A View From Here - May 2022

"The market itself determines the relative importance of all factors more accurately than any speculator can hope to interpret them." **- Don Guyon**

It's all about Covid

The markets have been particularly volatile since the onslaught of the Omicron Covid strain which tore through the world at a time where it felt like we just might have a handle on the pandemic. When Omicron snuck into our lives in late November, the markets reacted by dropping almost 1000 points in one day and have been extremely volatile since. When an event occurs, markets adjust immediately. One does not have to look any further to the financial crisis of 2007-2009 or Covid in early 2020 as two recent examples. These two events were 'black swans' with the power to turn markets upside down and henceforth market outlooks, so naturally, markets adjusted – violently (shoot first, ask questions later). Yet, the subsequent rise from the ashes from the crises were also noteworthy. We tend to be amazed at the scope of market collapses, but few marvel at its rise.

The path was clear though no eyes can see

We continue to learn to expect the unexpected, and few things speak as loud as our journey with Covid which has yielded anything but predictable results. If I would have told you in early 2020 that the infection started in China and the spread throughout the west would lead to lockdowns, postponements and all the accoutrements of an economy placed into a self-induced coma, how would you look to proceed? It would not have seemed imprudent to sell your entire investment portfolios, real estate and businesses and for a time, that's exactly

what the markets were telling you. But like the financial crises of 2007-2009, the rise from the ashes was actually more spectacular than its fall.

As this chapter in history is still being written, my observation from ‘here’ looks something like this:

When Covid took hold, policy makers made the most aggressive decisions this side of the Financial Crisis as governments created incentives and reduced interest rates to record lows in an effort to help us through lockdowns and work from home orders. Against all odds, consumer demand found another gear and demand for products actually increased, but supply was challenged. Analysts predicted survivors were going to be anything tied to big tech but oddly, and in consistent with how things go, these names actually peaked and the things we did not expect to use too much of during the pandemic (ie: commodities such as steel, oil, metals, etc.) have skyrocketed to levels not seen - well maybe ever. Predict that at the onset, and you might be committed.

Then we look to other effects of the pandemic from a dramatic loss of human life worldwide, changes to the world’s 3.3 billion global workforce, health care, supply chain and financial security. Wait, did I say financial security? Stock markets and asset values exploded as our investment accounts and real estate values reached levels never seen before, creating what can be called ‘The Wealth Effect’ as higher wealth leads to more consumption.

Many facets of the western world, particularly professional services, boomed. Despite work from home orders, many professionals will quietly tell you that they never did better than during the pandemic. Even as the new strains led to further lockdowns, markets and asset prices continued to extend this wealth effect. For proof, look at the success of our investment accounts and real estate prices during this period. This silent boom, led to

further demand exceeding available supply, as factories closed, or operated on lower shift sizes and have had a cascading effect on manufactured goods and raw materials.

One could not receive products on the same level with reduced work forces to satisfy demand. Tell someone that you can't have something, they just might offer you more money. Can't get a car? I'll give you more money, want a TV or washing machine - but your product is stuck in a port of slowly moving freight? You'll pay more. This leads to higher prices and perhaps the word we haven't heard in decades - inflation.

As policy makers start to think about the future, they look to accommodate a strong economy, but perhaps in an effort to protect us from our future selves, announced a series of aggressive interest rate increases to both cool down rising asset prices and reverse the aggressive interest rate stance they took in 2020 designed to help us through an uncertain and unprecedented period. However, as investors, we have become spoiled.

Lower rates have become an almost generational event and back in 2018 when policy makers wanted to increase interest rates, they were strong- armed by the administration to keep them low. This time, policy makers have stayed the course on rate increases, in an effort to both cool off and perhaps more importantly, to give us a pocket full of future interest rate cuts in the event that we do see a recession. One has to see good logic in that assessment and although painful in the short term, it does have the potential to provide support going forward.

There has been another narrative in the financial press that we are in for a protracted inflationary period that everyone is comparing to the 1970's. If that's the case, it will be interesting to see how we adjust given that we have lived on a steady diet of lower interest rates for decades fueling consumption of all things. I'm not convinced this is going to

happen, and will go out on a limb and say, that everything we are seeing is based on Covid protocols. The boom, the increase in asset prices, inflation and the reversal as we make our way out of it. No one said it wasn't going to be easy, but I think we'll be fine.

Nowhere to Hide

One of the basic tenants of the strength of the stock market for many years is that lower interest rates have led investors to consider the stock market rather than purchase Treasury Bills and GICs, which are considered the safest of investments. For a long time now, returns have been so low in these instruments, that they had to seek alternatives to 0.25%…. Does anyone remember that we were going to go into negative interest rates? Now an 18-month GIC will yield over 3% and people are taking notice and taking action. In another decade, 3% might not have seemed attractive, but now it seems like it's an attractive return, especially given the volatility in the markets.

Markets have responded to all this information by reducing value of all things and we are not immune and because our investments are 'off main street', they tend to get affected a little more. However, there is nowhere to hide when markets get volatile and as I write this, our investments are seeing their most challenging time since early 2020. I know we are not alone and perhaps its cold comfort but we remain at elevated cash levels to take advantage of weaker markets for their eventual recovery.

Earnings from our holdings have come in as expected, but the markets are in a 'risk-off' mode so we will need to have patience and carefully pick our spots for further commitment.

Thanks for taking a look, and sometimes I have to write this,
Usually Good Things,

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