realm such as energy, healthcare, biotech, and ecology are similarly poised to "fight the tape" and move higher in spite of the pressure current events impose upon their progress. While there most certainly will be market drift in the upcoming weeks our expectation is that prices will stabilize before the end of the year in these sectors.

We also welcome the efforts by central banks to raise interest rates (tighten the money spigot). Higher yields will finally inspire an alternative investment scenario in which clients might have the choice to lock in a return from the fixed income markets while also having the *option* to speculate in the equity markets. If the ultimate objective of our policymakers is to overpower price inflation and excessive spending, the unintended consequence of tighter money could be to secure baseline capital appreciation and portfolio income for investors not pleased that the stock market had been the only game in town for the previous decade. We believe that consumers want to see that type of restriction on superfluous discretionary exorbitance, and let the market cycles play out in an orderly effort. In fact, it is the *absence* of oversight and structure which has created the current inflation/stagflation predicament. For the first time in years, "order in the court" might impose a consistent macro framework for the financial markets.

Conclusion

The best way to muddle through challenging economic times is to maintain a strict budget, to focus upon the wider macro aperture, and to hold on to competitive asset allocation guidelines. Risk and reward are obviously unique to each individual but an approach that considers those tolerances is inherently more successful than jumping from method to method in an effort to outmaneuver potential volatility. There really is no intrinsic strategy that works for everyone *except the one that produces results consistent with your own expectations*. Sometimes, being on the sidelines is not the best choice for the long term success of building one's net worth.

This upcoming quarter, especially, presents unique challenges. Two years ago, a flourishing global economy shut down because of Covid. One year ago, product demand began to increase as the world slowly emerged from its pandemic cocoon. Today, there are fewer goods and services available to fill the pent-up need, thus inflation is widespread. Remember, no one was driving a car, flying in an airplane, or eating out in restaurants during the lockdown. As a result, employers laid off employees or closed up shop entirely. Now there is a "shortage" of gasoline, repair workers, certain services, and airline pilots. (In reality, those shortages are more related to delivery and supply chain bottlenecks than a dearth of product). You demand "cheaper gasoline", but what you really mean is to have a sufficient supply to meet your needs so that you don't have to pay more for the article of trade. In so many instances…from healthcare workers, to truck drivers, to dock workers, etc…the situation is onerous and pervasive and not likely soon to end.

Our portfolio resolutions are to remain significantly diversified amongst asset classes so that our minimal stock exposure (roughly 20%) neither precipitates a magnitude of portfolio decline nor proves excessively bold; our fixed income capacity reflects current opportunities to upgrade yield; and our cash reserves provide a bulwark of support that both limits our downside and remains nimble enough to deploy at the appropriate inflection.

Suggested balanced account asset allocation, Q3, 2022

Equity:	**21%**
Fixed Income:	**41%**
Cash:	**38%**

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