"Making money is the easy part, keeping it is a whole other ball of wax"

Investing, like most things in life, involves preparing for a variety of potential outcomes with little or no certainty as to our ability to foresee those outcomes. As I read recently; "Anyone whose job involves risk, wisely doesn't make definitive statements about the future". Given the vastly different results we can expect, it is human nature to try to convince ourselves that we have some ability to accurately predict the unpredictable. One of the ploys often used by investment strategists has been to fall back on tried (tired?) and true aphorisms that make us feel more comfortable. The problem is almost all of these maxims have an equally believable saying that proves the opposite. At the present time here is the example I would cite: 1. The market climbs a wall of worry; or conversely 2. The market hates uncertainty. Number 1 provides us with a reason to buy stocks and has proven to be very successful for the past decade. Number 2 has caused many profitable opportunities to be missed but given an increasing level of uncertainty may be currently more useful.

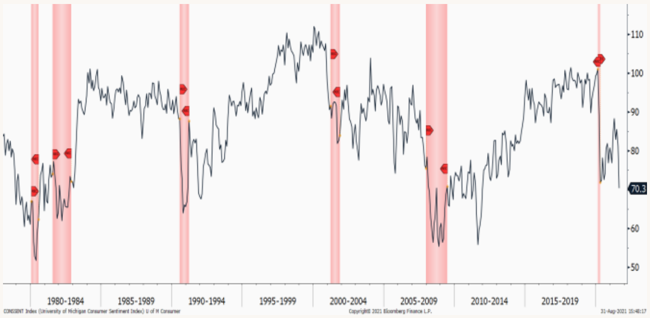
First and foremost is the outlook for the new wave of the COVID-19 pandemic. The case numbers are rising but are somewhat mitigated by less of an increase in hospitalizations and deaths. In addition factors such as localization of cases and the overwhelming percentage of victims who are unvaccinated provide some optimism the worst is over. Whatever the case, if new lockdowns become the norm the effect on economies around the world could be devastating. The recent stay at home order in the capital of New Zealand gives credence to the risk, while in places like the U.K. the desire to push through and continue to reopen is taking precedence.

The U.S. economy continues to look strong but China and Japan (the number 2 and 3 largest) are showing signs of a meaningful slow down. China, in particular, is worrisome given its impact on world trade, including the effect on the supply chain problems in the U.S. and other developed economies. The fiscal stimulus proposed by Biden and the Democratic Party is locked up in Congress, but its size will be consequential to any view of future U.S. GDP growth. Like the Fed we remain "data dependent" and await further evidence in the fall and winter. Money manager Peter Broockvar raises an interesting theory that; "We no longer have business cycles; we have credit cycles" which brings us to the Fed and monetary policy.

The Fed has been floating trial balloons in an attempt to assess market reaction to tapering its bond purchases and eventually raising interest rates. It is moving gingerly so as not to panic markets but their intent is clear, and that is to slowly but surely take away the so called punchbowl. How and when the Fed became so fixated on financial markets is a question for another day, but it has become a reality. If the economy does begin to falter will the Fed reverse course and return to stimulative policies to save the day? Recent history suggests it most certainly will, although it remains to be seen if investors will buy into the program once again. There is currently no reason to think otherwise.

Then there is a question of the durability of inflation. I am on record agreeing with Fed Chairman Powell that the price increases are transitory and more normal CPI numbers are coming this fall (the July report showed signs of easing). However I have to admit each trip to the grocery store or the mall eats away at my conviction. Hopefully better supply chain, labour, and inventory management will ease the current bottlenecks. If we get slow growth combined with continued inflation, known as stagflation, it would be very detrimental to markets.

Figure 1:
U of M Consumer Sentiment declined to levels last seen in 2011



Source: Bloomberg, Mulvihill Capital

The recent events in Afghanistan have provided a new source of anxiety and uncertainty. Our financial markets are in many ways dependent on a system that is based on democratic government and mutual cooperation amongst countries with similar needs and wants. Mr. Trump made the U.S. an unreliable and uncertain partner even to some of its closest allies. President Biden by his actions in Afghanistan has not only perpetuated that belief but in my opinion made it worse. Even CNN, Biden's media supporter admits; "The debacle…. will further rock a presidency plagued by crisis." Russian security adviser Nikolai Patrushev has publicly warned Ukrainians not to depend on promises made by the U.S. government, and a Chinese newspaper has cautioned Taiwan that the U.S. will not be coming to the rescue in the South China Sea. Weak democracies and strong autocracies are not good for our financial systems and markets, but fortunately the impact will not likely be felt in the near term.

I feel like the boy who cries wolf as I continually warn of a coming consolidation or correction in stock markets and nothing happens. The recent decline in the S&P 500 only amounted to about 2% before the "buy the dip" crowd took the market back to the all-time highs. Nevertheless, I remain hopeful of a meaningful decline to find firmer ground and eliminate some of the excess enthusiasm for stocks and bonds. Economist Hyman Minsky postulated that the longer market stability lasts the more investors feel safe and take on too much risk which in itself creates instability and then panic when the inevitable reversal takes place. I would prefer to take a measure of pain in the short term and a renewal of this bull market as opposed to Mr. Minsky's theory that a much more dire decline will occur if the current investor euphoria is left unchecked. His argument is that the longer the stability is in place the worse the resulting decline will be. As market commentator Kevin Muir recently mused; "Making money is the easy part, keeping it is a whole other ball of wax."

Disclosures

Mulvihill Capital Management is a Division of Strathbridge Asset Management Inc. (“Strathbridge”). Strathbridge is registered as an Investment Fund Manager (“IFM”), Mutual Fund Dealer (“MFD”), Exempt Market Dealer (“EMD”) and Portfolio Manager (“PM”) in the jurisdictions of Ontario and Newfoundland, as an MFD and PM in the jurisdictions of Alberta, British Columbia, Manitoba, Prince Edward Island, Saskatchewan, as a PM in the jurisdictions of New Brunswick and Nova Scotia and as an IFM and PM in the jurisdiction of Quebec. Strathbridge's directors, officers and portfolio managers are registered with the various commissions.

The information contained herein is for general information purposes and should not be construed as, an offer to purchase fund units or advice on the suitability of the fund for your specific investment needs. Important information regarding the Fund including it risks, costs/fees and tax treatment are set out in the fund’s offering memorandum or simplified prospectus which should be reviewed with your financial advisor before investment.

Historical returns and their performance relative to the benchmark returns shown herein, may not be indicative of actual future fund returns. There can also be no assurance that actual performance will be in line with targeted performance set out herein.

Any third party information provided here has been obtained from sources believed to be accurate, but cannot be guaranteed. Any opinions expressed in this document are based on current analysis of market events and circumstances as at the date of publication and are subject to change. Mulvihill Capital Management does not undertaken to advise the reader of any such changes.