APRICUS

GRAVITY 1.22

Happy New Year! In this note, we hope to relate near-term changes to central bank policies to our long-term and constructive view on markets and the economy. We have included two quotes from hall-of-fame investor Jeremy Grantham because, well, we agree with his perspective and we believe his words will help illustrate our viewpoint.

With our best wishes for a great 2022,
Joe, Jim and Ernie

APRICUS UPDATE

Apricus Wealth LLC, claims compliance with the Global Investment Performance Standards (GIPS®) and had been independently verified by Alpha Performance Verification Services. Our latest GIPS report is on our website. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

apricuswealth.com

The universal force of gravity exerts a constant pull toward the Earth in exactly the same way the search for profit pulls companies, investors, markets, and economies toward growth. And, much like winding rivers following gravity to the sea, the path toward growth is often nonlinear. Businesses, markets, and economies must respond to multiple variables including inflation, interest rates, regulation, and changes in the competitive landscape, to name just a few.

Although value is a weak force in any single year, it becomes a monster over several years. Like gravity, it slowly wears down the opposition.

Jeremy Grantham

But the key insight here is that there is a universal force that pulls businesses and economies forward toward growth and around obstacles. And while not every business succeeds, historically, investors who partner with well-run, profit-seeking, and enduring businesses have been well rewarded.

The object of our investment process is long-term growth. We invest in profitable and enduring businesses and expect them to reward us with growing dividends and long-term appreciation. Our discipline requires us to build models on each company we consider so that we have a proprietary opinion of the value of each of our investments, and importantly, the components of its prospective returns. We balance our belief that corporate profits are highly correlated with the economy with our conviction that each investment decision must be the result of independent research.

According to Federal Reserve estimates, the U.S. economy grew at a nominal rate of 10.8% in 2021, including 5.3% from inflation. The Fed is forecasting a 2022 unemployment rate of 3.5%, which is near full employment, and an average inflation rate of 2.6%. The product shortages and price spikes we witnessed in 2021, which resulted from supply chain issues, will ultimately be resolved (see our Spring 2021 note on change). In our opinion, however, wage increases are likely to keep the rate of inflation above the Federal Reserve's forecast of Personal Consumption Inflation (PCE) at 2.6% for 2022. We expect inflation to exceed 3% for most of 2022, which will support profit growth.

Capitalism does millions of things better than the alternatives. It balances supply and demand in an elegant way that central planning has never come close to.

Jeremy Grantham

In response to current high levels of inflation, the Federal Reserve and, in all likelihood, other global central banks will begin to reduce their decade-long suppression of interest rates. This will, in turn, increase the cost of borrowing (see our Fall 2021 note). While we believe this action is overdue, it will likely increase market volatility in the near term as investors in search of long-term growth react to the change.