

Pressure on the Economy - Update April 2022

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Transcript:

Welcome to our update call on what's happening with Russian Ukraine the economy interest rates as well as inflation and all the market volatility my name is Tom Hulick and I'm the CEO of Strategy Asset Managers we're trying to come directly to you at least once a month with updates that are material to what is happening with your accounts here at Strategy Asset Managers and what to expect in the the near the near term i want to remind everybody that we are alive on the call we also have everybody muted you're welcome to participate with the call by sending in chats if you don't know how to do that maybe go to the bottom of your zoom recording and you see the chat icon and you can click on that and type in a question you're also welcome to just interject at any time we don't mind that at all I'm going to have joe trava our senior portfolio manager and Alex Hagstrom another portfolio manager with me today to address some very important issues and why don't we just get started so we've seen an incredible amount of volatility with the markets starting in January leading up to today we see the Russian Ukrainian crisis continuing to to add so much pressure on the general markets here in the united states but also globally joe trava and Alex and i will try to answer most of the questions that you have been sending us and I'm going to just kick it off and invite joe to to start in joe thanks Tom and before we go on i just want to go over a quick recap of what happened and kind of how we've positioned ourselves if you look back to last year we did expect to see more volatility not to this magnitude but we did expect to see magnet volatility return we had three years of of a market doing very well and just a little bit of a reshuffling here and i think that's exactly how we started off the year when we kind of go backwards and see not just January but heading into the crisis with Ukraine we did expect again heightened volatility but our concern was was not just inflation but also interest rates how does this affect growth and how does this affect spending so we're trying to keep an eye on all of those items and we'll go through it so what we saw last week was a very strong market rally so a lot of these things that we're going to talk about and i think these are the fears for the market and those we just mentioned and yet the market still rallied so i think that really needs to be at the forefront of all of our minds a lot of this negative items that we're going to discuss are knowns and you have to start kind of thinking and i think this is what

the market is kind of sniffing out is what happens when some of these concerns are no longer just a concern and we've seen that with interest rates we now have raised interest rates in the US 25 basis points we have seen energy you know go extremely higher along with other commodity prices and on the short term that is affect partially of what's happening in Ukraine for wheat and oil prices you also saw again because of that the fed interest raising interest rates and then the third part which we're more concerned with is what happens to growth and we are seeing growth estimates revised you know lower but it's really not to the magnitude that i think a lot of people or the talking heads are talking about actually corporate earnings and this is just as of last week really haven't been revised lower for the year so when you look at quarter to quarter the first quarter which we're in now you did see revisions lower but they maintained their full year guidance and i think that's important to remember we are seeing short-term volatility and the market did correct over 10 percent now if you look at the higher growth companies they did correct over 20 percent and then you had a very strong rally and what's important to note when you look back at history when you have those types of reversals which we saw last week it's only happened five times with the s p since 1950 in all five instances the markets were higher 12 months out NASDAQ has never seen this type of i think the last one was in 1980 where you had this type of movement and in 1980 it was a very good year for the markets as well so we can talk a lot about what the daily volatility is and then a lot of people that have gotten out of the market when are they going to come back in so i think those are some things that we'll address and we will address some of the key takeaways on why the global response that we've seen with Ukraine and again if the human tragedy is just our hearts go out to everyone that's affected in Ukraine what does that do for the u.s markets you've really seen both democrats and republicans come together i don't think we've ever seen a global response to Russia like this ever you have a number of fortune 1000 companies pulling out without being forced to on their own and you're seeing again the global response really come together so one part of the unfortunate crisis that we're witnessing has actually seen the world really come together and I think that's a positive that you have to take back when you start looking forward and that's what the market's doing it's looking forward and when you see this type of coming together potentially it leads to again spending traveling these are all good things for consumption when we look at interest rates that's a factor of what we're seeing with inflation and you're correct a lot of people know you go shopping higher prices are here you go traveling you know if you don't have a smart car or electric car oil prices are significantly higher and that is a drag on consumption it really does affect especially lower wage earnings because it is a bigger basket that they'll be paying for but when we look at the whole as we're seeing wages increase and really people getting back to work that gets us excited

