A View From Here - Summer 2022

And you may ask yourself, "Am I right, Am I wrong?"

And you may say to yourself, "My God, what have I done?"

- Talking Heads - Once in a Lifetime

Same as it ever was…

It’s been a tough year all around for investors and there has been nowhere to hide except if you are heavily invested in Oil and Gas. While it would have been bad policy for the past decade, it goes to show that you just never know when a sector is going to become the *‘hot’* one. As I write this, over 80% of the New York Stock Exchange listed companies are down 20% or more this year, all the while, earnings and economic data continues to show resiliency. Forecasts have moved to a narrative of an elongated economic slump based on a revolving door of new concerns.

New for 2022: Ukraine war, supply bottlenecks, labor shortages and central bank’s interest rate policy to battle inflation. Gone for now, negative interest rates and Covid. At times like these, experts are brought out to reinforce the mood of the moment which only adds to the stress of downward pressure. As such, we are now inundated with *‘the party’s over crew’*, ranging from recession to economic collapse. According to a Bank of America survey, cash levels are the highest they have been since March of 2001. Equity exposure vs. cash exposure is the lowest since October 2008 and short positioning (Fund managers who are betting that markets will go down further) is at all-time highs reflecting as much pessimism as one can muster.

If history is any guide, these are the ingredients associated with market bottoms.

While we don't know how the short term plays out, we do know that at present, fear has taken investors to that uncomfortable pit in their stomachs. It's worthwhile to note that the stock market has, on average, doubled your money every ten years for the last 100 years and it has been done with recessions, depressions, world wars, and crashes….not to mention the times that were good.

As cavalier as it may sound, it just might be *'the same as it ever was'*…at least it has been throughout my career.

Worry

"*Ask Me anything Adam, I'm in the home stretch of my life"*

"Ok", if you were to live your life over, what's the one thing you would omit?"

"Worry! I've spent my life worrying and despite all those sleepless nights, I'd have to say things generally worked out ok in the end"

- This was my favorite conversation with a mentor who I particularly admired.

We indeed spend a lot of time worrying – and there's always a myriad of things to worry about. Perhaps if we worry about them, they won't happen.

Looking Backward: Even the pandemic was easy for Markets

When the world was coming to grips of the seriousness of Covid in early 2020, policy makers reacted by easing their interest rate policy and created incentives to help us through this unprecedented period. With luxury of hindsight, it turned out that the economy proved to be resilient and thankfully these policies had the desired affect and a sharp economic downturn was averted. But we were all worried for both our health and our wealth.

As harsh as the sell-off was between February and April of 2020, we must marvel at the recovery to all-time highs in markets and asset prices, all the while case counts increased and lockdowns continued. As asset prices increased, central banks kept its lending rates unusually low, fueling further speculation and driving up prices of 'things'. During this time, if you were trying to purchase an item, there was a reasonable chance that it was stuck in transit or couldn't be produced due to manufacturing and/or supply constraints. The net result was that prices for things began to increase.

This seems to have created a vicious circle and by late 2021, we began to see market volatility brought on or coincidently, at the same time the Omicron variant emerged. In early 2022, with less headlines revolving around Covid and more about inflationary pressures, labor shortages, strong economic activity and a war in Ukraine, federal policy makers signaled that they would be raising interest rates to fight inflation. In my opinion, fighting inflation by raising rates is logical, but it remains to be seen if or how much of it was brought on due to the pandemic.

As such, the bluntest form to battle inflation is to raise interest rates and as they began to increase and investors reacted by selling assets. The stock market's reaction is one of the worst I've ever seen as equities dropped at unprecedented rates. In Canada, interest rates were as low as 0.25% and we've seen two hikes that have brought rates to 2.5% with clear signals that there may be more to come. But make no mistake, while it could affect the public, rates are still very attractive.

Same as it ever was…

And so this is where we find ourselves now. 2020's concerns reasoned through the rear view mirror like it was always meant to be easy, despite how terrified the world was at the time. Now hell will be delivered from a rotating cast of concerns (some old, some new) that have brought out the pundits who no one has listening to when markets were at all-time highs. Many pontificating the usual rhetoric of economic turmoil, and in a shoot first and then interpret the data later, creates additional fear of another economic tsunami that based on our history is unlikely to occur. Given the valuations of the businesses we follow and own, I'd reason that a good portion of the pessimism is priced in to all things, but only time will tell.

Markets have a funny way of surprising us. The sentiment is so bad that unless we are going to the point of no return for the economy, which is what I've been hearing is going to happen from my first day in January 1988 that I started in financial advisory and pretty much every day since, if I listened closely enough. I don't because I realize that pessimism is a luxury few can afford and no one knows the future.

Same as it ever was…

Thanks for taking a look, and as always,

All Good Things

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