

Market Outlook:

The sum of the parts

When reviewing last week's market data we found some compelling indications. For example, when digging deeper into quarterly earnings reports we sardonically noted that there are no measures quantifying the social impact of the numbers...just numbers and integers themselves. In the business world the very existence of the "underbelly" of society is anathema to what makes a successful business model because those citizens don't purchase or use any of the products or services offered by those companies. In other words, if you're not buying our cars, our furniture, our financial services then why should we pay any attention to you? The poor, the ignorant, the "others" don't really matter, do they?

The shield of invincibility was ripped off, however, during and now after the Covid crisis. With businesses stripped to the bare bones as consumers retreated there was a forced reckoning in which the hierarchy of needs became much clearer. Regardless of the industry, from pillow manufacturers to aerospace engines, business' attitudes about their end users, and the empathy required to service them, changed dramatically.

The new way of adapting to these realities makes a holistic approach more necessary, as well as potentially more profitable. The world is interconnected whether we choose to call it "globalization" or not. New industries and technologies, and the way in which services/products are conceived, generated, delivered, or used, means that the old way of quantifying supply and demand must be modified to fit a metamorphosis of dynamics. Transitions of this kind are generational and multi-thematic, but the opportunity to understand how one's company relates to the ethos of their environment has the potential to accrue dramatically to the bottom line.

Thus, this resounding evolution is forcing analysts and boardrooms to accept a new ritual of what constitutes essential resources and how they are deployed. In the areas of water and food, for example, the intersection between simply making a product and how it is used, distributed, and purchased means that *demand* drives the equation, *location* drives the balance, and *social decency* drives profitability.

Would you say you are "greedy" if you need, and have access to, a glass of water?

Despite food and water (as well as clean air to breathe) considered necessities of life, the unequal distribution of those commodities fashions that question into a social and political conundrum. As such, we are bound to the solutions by federal agencies, social institutions, and governmental policy which makes answering the "greed" issue a matter of right versus wrong. Our view is that *the question begins with knowing what we are willing or prepared to do to fulfill our obligation to others regarding life's basic needs*. That would be where profitability meets reality.

Is it someone's "fault" that by dint of their place of birth they must be deprived of necessities or dignity? And what are you going to do about it?

Resume play

While the market seems to have gained some traction in the last several weeks we must caution that not every pause in downward momentum constitutes a new bull uptrend. There are still too few companies that have demonstrated resilience against inflation pressures or a hesitancy on the part of consumers to spend robustly and indiscriminately. Downwards earnings cycles typically experience several waves of unpredictability before finding an equilibrium over time. We would not be surprised if the disappointments continue, placing more pressure upon stock prices in the next few months. In the meantime, we have sufficient cash reserves on hand (a strategy we have previously described as deliberate) in the event of any one-off opportunity arising.

Macroeconomic pressures (such as the war in Ukraine, inflation, supply chain bottlenecks) are currently elongating the recovery cycle. But they are also magnifying the human toll of challenges encompassing access to basic human needs like security, food, and water. Our work over the decades in creating silo-specific portfolios, particularly in these areas, has proven profitable for portfolios as well as the right thing to do in addressing social responsibilities.

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