# Seventy2 Capital

March 2022

## Monthly Market Commentary

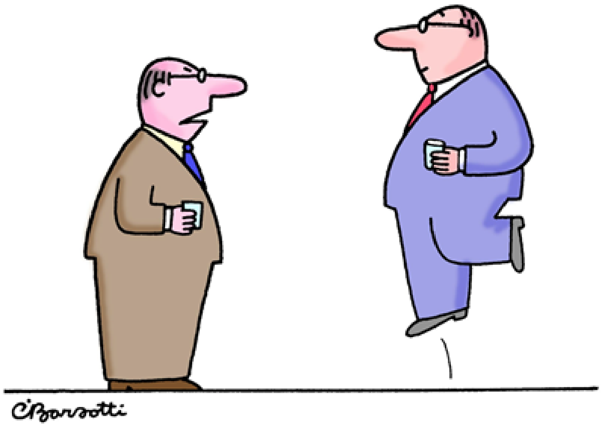
U.S. Equity Markets have shown substantial recovery in the second half of March, after a volatile start to the year. Commodities continue to be the best performing asset class, while fixed income has had its worst start to the year since the 1970s. Two themes have dominated headlines in the beginning of the year – unrelated but equally important for the state of the U.S. consumer:

- **Inflation (and the fear of rising rates)**
- **Russia's invasion of Ukraine and its impact on global food, energy, and material market**

### INFLATION, RISING RATES, AND THE FED'S RESPONSE

Inflation data has been persistently high for close to a year, driven by pandemic-related supply chain issues and high consumer demand in an environment with low cost of borrowing and ample liquidity. The economy is running too hot. At this point, the Fed is out of options, and they must raise rates to cool things down. The market is currently pricing in 5-6 rate hikes for 2022.

**What does this mean for your portfolio?** The cost for companies to borrow is going up. High growth companies with a substantial debt burden have a shorter plank to walk before they run out of money. This does not mean all growth companies are out of favor, but the times of "free money" are over. Within our portfolios, we place an increased emphasis on profitability and positive trends in cash flow. This also means the looming government deficit issue becomes more important with every rate hike – high government spending will be difficult to finance moving forward.




"Must you do that every time I say interest rates are bound to rise?"

S&P 500 Index Returns Under A Higher 10-Year Yield

| Rising Rates Start Date | Rising Rates End Date | Duration (Months) | Change in 10-Year Treasury Yield | S&P 500 Gain/Loss |
|---|---|---|---|---|
| 12/26/62 | 8/29/66 | 44.7 | 1.7% | 18.3% |
| 3/16/67 | 12/29/69 | 34.0 | 3.6% | 1.3% |
| 3/23/71 | 9/16/75 | 54.6 | 3.2% | -18.1% |
| 12/30/76 | 9/30/81 | 57.8 | 9.0% | 8.7% |
| 5/4/83 | 5/30/84 | 13.1 | 3.9% | -7.9% |
| 8/29/86 | 10/16/87 | 13.8 | 3.3% | 11.8% |
| 10/15/93 | 11/7/94 | 12.9 | 2.9% | -1.4% |
| 1/19/96 | 7/8/96 | 5.7 | 1.5% | 6.7% |
| 10/5/98 | 1/21/00 | 15.8 | 2.6% | 45.8% |
| 6/13/03 | 6/28/06 | 37.0 | 2.1% | 26.0% |
| 12/30/08 | 4/5/10 | 15.4 | 1.9% | 33.3% |
| 7/24/12 | 12/31/13 | 17.5 | 1.6% | 38.1% |
| 7/8/16 | 10/5/18 | 27.3 | 1.9% | 35.5% |
| 3/9/20 | 2/25/21 | 11.8 | 1.0% | 39.4% |
| | Average | 25.8 | 2.9% | 17.0% |
| | Median | 16.6 | 2.4% | 15.0% |
| | % Positive | | | 78.6% |

This, however, does not mean stocks are doomed. Historically, and contrary to most public belief, stocks do very well during periods of rising rates, with an average S&P 500 gain of 17% as shown in the data above.

**What does this mean for you as a consumer?** Mortgage rates are going up. Auto financing rates are going up. Cash holds less value month over month, so investing in real assets and commodities serve as an inflation hedge for personal balance sheets.

### RUSSIA, UKRAINE, AND THE SUPPLY CHAIN

The geopolitical conflict in Ukraine is going to have some severe global consequences in food and energy markets. Russia and Ukraine are substantial suppliers of the world's oil, natural gas, wheat, corn, fertilizer, aluminum, palladium, and industrial gases. The decreased availability of these goods – whether the result of direct destruction from war or from the sanctions preventing purchases - have already caused and will likely continue to cause an increase in the price of these goods and the manufactured goods that use these materials as inputs.

**What does this mean for your portfolio?** Directly, the producers of these materials not in Russia/Ukraine will benefit from increased demand and rising prices. Commodities will likely continue to see an increase in prices until the situation is resolved. Indirectly, pricing power becomes incredibly important. For every new investment that we consider adding to portfolios, we ask ourselves, "Does this company have pricing power, and will they be able to pass along the increased input costs to the consumer?"

**What does this mean for you as a consumer?** Stuff is about to get more expensive and there will be more disruptions in the supply chain. In emerging markets, this potentially means a food crisis. In the United States, it means higher gas prices, shelves at the grocery store that aren't fully stocked, lower crop yields in the upcoming farming season, and even more disruption for goods requiring semiconductors (autos, electronics, etc.)

**- The Seventy2 Capital Team**

*Please join us for our [Seventy2 Tuesday Monthly Webinar on April 5th at 12pmET] as we discuss these topics and more.*

*Reach out to your Financial Advisor with any questions or concerns.*