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Investing during Wartime and Revolution

The Sequel to Investing during a Pandemic.

February 18, 2022

The following are the Exclusive and Sole Opinions of the Author.

Technical analysis is the summation of everything the markets know and are discounting. There are short- and long-term perspectives that eventually resonate – perform in synchronization.

The long-term indicators have gone from red to green – or at least yellow.

Doesn't say much about the short term – but investors can now finally think about purchases in equities and fixed income. I have equated regression to the mean with Magic in the past – and "can't get no worse" is the conjurer's spell.

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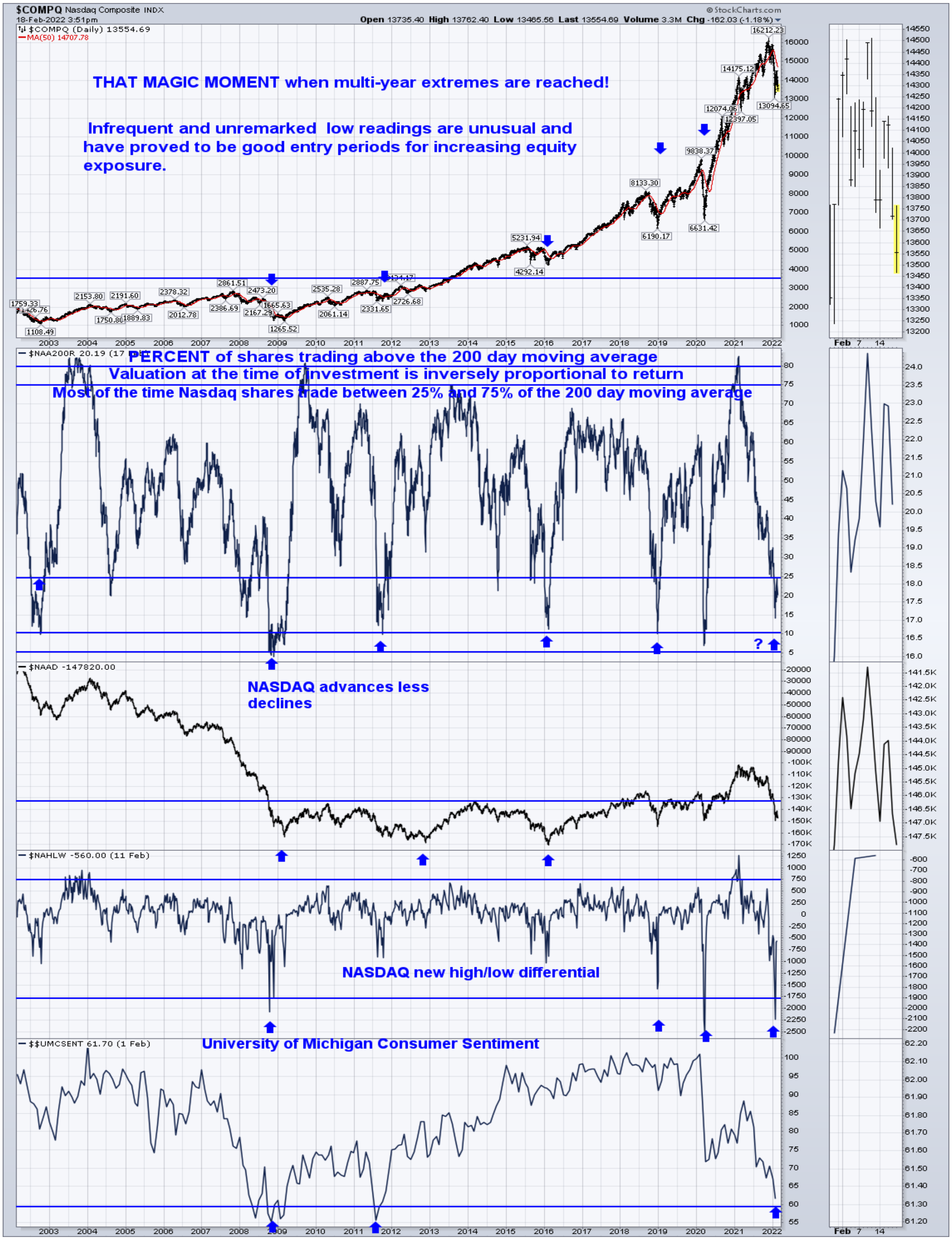

