

Market Outlook:

**A missed opportunity**

The financial markets were roiled last week by the report of percentage high increases (in the last 40 years) in food, fuel, and housing prices. Although these numbers were not totally unexpected, consumer's reaction to these data reflects a high degree of concern about the direction of the economy and personal finances. I'm going to take the literary liberty of appropriating a common acronym and say that that "new" AI is now *Anxiety over Inflation*. After more than a decade of historically low interest rates and aggressive monetary policies, today's rising rate environment is quite the challenge to interpret. Many of the strategies predicated upon low interest rates simply do not apply any longer. It is time for a new calculus.

A pragmatic investor should not be swayed by the machinations of the Federal Reserve. Borrowing costs are only part of the economic equation. A more sanguine approach might involve assessing how the risk/reward paradigm is shifting during this inflation transition. Looking at the longer term undercurrents and their impact upon which sectors should be overweighted (and underweighted) might yield a better outcome than trying to time the shift from one economic reality to another. In fact, portfolio malaise is most often caused by unchecked emotional responses to things that micro-focus one's attention away from the overall condition of others.

For example, it is normal that we may have "personalized" the impact of the Covid pandemic, as opposed to seeing the greater global carnage caused by a failure in our health care delivery and preparedness.

Broadening one's scope is a big task, particularly in a world obsessed by "*what's in it for me?*" To be sure, taking care of number one is not unreasonable. Basic needs must be met and no one knows better how to do it than the individual him/herself. But when evaluating a financial landscape, for example, and where opportunities reside, thinking small minimizes the range of evaluation. A more heroic approach considers the plight of the planet. Global initiatives yield a better long term reward.

There always seems to be an actionable inflection point along the way and we are definitely in one of those moments at present.

The war between Russia and Ukraine is a prototypical example of how to affirm and align one's macro view with one's portfolio allocation. The conflict is inflicting unimaginable suffering upon the population in Ukraine, but also extraordinary disequilibrium upon geopolitical economics. The threat to our financial ecosystem is also threatening our value systems. Disruptions in the food supply chain, as well as the manufacture and delivery of goods is impacting the inflation numbers we feel at home. Areas of great natural resources and cultural richness are being obliterated by bombs. For many of you, the conflict is simply the cause of portfolio devaluation during the past few weeks. For others, it is about the loss of global integration and an uncertainty regarding the future of "laws" which govern the behavior of mankind.

Capital is available, to be sure. The last decade of wealth-building has made individuals and corporations flush with financial reserves. Estimates put those valuations in the trillions of dollars. But those funds are being held hostage and in abeyance until the global risks can be completely assessed. It might take a half-decade or longer until any logic comes out of this conflagration. In the meantime, there is a refugee problem, a supply issue, and a stagnation that uncomfortably permeates the financial landscape. Portfolio security unfortunately will be influenced by a cloud of insecurity that extends much farther than the border between two warring nations.

Needless to say, there are investment strategies that we can employ in the interim. As mentioned in our most recent Quarterly message, using price sensitive and commodity related equities is our "overweight" recommendation. The absence of a clearer framework, however, places enormous significance upon how we choose to *perceive* this moment. Is it about ourselves only, or the opportunity to participate in initiatives and entrepreneurship which address the financial (and cultural) security of all of our neighbors?

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