Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – May 1, 2022

I was all ear… ~ John Milton

Of late we've come to picture our client portfolios as being part of an isolated military encampment set deep within enemy territory. The sun is hidden. Thick fog hangs low. The engineers and enlisted men have diligently dug a protective moat all around our camp. And they've used the soil from the moat to construct a mound behind the ditch. Atop the earthen necklace, they built a wooden palisade to further protect the precious lives inside. But the officers didn't stop there. They've even sent out dozens of scouting parties to establish listening posts for the ever-lurking enemy.

Now sufficiently prepared, we all settle in to wait out the long night. And listen.

Last month, we suggested that one of our scouting parties sent us a warning. They saw something but weren't sure just what it was. The yield curve inverted in March, which has historically been a solid sign of a coming recession. But the inversion was brief, meaning the signal was weak.

Being prudent, the officers of our camp asked for confirmation from the other scouting parties. Any signs? Reports? Was the inverted yield curve just noise? An anomaly?

The messages sent back in April were decidedly mixed.

To be sure, some of the listening posts sent positive news. Little to no enemy contact. In the aggregate revenue and earnings growth remained positive in 1Q compared to the year before. And several high-profile companies reported 1Q results that exceeded expectations. While admitting there are problems in the broader marketplace, companies like Microsoft, McDonald's, Pepsico, and Tesla were among those producing good results. Furthermore, economists who are paid to tease through detailed numbers suggest that core inflation may be peaking, thereby tempering the need for the Fed to be overly aggressive in its rate increasing campaign.

On the other hand, other posts sent worrisome reports. While still positive, the revenue and earnings growth mentioned earlier are quickly decelerating. Cost inflation is likely to begin to eat into profitability. And it was hard to view any news without bearing witness to several large earnings misses. Netflix stock was brutalized after it showed

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subscriber losses, a deceleration of revenue, and higher expenses. The TV streamer wasn't alone as a list of other notable reporters missed expectations – Alphabet, Amazon, and Snap among them.

And still there were more negative dispatches from our scouting parties. The war in Ukraine continues. And it continues to wreak havoc on supply chains, especially agriculture. Spring planting is delayed, harming yields of even those seeds that get placed into the ground. Farmers have taken to wearing KEVLAR vests and helmets when they can get into fields that haven't been mined or bombed by Russian troops. It is important to note that even if the growing season is fruitful, exporting the grains will be difficult with the country's ports occupied or destroyed.

China's zero COVID policy remains in place with images and stories from Shanghai difficult to watch. From a pure business standpoint, this, too, is stressing already stretched logistical networks as both production and consumption are distorted. Factory activity in China contracted yet again in April and even if they changed course immediately, the repercussions will linger.

And while some reports have suggested that LA and Long Beach ports are reducing backlog, a deeper look into the numbers indicates that some of the traffic is simply being re-routed the long way to eastern US ports.

Each of the logistical tidbits above suggest to us that inflation may linger longer than any of us wish. As long as US consumer spending remains buoyant, that is.

Which brings us to our last report that came in from scouts. 1Q GDP was expected to be up over 1%. It came in last week as being down 1.4%, a significant negative surprise. And while we are not slavish in this regard, a traditional definition of recession is when there are two consecutive quarters of negative GDP numbers. We have one under our belt… Under normal circumstances the currently strong US consumer might be enough to power us through this rough patch. However, we are beginning to have our doubts. We wonder if the consumer is really powerful enough to shrug off an almost certain European recession as well as moth-balled Asian production. Furthermore, can she shrug off higher inflation, higher rates?

In the end our camp's officers have concluded that the enemy is massing in some form. We've prepared accordingly. Though we have not abandoned our post! Our camp is

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stationed to provide a means to achieve certain financial goals. Historically speaking, the best way to do that is to invest in great companies producing goods and services people desire. And whatever our personal feelings are on billionaire tycoons, they are not selling their holdings. They batten down the hatches and weather these storms. For us to liquidate holdings would be to seriously jeopardize any hope of ever reaching our own noble goals of retirement, college, starting businesses, and the like.

So, how have we prepared portfolios? With inflation causing rates to march higher, we've reduced bond duration. We carry more cash than normal. We've brought the guardrails of acceptable risk in from the width of a four-lane highway to that of a two-lane road. We've renewed our commitment to buying companies with fortress balance sheets and sustainable cash flow.

What more will we do? We will hold fast. We will adapt as necessary. We will keep our ears attuned. And we will wait for the bright capitalist dawn of tomorrow.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely
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