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Market Outlook:

Thanks, Jerry

Interest rate reality slammed the financial markets (and personal pocketbooks) with full force in the past few weeks prompting one to ask whether the coveted "rally" that carried investors through the Summer was an aberration or, perhaps even worse, just a placeholder before the next drop off?

In either case the message is clear that the cost of fighting excessive demand and profligate spending with higher interest rates is serious business.

Unfortunately, the stock markets took the latter view and inflicted selling pressure not seen in several months. We believe there is likely to be more volatility in the weeks following as earnings and jobs data for the quarter are released. The early-year momentum has, at least temporarily, been abated while global central banks remain apace to quell inflation.

Given that there now appears a lull, if not downward, bias in stocks we remain satisfied with our portfolio preparations "on the way up" for the inevitable capitulations that the financial markets are experiencing: using cash to purchase short-term time deposits to supplement our account's yield potential, and readying for any pivots that might support buying equities on dips. Liquidity is, and has been, our key to navigating the post-Covid economy.

As long as pent-up demand keeps moving goods and services…the after effect of a two year economic hibernation …markets will remain active and volatile, despite a waning level of consumer confidence. To be sure, the past 5 months have seen us go from speculative fervor to awkward sell-offs. Most notably, there is a marked exaggeration in the gaps (and experiences) between the wealthy and the poor, particularly in managing food and energy expenses.

Our lower risk approach to investing should more consistently assuage the precipitous up and down cycles and hopefully outperform benchmarks without excessive volatility. Adherence to a strict discipline of *earnings, secular asset allocation, and patience* has always proven to be our signature. Nevertheless, a potent confluence of high inflation, rising interest rates, post-pandemic economics, and a lethal conflict in Ukraine has hindered portfolio performance and dampened expectations about the near-term for many of us.

Moreover, as negative attitudes proliferate one must accept that trends take time to develop and to reverse course. Right now, fear is accelerating the decline in stocks as much as, if not more than, any changes in fundamentals. These are indeed unique times as we emerge from a pandemic but all of us have seen crises before and come out stronger as a result. Reversals do not surprise us as much as the mania surrounding them does. In fact, we see secular investment opportunity in tangible assets (commodities), energy, ecology, and utilities while the drumbeat of inflation data imposes temporary pain on other sectors losing earnings power.

Challenge the risk

The markets will require much more than immediate monetary intervention. Political leadership (fiscal stimulus) must address structural economic inequities which exacerbate poverty, climate change, national security, crime, healthcare, education, hunger, and infrastructure in order to complement efforts by the Federal Reserve. It is unfortunate that election season looms large in the debate about when/if things get done but we have optimism that the latter part of the year will be better.

The next few weeks cannot accurately be "predicted" but if history is any guide it is likely that negative influences will persist for the near term. Remember, though, that it is during periods of excessive vulnerability that bases are built and entry opportunity reappears. Prudent strategic thinking demands that we lower the harmful rhetoric and search for answers while we have the time.

(Post script: generational monsoons in Pakistan and flooding in Mississippi remind us to be grateful for the "privilege" of turning on the tap and having clean water to drink).

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