Perilous Times Call for Patience and Calm, not Panic…

By Bob Deitrick, CEO
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When I was in high school, I wrote for my school's newspaper, the Langley Saxon, which I enjoyed very much. Having gone to William and Mary, I could have become a reporter for The Washington Post, my hometown newspaper owned by Katherine Graham and the Graham Family. I suspect I would have done well in that profession as well; however, I was convinced by my father to consider business as my degree. Since graduation, I have been in the business of wealth management and financial planning for 38+ years. That is a long time to have worked in the same career, but I have enjoyed this career enormously. I love what I do because every day is different and every client of ours is unique and extraordinary as well. The one thing I have learned over time is that the market is the place to be invested; however, there is always some sort of turmoil taking place in and around the market. To be in this profession, it requires the right temperament. You must be able to convey to your client that they need to ride out the storms on occasion to get to a safe harbor. Corrections are like thunderstorms, they are unnerving, they can take out your power and cause trees to be blown down.

However, this is more than a correction given the Ukraine invasion. It is an unforced error caused by Vladmir Putin. It was apparent the market had gone through a correction in January, and we believe we were coming out of it by mid-February. After lying for months, Putin invaded Ukraine to take over its ports in the Black Sea and other Ukrainian assets he could not build. Since then, the market has been in purgatory. Crude Oil spiked from ~ $76 per barrel to close at $119 per barrel two weeks ago and settled back to $104 today. That is a staggering increase of 43% in three months and we have seen a surge in prices at the pump too. When we invaded Iraq in the summer of 2002 the price of oil was $19.48 per barrel prior to the invasion. We were told by administration officials that we would see $20 per barrel in perpetuity. Six years after invading Iraq, oil spiked to peak to ~ $146 per barrel in the summer of 2008!

Clutter, war, and turmoil create great uncertainty. Uncertainty = volatility - the one thing the market detests. If the war in the Ukraine continues, the market will remain chaotic. It is paramount, as investors, that we remain calm and patient during these turbulent times. There are ways to make money amid this drama even though headline inflation in the U.S. is at a 40-year high!

<u>Chart of Oil Price per Barrel</u>

As seen on CNBC Pro on May 6, 2022

It has been painful over the last few weeks and last week was very uncomfortable with volatility. The market is hypersensitive to any discussion on inflation, inflationary data, FOMC meetings and the payroll numbers. We need to see some comfort that inflation is breaking, and we have not seen a lot yet. I am not being stubborn, (albeit my father used to say that to me often when I was a teen) but we believe the risk reward trade for equities is improving. On the MAANG trade the multiples are improving especially if a soft landing or a brief recession follows. The Manheim Used Car Report came out last week indicating that the year-over-year inflation rate was at 8% compared to 24% two months ago. This trend will help take a blow out of inflation if it continues.

We have not been pollyannish about 2022. We indicated in our first newsletter this year that the first half would be daunting. It has been. We did not portend that Putin would invade Ukraine, but few did. So, now, what does the remainder of the year have in store? The Fed is going to raise rates - that is a given. We believe some sectors of this market can still outperform in the second half because there is a lot of liquidity in this market even with the 10-year note at 3%. Many sectors will underperform, so we need to discern the wheat from the chaff in this post pandemic world we are moving into. We believe the sectors of luxury travel, entertainment, leisure, regional banking, some energy stocks, and consumer cyclicals are most likely be better prospects this year compared to their brethren. To the extent we begin to see some softer readings on the CPI and once Putin returns home to Russia, inflation should begin to subside. If that happens in this quarter, we may see a rebound in the second half of the year. If it does not, then we will remain in purgatory for the balance of the year. This remains a treacherous period to the extent Putin remains in the Ukraine. But please keep in mind we are coming off three of the best years in our history.

We at PFP are looking for evidence the Fed is making progress toward a soft landing. If we can get to the Fed moving toward a neutral policy target with some slowdown in earnings, then there is a path to the upside from here. We've been focused on navigating through this volatility by playing stocks with quality. Those companies with built-in inflation resistance, strong balance sheets and profitability are most likely to do well including Google, Microsoft, Nvidia, Marriott, JP Morgan Chase, Exxon, Hershey, Airbnb, and Expedia (VRBO) and others. We can still outperform in this treacherous environment. It may be too early to call a bottom with this confusion, but things will improve. My 38 years in this profession attests to that fact.

Stocks are trading at a discount from the highs of last November. We are going to be making some changes to affect those opportunities we see in the second half of 2022. We encourage you to call with any questions regarding this letter and to attend our upcoming mid-year conference and brunch at Eddie Merlot's on Saturday, June 11th at 11:00 a.m. You may RSVP to Steven to attend. Please feel free to invite friends and immediate family as well. Until our next conversation, have a terrific week!