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Market Outlook:

Did the recovery just pass us by?

It goes without saying that the global markets have been surging in the last few years. New highs and record levels of stochastic integers make one wonder whether we have reached the "top" just yet. But the question is unanswered because war in the Middle East, grossly exaggerated political rhetoric, and the unaffordability of basic needs create a significant public fear and trepidation which portend a sense of uncertainty about which way the market will go next, and whether it has the staying power to fulfill investor expectations. While we suspect that everything will turn out alright, we nevertheless wait anxiously for the answers to be revealed.

One might say that our mistrust and uncertainty about global conflict and capitalism is already disturbing the normal course of things in the financial markets. Energy prices are rising, military spending is prolific, and food supply chains are a mess. The risks are greater than the upside probabilities at this time. As well, we spoke last week about rising levels of federal and personal debt and the choke-hold they pose for future capital expenditures.

This is not to say that we know the answer to the market's direction, only that one should not underestimate the significance of unintended disruption to our quantitative calculations.

At these levels in the averages, it's very possible that the bad news is already factored into the numbers. For sure, investment in artificial intelligence (AI) is booming. But like the dot.com bubble a generation ago, who wins and who loses is yet to be determined. If the analogy holds, we can reasonably assume that the sector will weather any shake-ups, bankruptcies, and turmoil and emerge with an optimistic balance sheet and a clear list of winners at some point in the future.

Further, the resilience of the global economy has been strengthened following the Covid pandemic. We now know, or can anticipate, the inflection points where the directional changes in earnings might occur and how to mitigate against those unknowns.

Interestingly, the "traditional" engines of economic development, such as consumer spending and confidence, have been sidelined somewhat by other factors that are driving valuation increases. One of the most significant of those is low interest rates. While a temporary boon for stocks, low interest rates are the equivalent to *losing money* for savers and investors. Without a suitable (competitive0 alternative to risk-taking in the stock market, money is forced to channel into stocks where an alarming rate of depreciation might wipe out investment capital. This type of Hobson's choice has grudgingly accounted for the enormous expansion of capital formation in the private equity markets at an historic pace.

A new/old prototype

We must return to the basics of investing. Fundamentals tell us that creating a *better mousetrap* and improving the quality of life for the end-user creates higher wages, more jobs, inventory expansion, and bottom-line profitability. You might take this admonition with a grain of salt, or cynicism, but markets respond optimistically to certainty and profit-making. We must be vigilant to find companies and industries that service the needs of their customers while also delivering profits to their shareholders.

Despite the global disequilibrium alluded to above, we still believe that there is selective opportunity in **secular-themed** (generational) industries. Even though the markets are making "mew highs", this likely will not be the last one nor the only time. Demographic silos such as *ecology/environment, alternative energy, biotech, pharmaceutical research, water purification, infrastructure, agriculture, and technology* are resistant to short-term exogenous noise. By their very moral and socially reaffirming nature, they provide immeasurable response…and capital gains potential…to what ails the directionless financial landscape. Companies that respond to that duty will be handsomely rewarded.

In the end, it matters not what integers or analytics we use to measure success…except for the value enhancement a product/industry can bring to the lives of its constituents.