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Quarterly Review and Outlook

The quarter just ended posed significant challenges to investors and policy makers as the confluence of cyclical economic prospects, important changes in Federal Reserve monetary policies, and dramatic geopolitical events proved to be unsettling. The major market indices recorded losses for the period as volatility increased as "expert" insights and opinions were plentiful, but convictions in outcomes were rare and short-lived. In short, it was, and still is, a time for heightened scrutiny of our investment portfolios to review the suitability and current operating fundamentals in relation to each client's requirements and sensitivities. While it is unrealistic to have exposure to securities within our broad markets which are unaffected by the emotions and volatilities of events, we can test our convictions by understanding the operating policies and financial structures of our holdings on a current basis and identifying changes deemed proper for the future.

Our sense of the changing path of our macroeconomy incorporates a slowing rate of quarterly growth as supply chains clogging persists, weaker European activity and trade patterns, and erratic Chinese Covid policies creating industrial shutdowns and impacting other Asian suppliers and partners. The massive amounts of monetary stimulus and support for our economy via Federal Reserve and Congressional policies have contributed to an upward cycle in Inflation, which is eroding "real" economic growth measures and the expected future investment returns from securities markets. The speculation on our Fed's future policy moves is rife and varied, but the probability that the actions will be to move decisively and persistently has gained greater credence and adherents.

Those who recall the painful experience of the late 1970's and early 1980's will be fearful of a repeat performance, but that could possibly be avoided this time. Corporate balance sheets are in far better shape now and banking systems have more liquidity and are far less leveraged than forty years ago. If the Fed can provide a continuum of coherent assessment of its monthly actions in relation to the targets it has set for our economy and financial frameworks, it would establish a sense of renewed confidence in the future. The Fed should not retreat to an "ivory tower" attitude that erodes the support in our banking, corporate, and investment sectors. This sense of clarity and understanding will be of even greater importance during future periods of unpredictable international events when stability has a premium value for investors and business leaders.

Our domestic securities markets have been reflecting the changing trends in economic reports as well as the volatility in specific industry results and prospects. The declines posted in first quarter returns have not yet stabilized and remain quite volatile on a daily basis as management reports emerge. While such volatility can be confusing, it can also offer the opportunity to make adjustments and/or initiations based on our analyses and convictions. We are using this opportunity to review our holdings to be able to respond to specific market shifts on a timely basis. We also stress the importance of evaluating the broader market structural alterations and the opportunities and risks attendant to such changes in relation to our individual client needs and requirements.

In our judgment, the fixed income markets are completely focused on the Fed's alteration of its management of shorter-term interest rates and its likely reduction in open market purchases of certain securities which have been effective in providing stability and liquidity in sectors such as mortgage lending. We agree that the tenor of Fed policy is changing belatedly and likely will keep pressure on various fixed income sectors. Importantly, we also believe that the Fed will be sensitive to future market price actions for signs that additional alterations may be required to assure that necessary liquidity is available for proper functioning of this critical investment sector as well as the overall domestic economy. It seems likely that the Fed chairman is committed to avoiding a "hard landing" for the U.S. economy, having learned some difficult lessons from the overly stringent policies of late 2018.

Managing to achieve a "softer" economic outcome on an aggregated basis will require more than just words and monetary alterations. Political backbone will be important and tighter control on federal and state budgetary actions will be essential for the greater good of the polity. Our economy has overdosed on huge subsidies for causes good or questionable, which should not be rescinded, but not repeated either. Patience and sound balanced purpose should underlie new policies, which should benefit all economic sectors and allow the necessary support for the future well-being of our nation.

The reactions thus far by investors to the Federal Reserve's new directions have been more negative than hoped, or projected to be, by most strategists. Our sense of this response is likely the unexpected conflict in Ukraine with its distressing human and infrastructure damage accompanied by deteriorating relations in Middle Eastern states and opaqueness in important geopolitical countries such as China and North Korea. With these various pots at differing points of becoming overheated, it adds to investor angst as economic and financial sector policies begin to change here. With all these geopolitical crosswinds, we still hold the view that the dominant factor influencing investor convictions and behavior will be the extent and duration of the Fed's newly undertaken policy construct and the clarity and frequency of its guidance. Because the Fed regularly changes in terms of both its membership and the cadre of voting members, the many public statements by these differing voices have to be parsed with care as to differentiating between "noise" and "message" in determining if any substantive changes in shorter term tactics and longer-term strategic alterations are likely. It is our present view that Chairman Powell is the key voice and vote in future policy directions and methods.

Our investment disciplines have not changed while the market pressures and daily volatility have increased. We, individually and collectively, review our client portfolios as to their objectives, needs, and sensitivities in relation to our present assessment of trends in the economic, financial, and government sectors. Our conviction remains that long-term portfolios with an emphasis on high quality "growth" and economically "cyclical" stocks are the bulwark of our asset allocation framework. We do not find the risk/return paradigm for longer term bonds to be attractive for new additions in periods of likely rising Fed-administered interest rates, and short-term cash substitutes can be utilized to reduce market volatility on a client-by-client basis. That said, we are assessing the likely longer-term outlooks for several equity investment sectors in light of geopolitical developments and the impact of the recent pandemic episodes. Areas such as cybersecurity, defense contractors, specialized medical services, and agriculture-related companies may have long-lived positive prospects. We expect that our examinations will provide numerous topics and opportunities to discuss and analyze thoroughly and to share with our clients.

A final business-related item: We are delighted to share with our clients that William Patterson has recently joined our organization! Will has an impressive record in the private client investment portfolio management and servicing arena and adds important depth to our firm's long-standing commitment to quality research. When visiting our offices, please take the opportunity to meet Will and to discuss investment research and client relationship development with him.

Disclosure:

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