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Market Outlook:

Rates, rates, and more rates

Question: Where do you think global stock markets would be if interest rates *weren't* low?

Fortunately, we haven't had to answer that question in recent years. However, with interest rates modestly spiking upwards in recent weeks investors were confronted with exactly such a dilemma, and the turbulence which ensued. The distraction caused by having to ponder higher borrowing costs, higher inflation in goods and services, and the possibility of an equity market in free-fall set investor's comfort level back by a considerable margin. One is only left to wonder what, when, and how a post-pandemic hyper-inflationary global economy might look.

Obviously, no one can accurately predict the future nor the answers to those questions above. But we can discern certain trends, certain probabilities, which are becoming clearer as the viral scourge recedes. For one, **any rise in interest rates becomes an indicator that expectations for global growth are expanding.** Bear in mind that this is the first sign in at least 15 months that economic forecasters are bullish. In a climate devoid of much good news over the past year even the prospect of inflationary pressure becomes an important nugget. Buying stocks in the past year had become a default option for many investors. Now it appears to be a harbinger of some underlying breadth in the fundamentals.

We are not abandoning caution, however. Safely deploying capital always requires a prudent assessment of risk...by asset class and by process. For obvious reasons, *betting it all on black* ensures nothing but a 50-50 proposition of winning or losing, outsized losses versus outsized gains. Any manipulation of the markets based upon interest rate projections alone is shortsighted and speculative. Adding additional risk to portfolio management based upon one indicator is not part of our vocabulary.

Instead, we think it appropriate to consider the impact of a nascent expansion in the economy as an opportunity to fine tune asset allocation and to redistribute assets into sectors with emerging and/or consistent staying power. Currently, we think that rotation away from aggressive speculation, and back into defensive equities, is the most durable way to segue way back into the markets here at the top. Those modest interest rate hikes in past weeks are not statistically significant to derail the recovery or to change risk correlations. Quite the contrary, they are precursors of a next-generation expansion. There simply is not enough of an inflation risk at present to abandon long-term macro expectations for appreciation in the coincidental and laggard portion of the marketplace. Examples of where we would put our money include basic materials, utility shares, consumer non-discretionary, and industrials.

Gratitude

One other critical component to that process, particularly in the (almost) wake of the Covid pandemic, is a healthy dose of *gratitude*. From amongst all the critical factors we review daily, including earnings, yields, trend analysis, stochastic relative strength integers, and price patterns, we believe that creating an environment of soulfulness, understanding how lucky we all really are, is critical to building long-term macro success in the portfolio management process.

We must consider how capital can and should be used; to reach out to the less fortunate; to give something back; create kindness and offer constructive opportunity to our fellow planetary travelers. Gratitude might take the form of a friendly utterance to a stranger, a kind word at work. But it might also represent a full-bore commitment to our air, water, food, natural resources, and other things that can improve the quality of life...as well as building profits from so many disparate sources.

As noted, no one can precisely foretell the future. But there is finally enough of a cycle shift taking place that we consider the exogenous noise of headlines and newsworthy commentary simply to be a part of a larger tapestry whose direction is more clearly taking shape.

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