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I confess to underestimating the immediate short-term economic impact of Omicron but not the significance of the spread of this mild infection that imparts substantial immunity. Covid remains a killer and the vulnerable should take all necessary precautions, but it is clearly on the decline. Apparently seasonal, we are witnessing a rapid decline in cases and deaths soon. Still far too many deaths after the peak in the DELTA variant.[1]

The market situation continues to evolve, non-economic forces are exerting a larger impact on the prices. The Russians are on the verge of the biggest foreign policy error since the US invaded Iraq. In Asia, China is increasingly belligerent. A popular revolt is underway in the United States, also Canada. The personalities of the leaders are dangerous: Putin is megalomaniac, Xi a disruptive aggressive tyrant and Biden is (fill in the blank).

The stock markets seem to mostly ignore these conflicts - focused intensely on the FED's belated decision to try and rein in the soaring inflation. Expecting a soft landing with Yellen and Powell in charge is like betting on the coin flip landing on the edge. We remember this movie and that it does not end well.

I'll paraphrase the current policy statement – "We will deal with the debt sometime in the future, maybe." This is their promise of fiscal probity. "Until then, let the government reap the rewards of the inflation, higher revenues for more profligacy."

After the "inflation is transitory" disinformation campaign, markets still wanted to believe the dovish comments of the FED and its Governors, instead of reality of the inflationary disaster. Fool me once shame on you, fool me twice shame on me.

The money supply grew 30% - printed out of thin air. Translates into inflation – just a question of where and how much. Prices do not rise 30% simultaneously because of currency debasement. But they do rise quickly toward a new equilibrium – some markets more than others. Products in short supply see nearly instantaneous inflation. Home prices used car prices, energy prices, food prices increased much faster than wages and incomes.

Demand destruction is the FED's likely route to price stability rather than waiting for increased supplies. Another double whammy – reduced demand and increased supply are likely to arrive simultaneously.

The FED has already tightened by eliminating Quantitative Easing, the umpteenth sequel. The ending of the bond purchases is seeming to have an outsized effect pushing short rates to 0.25 to 0.75%. The actual announcement of a discount rate increase will be anti-climactic. They are also talking about letting the $9 trillion in assets begin to run off.

[1] https://thehill.com/policy/healthcare/591430-us-covid-deaths-surpass-delta-peak

Stopping the printing presses to the tune of $120 billion per month is forcing interest rates up at rates of change that are the flip side of the spring of 2020!

Might be a time to pause to reassess, 5-7 increases in 2022 is an extreme forecast.

At the same time the cash is disappearing, there is no shortage of shares, these can be created out of thin air.

2022 should be a year of flat to declining real earnings and declining multiples which reflect the sustained inflation and higher interest rates. Growth investments will suffer more than value.

The decline in share prices began in early 2021 in some of the most obviously overvalued, over promoted shares. By the end of 2021 almost all shares had joined the selloff.

Energy and real estate were exceptions, outperforming other asset classes in 2021, providing substantial **real** returns. Energy remains underweight in many portfolios and continues to screen well on fundamentals. The analogy to tobacco is inapt – no one needs cigarettes to survive.

