Central Planning Fiasco

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Government printing and spending has increased exponentially the past three years since COVID started. It all began with the CARES Act passed under former President Trump where we spent $2.2 trillion. The case could be made that the CARES Act was necessary because the government forced businesses to close and people to stay home from work. Although we've long argued lockdowns were too blunt force an instrument to deal with the spread of COVID, the first $2.2 trillion could potentially be justified even though we aren't in favor of stimulus bills in general.

The next piece of stimulus, President Biden's American Rescue Plan, was in our view, totally unnecessary. The Biden Administration spent $1.9 trillion, throwing gas on an already raging inflationary fire. When you spend money you don't have, there's only two places to draw from – raising taxes or printing money. Raising taxes is a political landmine. Politicians know this which is why they rely on Federal Reserve quantitative easing (QE). QE is simply the Fed lowering and raising interest rates or increasing M2 money supply, attempting to speed up or slow down economic growth. QE stems from Marxism which demands centralized control of money supply. If you control a country's money, you control everything.

At the Fed meeting today, Powell said SVB's collapse signaled financial conditions are tightening quickly, which may force them to stop rate hikes soon. We think the Fed needs to pause quickly because rate hikes don't necessarily stop all inflation, rather disincentive growth. With rates near the 5% zone, a great deal of business investment makes no sense. Small companies take a beating when rates rise which is why we've kept client portfolios primarily in large value companies that have potentially greater protection during a rising rate environment.

For all the people who think we're in the middle of another 2008 and 2009, we tend to disagree. SVB appears to be a function of bad management more than a signal of looming disaster. Rising rates tend to help bank stocks rather than hurt them, provided management isn't taking excessive risk. SVB had high concentration in long duration assets like long term bonds and tech companies that struggle when rates rise. We've kept client fixed income portfolios extremely short term as long term bonds don't offer the risk/return benefit they once did.

We continue to believe the wilderness years could remain for awhile as inflation continues burning off. likely some more While we're closer to peak inflation today than we were at this time last year, there's most pain coming. The good news is, most of the pain seems to be priced in. Corporate profits are down about 6% from their all time highs and the market is trading at a reasonable forward price-to-earnings ratio of 17 times, not far off historical averages.

Don't get spooked off your long term plan during these volatile times, this is all part of the course upward. Chances are, you probably won't even remember the doom and gloom banking crisis stories next year because there will be a brand new set of problems to worry about. Anyone telling you the end is near and that you should sell stocks most likely has a vested interest in selling you portfolio insurance which can prove costly and unnecessary in the end.

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