and this is something that we saw before it's people getting back to work earning a higher wage and you really think of again spending and we have seen spending do very well and that's just not with the consumer it's also what we're seeing on the corporate side and this we can see by what called capx capital expenditures so companies are spending for their future and we're seeing consumers get back to spending for a couple years people that were locked down had their savings rates go up yet their assets increased their 401ks were higher and their home prices went up so that's a power powerful stimulant going forward now we are going to see inflation take away some of that growth that's a fact and you are going to see revisions go lower for global growth it's going to be harder hit in Europe than in the US and that's a part of the demographics and it's a part of where we are more energy independent so that is a big positive for the u.s markets and it's also a positive when we look at what we've seen with commodity prices there are a number of headwinds that we are facing and I think when you listen to the talking heads a lot of that is again it's news that's what they talk about but you're not really hearing a lot of the positives that are coming out as well and I think that's what we're going to try to do is not have everyone fear of the unknowns but also kind of talk about some of the positives joe let me let me just interject and ask a couple of questions um you know the volatility is unnerving to a lot of us and especially when there's a war um and i'm concerned as well about you know the price of oil and inflation we've talked about some of the concerns there i want to ask Alex um you know to address in the inflation discussion right now and also how should investors be thinking about their accounts with the crisis in Ukraine so um firstly I always sort of caution investors to avoid trying to trade around geopolitical headlines and i think we've definitely seen some great examples over the past couple years right first we had covid then we had the presidential election in both cases there was a lot of fear but those fears ultimately turned out to be unfounded from a stock market perspective and people who tried to trade those headlines did very very poorly with respect to Ukraine specifically you know nobody knows exactly what's going to happen next but looking at history we see that these geopolitical issues they tend to be resolved in this case in particular um it makes so much sense for both sides to make peace right this war is completely destroying the russian economy so much so that it may never fully recover they just can't sustain this they're going to have hyperinflation shortages on the European side they aren't suffering as much as Russia they still really really need this war to end in order to bring energy prices back down right they're they're huge energy importers so from a sort of logical game theoretical standpoint it does seem as if um as a piece should get done and i think you know especially though talks about nuclear war i really think that's a lot of sensationalism um Putin you know he he's the richest man in the world or at least he was he was until this Ukraine invasion you know he's not

looking to destroy the world and a lot of that is just sort of posturing by the US and Russia in order to maintain a deterrence um so i really i wouldn't you know i wouldn't think that nuclear war is highly likely and you know just logically a piece should get done ultimately you know this war will eventually resolve right just as every war in the past has eventually resolved and and life will move on um and the markets will find another crazy headline event to sort of trade around Alex how give your perspective on how bad you think inflation and oil prices will get in in the near term well that'll so that's going to depend you know on what happens with Russia right like so there's a there's a huge amount of volatility right now with respect to oil prices depending on whether Russian oil is sanctioned or not sanctioned um obviously Russia has like eight percent of global oil production so if that gets pulled out prices will go higher if that doesn't get pulled out prices will go significantly lower so it's really um really sort of dependent on that but the costs of sort of Russia being isolated from an energy perspective they're just so significant you know really they're you know everyone is suffering from this so you'd like to believe that um that those barrels will ultimately be sold um they could actually be sold through china and india as well um we're also seeing you know we're seeing the shorter term treasuries yield you know let's talk about the 10 and the two-year treasury yield i think that's going to be important to to talk to the other clients and i think that's that's a real good talking point when people talk about a yield curve what that typically means as the longer dated maturities you own the higher yield you should get what's happened as the fed has been saying he's going to raise rates Jerome Powell and he did you've seen a flattening yield curve and what i mean by that a two-year treasury is yielding about 2.25 the three-year is 2.39 and then the 10-year is at 2.37 and then you already go out to a 30-year and it's 2.59 doesn't sound like a big difference but you actually have the three-year yielding higher than the 10-year that's what's called an inversion and a lot of people talk about when you start seeing the two-year or even the three-month yield higher than the 10-year that's when you have an inverted yield curve and that does have some again pretty negative ramifications when you look at an historical basis it just means people are now expecting interest rates to go lower in the short term right and that's a big thing so we're not there yet and i think that's a big thing to remind people you can get a flattening yield curve and the market does not go into recession so increases for a recession have increased that's true but we're just not seeing it yet when you look at the yield curve and it just means that we're expecting another potentially five or six rate increases and then at that time the market's saying you're not going to raise rates anymore and you're going to start seeing rate decreases so that's what the market's telling us right now when we look at the yield curve joe let's let's also address what's happening with the US dollar is the u.s dollar going to weaken and this is one topic where we've been right on the

