

The Second Coming

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The unholy gyre of political and societal extremes widened further in the most recent quarter, as did the distance, until just recently, between the reality of interest rate policy and the market's hopes for it. Falconer-in-Chief Powell seems to have kept his eye fixed on the falcon, even if the lesser austringers who attempt to call the markets have not. But those who keep calling for interest rate cuts, despite the healthy economy and strong labor market, as well as those calling for tax increases on the wealthy, despite the most progressive tax system in the world, and advocating for CO2 net zero while China and India add immense quantities of coal fired electric capacity each and every year, don't appear to be the only partisans full of passionate intensity. They seem to be everywhere. In Congress, on college

campuses, in corporate C-suites, in the Not-for-Profit world, in the UN and the White House, and in faculty suites and teachers lounges across the country the passionate fly further and further away from the Center which surely looks like it will not hold.

Nor, if there even is a center, can the drafters of the Federal Budget seem to find it. A one trillion-dollar deficit in the first six months of this fiscal year, a year of robust economic activity, is more than enough to demonstrate that even the best fiscal scolds lack any conviction at all.

Meanwhile, around the world, a revelation of sorts is at hand. The U.S. appears more like an indignant bird that has been knocked from its perch than the proud and fearsome eagle it once was. Allies cannot count on it while adversaries defy it. Friends are blocked, opponents placated, principles compromised, conventions turned upside down. Borders erased. Simple morality vexed. Things fall apart.

Out of these dark shadows slouches a rough beast, who's hour appears to have come round again.

How to preserve capital in a world like this? No easy task, although it helps to understand that that is the goal. Even average inflation (3.8%) over the past fifty years has reduced the value of a dollar by more than eighty-five per cent. In the environment we foresee of greater inflation and almost certainly higher taxes, that effort can only be successful with well chosen, risk conscious investment ideas. That rules out longer duration fixed income investments and high-flying equity names in our view. Our contrarian value approach has flourished in similar times in the past, by delivering solid, if not outsized returns, but investor expectations should be well tempered. The great bull market of the past several years should not be expected to continue. Careful stock selection is likely to be the most rewarding strategy.

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