Distraction Attraction – Inflation, Debt Ceiling, COVID-19, Fed Tapering, and Congressional Dysfunction

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It's October, inflation worries persist, interest rates are rising, the debt ceiling game of chicken is front and center, infrastructure legislation is in limbo, and cracks are emerging in the stocks of "big tech" companies. On the other hand, the COVID-19 Delta variant infection wave appears to have crested in early September in the U.S., Merck has an anti-viral pill that looks very promising for those who might become infected with COVID-19, Congress always plays chicken with the debt ceiling before raising it, and the two Biden infrastructure (physical & human) bills appear as though party infighting may blossom into a compromise that provides a path for approval.

Since the beginning of September, the broad equity indices have fallen roughly 5%. The ten-year Treasury Note yield has risen roughly 0.30% on quantitative easing tapering and inflation concerns to nearly 1.60% over just a couple of weeks. October also brings corporate earnings reports for most companies with a fiscal year that coincides with the calendar year.

So, investors have a lot to worry about, monitor, and unfortunately, react to. Other than the COVID-19 issues, this October's issues are nothing new. Over the last 20+ years, we have seen plenty of debt ceiling bravado, significant legislation appearing as if it was doomed, good and bad earnings seasons, inflation worries are not unique to 2021, and interest rate volatility has been with us forever. Regarding inflation, we are indeed experiencing very real inflation coming off the mostly shutdown 2020 pandemic period. Only time will tell how quickly and sufficiently supply chains can become functional once again and inventories can be rebuilt. But the forces that have kept inflation low for 20+ years still exist today.

What is truly unique about this period are the labor shortages that are being felt here and abroad. The work-from-home response to the pandemic appears to have spurred many people to reassess their work/life balance. This forced many people to explore alternative ways to generate an income, either utilizing the new "gig economy" business models or becoming entrepreneurial in one form or another. Our current theory to explain the labor shortages relies on a combination of career/job reinvention and many near retirement age individuals deciding, after the upheaval of 2020, to hang it up for good.

The most exhilarating aspect of money management is the continual change and the necessity to manage unexpected events. On the other hand, the most frustrating part of money management for me is the distraction posed by a moody, reactionary, shoot first, ask questions later stock market. As a professional money manager, I can easily tune out the market to focus on long-term investment opportunities within a short-term focused market. Unfortunately, most individual investors and clients are not so fortunate. Markets, combined with the information and misinformation age we live in today, conspire to confuse and frighten many individual investors.

Experience leads us to believe that:

- The U.S. will not irresponsibly default on our sovereign debt.
- The majority in Congress will get on the same page to pass significant legislation.

- Inflation fears will turn out to be much more bark than bite.
- Corporate earnings will continue to grow and vastly exceed expectations into the foreseeable future as companies leverage technology to grow through innovation and increase efficiencies.
- We will get through the current crisis (pandemic) with the economy and society changing for the better over the long term.
- The next twenty years will be defined by the global response to climate change, the application of artificial intelligence science, commercial space exploration, the China/U.S. battle for global economic supremacy, and health science innovation spurred by genomic and regenerative therapeutics leading to treatments for the human race's most challenging health challenges.

<u>Seven Summits Capital Axiom of Change</u>

Necessity is the Mother of Invention

Invention Spawns Change

Change Drives Capitalism

Capitalism Creates Wealth

We will never let up in our attempt to help our clients and other individual investors resist the instinct to fixate on the short-term dynamics of the markets. But unfortunately, short-term dynamics are amplified by the financial media and many financial services companies, leaving many investors indecisive and confused.

We can be long-term investors because of our unyielding belief in capitalism to drive investment towards the most efficient allocators of capital. Unfortunately, that process of capital allocation is not smooth. For every beneficiary of market-driven capital allocation, one or more less adaptive businesses become casualties. The broad market captures stock prices of both the beneficiary and casualty companies alike. Disruptive change can happen rapidly, but it takes time for the market to reward companies that capitalize on this change and punish those who cannot or will not adapt. This cycle of disruptive change can play out in the markets over many years before it is obvious who will be the big winners and big losers. Like a long-distance running race, the winners are not usually the competitors who are first out of the blocks or look the strongest at the halfway point.

When it comes to selecting winners and choosing the likely losers to avoid, we have the luxury of time because we see the race as a marathon, not a sprint. With a sprint, you do not have time to observe, learn, or change your mind as new information becomes available; you win or lose very quickly and then move on to the next "race." As long-term investors who strive to position clients to amass, grow, and protect wealth over decades, we understand that it is much easier to view markets as a sprint, while the best public companies are managed to win a marathon. The companies that we are attracted to compete for capital to invest in future growth initiatives that will determine the long-term wealth of shareholders. We are not particularly surprised to see the astronomical market value of companies such as Apple, Google, Facebook, and Amazon when considering just how globally scalable these asset-lite business models are. Their market values reflect an unparalleled return on investment capital and the significant untapped global market penetration that still lies ahead. The reality is that much of the world still does not have access to a broadband internet connection.

As we look toward the end of 2021 and ponder what 2022 might have in store for the economy and markets, we remind ourselves that many of today's glaring issues fall into the category of "this now shall pass." On the other hand, we look through these "crises" of the moment to those technologies and global issues which will drive enormous secular private and public capital flows and determine economic trends over the next 20 years. We believe that the wealth to be created over the next 20 years will dwarf the wealth created for investors over the last 20 years.

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Seven Summits Capital

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