money we we've expected the u.s dollar to remain strong which it has the last week you saw a little bit of it faltering but again that's just because some of the other currencies have really gotten hit hard you look at the Russian ruble and it's down you know half of 50 percent you had a tremendous decrease in their currency so we still think the US is the safe haven and that does allow assets to come not just into our equity market but into our fixed income market as well just owning us dollars you know you can be up anywhere from five to ten percent relative to other currencies so we do think again with what's happening in europe the dollar is going to remain stronger and these are trends that are good for us that are living in us dollars and if anyone's traveling abroad that helps us but it also helps our companies that's another thing to remember a lot of these companies in the US the larger companies are global and you know up to 40 50 percent of their revenue does come from overseas markets so it does help them and again that's another positive that there had been a lot of talk about other currencies doing better it just hasn't materialized yet and again we think the US is still the top place to be and from a risk-adjusted standpoint it makes sense from where our economy is joe let's talk a little bit about what we should be or what we're watching out there i mean and this is a this is a really good question and it's a lot of people that have been asking us especially today as well um and it's really a function you know i don't want to be what's happening on in Ukraine but it's it's what has happened before and that's with the amount of monetary policy and how much money was available and now you're going into a tightening cycle and what that means is typically when we had kovid the government was giving out money basically and now it's no longer giving out money it's actually trying to collect money and that's a tightening cycle and that means that you should start seeing companies go bankrupt these companies won't have access to capital and again that's part of a healthy economy economies companies are allowed to make as much money as they can and you should also have the flip side companies are allowed to go under we just haven't really seen that so for us again that's on quality we prefer to own the higher quality companies and not our own leveraged companies and think that's that's one thing to keep an eye on as well joe let's talk about some of the companies that we've been in the sectors that we've been emphasizing in the Strategy Asset Managers portfolios for the year and that's a good point for those of you that are in our strategies we really positioned ourselves not expecting this level of volatility but we did overweight energy we did overweight materials and those have been one of the two you know better performing sectors um oil has done tremendously well and so is gold so we have exposure to both those areas and you know that that's something that's done well we do think inflation is going to remain elevated earlier we thought inflation you know might come back a little bit we still believe that in time but we do think inflation you know is here and it's not just what's happening