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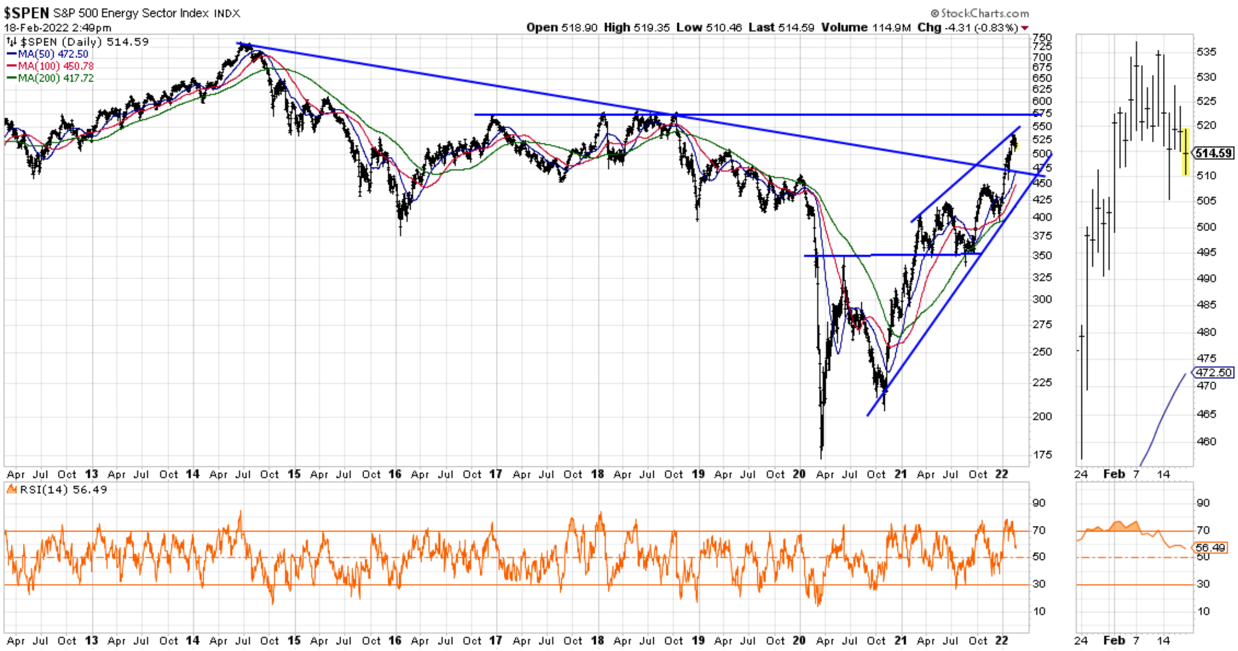

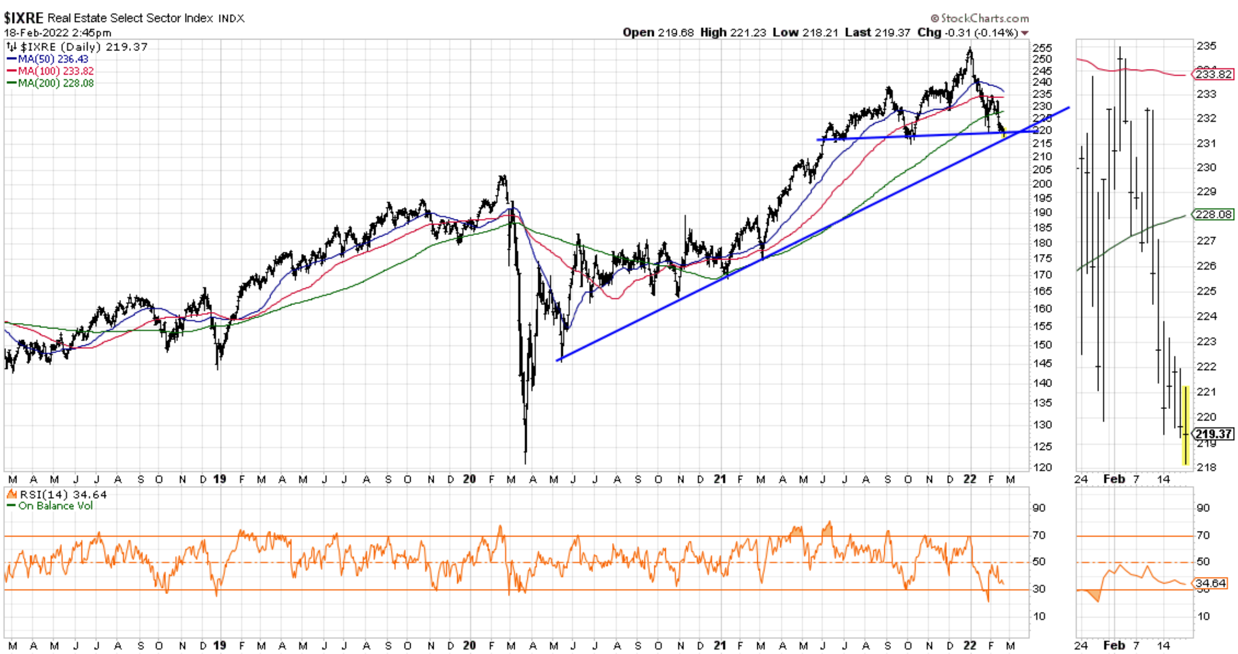

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