overseas but it's also just everyone getting back to work and some of the supply disruptions coming back online things cost more and that's where our view is be prepared for inflation it's not just a short-term swing this can be longer term but the big point I want to mention just because you have higher inflation does not mean stocks have to go down you want to own assets when you have inflation you want to own companies that can increase prices you want companies that have pricing power so those are some things to look at and that's where we're positioned and where we think the markets will continue to do well we talked about timing on several calls and Alex brought this up as well is that that those those of us who try to time a situation usually wind up not being in the best position Alex do you want to just reiterate what you talked about um earlier so like you know a great example is covid let's say you sold because of covid and you waited for covid to end well the market you know completely recovered anything well before the virus was resolved right the market is always front running these things so you know if you just say i'm gonna i'm gonna wait for peace right most likely the market will have already rallied beforehand and we really saw that play out to a t with covid where the stock market led the the virus resolving not the other way around it makes a lot of sense we're you know we're we're not going to see volatility ease up in the near term and it should continue through the end of the year i would like to to have joe talk about we've talked about some of the pressures that are out there with inflation we do see the supply chain disruption figuring this out one of the things that you can notice is that earlier six months ago you had container ships off the coast of Los Angeles that were backed up and the ports were overloaded that now has decreased and the amount of of traffic going into the ports has started to manage itself through what you're seeing now are more trucks on the highway and those trucks are going into the ports picking up goods and distributing them out to the the various entities that want those products whether it's home building supplies automobiles or goods and services from outside the united states you're now seeing the flow move on the interstate highways that is a sign that we're starting to catch up on the supply chain side of things when you have the pressure from Russia and Ukraine that doesn't help at all and there is an extreme amount of uncertainty out there with a war at hand but as Alex had said in the past usually wars don't have that much of a significance on the economy that will put pressure on to stocks so we showed a chart on our last call about what happens when there are wars or crisis situations conflicts and in the long run it's better to be invested and stay invested during that period of time and it usually works itself out i don't know what type of if Alex if you want to comment on how much exposure there is to Russia there's zero in our portfolios but um i mean the exposure really it is through energy prices and other commodity prices Russia it's obviously you know a very very um small economy with respect to Russian stocks we we don't own any so zero percent

exposure um in a direct sense um joe let's talk about some of the positives that are out there we've addressed all the negatives with oil being high inflation the Russia Ukraine crisis but Jerome Powell even talked about the economy the economy being strong and this is one thing you know this is our research that we've been saying is the it starts off with spending and then where their economy is and we continue to see the consumer spend and it's really the US has led the world you are going to see other pockets of strength come out and this is coming out of covid we haven't really seen it yet in asia but we are seeing it in europe and it's a strong appetite out there for people to go out that's one positive the second positive is we talked about this but when you have this amount of people coming together and i don't mean just democrats and republicans but we're talking about Iran Venezuela you know to come back on on a bargaining table to do some trade these are things that just four months ago weren't heard of so that's what i mean when i look at the global economy and starting to see potentially easing up of of some tariffs and opening up trade that's a big boom and that we can't see that and again household wealth this is again part of consumption and something that we said during the last two years of covid you had spending accounts decrease but yet savings accounts increased and that's something that we follow as well and you do see again assets real estate equities and it's minus the debt it rose 38 38 among people over the age of 70. and this just to give you some context it's above where it was a couple years ago so you are seeing people's assets and you look at a person as a balance sheet it's they've done very well and it's still very well balanced and that's again where we think you'll see more consumption going you know and then a little bit with market stock traders almanac not that history you know repeats itself but it does often rhyme and again to see this type of of rally that we saw last week um you know not that we're traders but you really have to look at you know and just be simple about it the market had a massive rally for both the s p and NASDAQ this does not happen often there are people coming in and buying and it was an oversold market and now it's not as oversold so that puts us back you know down for the year roughly i think with today's gain maybe six percent five and a half percent on the S&P 500 and you really think of all of the crisis that we've endured this year and the market's only down five percent now yes i would like it to be positive but let's kind of weigh the scale here with the amount of of negative documents that are out there and just a lot of these talking points that you hear about and yet our market has been able to withstand it and i think that's the resiliency of the US economy and the u.s consumer so those are some really big positives that we see now it doesn't mean that volatility like Tom said is going to end we still expect volatility to come through especially in the short term as the markets are trading on a headline driven thesis that you see so we do expect volatility but again i think owning quality companies that have strong cash flow that are able to raise prices that's the place you want to

be and with those companies giving a yield you know above some of the the the treasuries that we mentioned i think you do have eventually when this market settles down some good opportunities here joe do you see the a recession coming um coming into the horizon that's a really good question you know my crystal ball is a little foggy here but on the short term you just don't see the leading indicators pointing to that right and again a lot of these a lot of these positives that we talk about are forward-looking and in Europe you know maybe they may be in one right now and they're they are going to be harder hit than we are but and then again with the yield curve where it's at it's it's just not seeing anything in the next you know six to 12 months you know everything will reset and we'll get some more knowns as these uncertainties are bait but i i don't see a recession you know in the in the short term corporate earnings remain strong spending is still robust household wealth is still strong the housing market continues to to reach new highs any comments on the housing markets Alex or Joe so we've um there's been kind of a structural underbuilding of homes ever since 2008 just because the home builders were so traumatized by that experience that they just didn't build for many many years and we're now seeing them try to try to catch up um but because you know building homes is a long process there's just an under supply which could really be persistent um over the next few years joe any comment and that's the same thing again in an inflationary period which we believe we're in and anyone who goes shopping will probably agree you want to own assets and home is an asset so again i think assets will can do well in this type of environment and therefore i think home prices you know may not have the tremendous run they had last year but i still think that could be a good place to be i would agree but you know talk a little bit about the the current business cycle that we'll in and we'll conclude and that that's again we do believe in cycles and it sometimes the market speeds it up and you've just seen a tremendous again 10 15 pullback and you know what does this stand for the business cycle so the business cycle was tremendously hit last year with in the year before because of covid and the lockdown measures put in place as these lockdown measures have eased you've seen businesses come back up now it's been led by the larger companies the example i like to give was target was allowed to remain open and pretty much took out any of its competitors that are anywhere near it because they were simply allowed to remain open so as we go forward we should start seeing some ground shoots that means potentially more competition and again that's a positive when we look at the business cycle i i want to conclude with it with a couple of things that just from an overall macro perspective we've we at one point we were energy independent under the trump administration under the bind administration we are no longer energy independent um we're in a war a different type of war under the Biden administration we were under a different type of war with the trump administration um policy changes have been enacted under

both the trump administration and the Biden administration um where am i going with this is that Joe and Alex and I have been talking about politics don't matter policies do and we're starting to see the impact of policies hitting the economy in certain ways and the energy policy that has been enacted has put us at a disadvantage and we hope that that will be unwound you know from an energy perspective um we have rumors that are swirling around exchanging um oil with iran with Venezuela where does that put us do we open up the keystone pipeline not sure but we do know that the price of oil and it's one of the all-time highs that we've seen in my lifetime is dramatically impacting you know the i guess the pocketbooks for a lot of consumers where is that going to go in the next several months if you haven't heard up in silicon valley the price of of gasoline is above seven dollars here in southern California we're in the high fives some areas are at six dollars a gallon that will eventually have an impact on a decision to to to spend the Russian Ukrainian crisis is creating short-term increases in spending in the military area medical obviously humanitarian aid into Ukraine we could see rising military spending we're we're looking at these things as potential areas that can have a significant impact on the quality of our portfolios going forward but it does not disrupt all these things right now are not disrupting the current business cycle that we're in um we still have a strong economy as i as i had talked about the consumer continues to spend and we don't see a disruption or a recession on the horizon but we we are staying tuned and very close touch to some of the pressures that are out there joe I'll let you conclude um would you please and just to summarize there are a lot of risks out there a lot of these risks are known and yet the market's done well I think it would be good for all of us to you know go outside and you know enjoy we have summer almost on the horizon and you need something positive to look at and I think that's exactly what the market's doing it's looking ahead and we are going to have volatility that's going to happen and there are some risks that we are following but we're pretty transparent and we'll tell you what we're seeing and we will guide you through whatever crisis comes up and I just appreciate everyone that's given us questions emails calls that come in please continue this this has been a very good for US the last couple of months have been extremely volatile not just with the equity the bond market commodity markets and you know we have seen some cyber attacks and not in any of our our industry but it's that's a real concern and people should be taking necessary precautions so again just a lot of things to do to be worried about but I think you need to have an even ledger and look at the positive things that are out there and there are many and if you need any give us a call thanks Tom okay we're going to conclude the call today and thank you everybody for joining us the call will be recorded and we will put it up on our website shortly we'll have another call in April thanks very much.