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Economic and Market Commentary

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Deep in the Baltic Sea is a narrow stretch of water known today as the Kalmar Strait. Its length is more than 80 miles long, and at its narrowest part, it is no more than three miles wide. Back during the last Ice Age, an ice bridge connected the Island of Öland and the southern part of what we know today as the country of Sweden.

More than 8,000 years ago, the Alby people of Öland, who had established some of the earliest villages in Northern Europe, crossed this ice bridge seeking a better life on the mainland. Over the millennium, small but distinct and very independent territories developed. The region was eventually named Småland, whose loose translation means "small lands." The region was fiercely independent, with each territory having its own laws and customs.

Småland would frequently declare itself neutral if Sweden found itself in a war. The Vikings of the region marched to their own drummer. And so it remained, all through the Middle Ages and into Medieval times. It proved to be a prosperous area exporting iron to much of Northern Europe. Peasant revolts were frequent and the king's tax collectors were often assaulted or worse. By the mid-1500s, we can start following a particular family, the Ingemarssons.

Råshult

Just a few miles north of the city of Ålmuhlt lies the village of Råshult. Since the 1500s, it's here that the industrious Ingemarsson clan lived and prospered. They farmed, ministered, and some worked at the famous glassworks that spurred the region's nickname, "The Kingdom of Crystal."

For hundreds of years, Swedish surnames would change from one generation to the next. Each generation would incorporate part of their fathers' names or a male ancestor's name into their own as a prefix or suffix. This system is known as patronymic naming.

By the late 1600s, a particularly bright offspring named Nils lived on the family farm. Not only was Nils smart but he was also prone to moods of melancholy. When the moods would kick in, his parents would take him into their beautiful garden and teach him the names of flowers. This gave Nils great joy. His favorite spot in the garden was a majestic Linden tree. When he went off to university at Lund, he needed to present himself using his own family name. Rather than follow the traditional patronymic path, he decided it was time the family had a permanent name. He chose the Latin name for his favorite Linden tree, Linnaeus.

Nils Comes Home

After graduating from university, Nils returned to the family farm in Råshult and took a wife. Her name was Christina Brodersonia, and it's here where they built their family of six children. All the kids were happy, healthy and curious. One of the boys was particularly smitten with the family garden and was eventually given his own patch of land on which to grow flowers. This child's name was Carl.

By age seven, Nils wanted young Carl's mind to continue to be challenged, so he hired a tutor for him to learn Latin. Several years later, Carl went off to school at Vaxjo. The young man rarely studied, preferring to explore the countryside looking for new plants. Luckily for him, the school's headmaster, Daniel Lannerus, who happened to be a botanist, saw Carl's interest in plants and gave him free reign of his personal garden.

Lannerus took such an interest in Carl that he introduced him to other botanists, doctors and scientists. By age 17, Carl was living with the family of Dr. Johan Rothman where he learned physiology and botany. By age 21, Carl was studying at the University of Lund which had access to the greatest botanical library in Sweden.

His interest blossomed (no pun intended), delving into medicine, writing and lecturing. He started to question the great botanists' manner of classifying plants and conceived his own system based on a plant's number of stamens and pistils. Soon the Royal Society of Sciences in Uppsala awarded Carl a grant to journey to Lapland in search of new plants, animals and minerals. After six months, living in harsh conditions, he returned home having identified more than 100 previously unidentified plants.

It was on this expedition that Linnaeus had paused by a roadside to take a breather from a long day's hike. There, close by, was a horse casually chewing on grass. Observing the horse leisurely chewing away, Linnaeus focused on the horse's lower jawbone, commenting to his fellow travelers that if he knew how many and what kind of teeth each and every animal had, he could work out a logical system for the arrangement of quadrupeds. Three years later, he published "Systema Naturae" ("The System of Nature").

The Father of Modern Taxonomy

Linnaeus theorized that groups of living beings had descendant groups whose characteristics change, or branch off, over time. Think of it as the formation of species. Often the metaphor of "The Tree of Life" is used to describe taxonomy. At the species root is the "*Kingdom*," its trunk is the "*Phylum*," its main branch is its "*Class*." Then comes *order*, *family*, *genus* and finally *species*. Believe it or not, cats and dogs come from the same order, but their last common ancestor lived more than 42 million years ago.

Today the largest terrestrial animal is the African bush elephant from the genus *Loxodonta*. These animals can grow to more than 13,000 pounds in weight and more than 13 feet in height. They grieve, they learn, they play, they mimic. Regrettably, they are endangered due to habitat loss and poaching for the illegal ivory trade. Although African forest elephants, who are in the same genus as the bush elephants, only live in Central Africa, the bush elephants live throughout much of sub-Sahara Africa.

From the Bush to the Alps

High up in the French/Swiss Alps lives another creature of interest, the Alpine Salamander of the Salamandridae genus. Usually weighing in at less than eight ounces with an average length of less than five inches, this fully terrestrial species is not to be taken lightly due to their abundant rows of poison glands running up and down their entire body. Living at altitudes above 2300 feet, these usually black or brown species are very stationary. One scientist who studied one particular Alpine salamander for an entire summer never saw it travel more than 39 feet.

So, at this point, I know you must be asking yourselves, "What do these two remarkably different animals have in common? What can possibly be the relevance in this dive into biology? The answer is gestation. Both of these creatures have an average gestation period of just about two years, the longest in the animal kingdom.

So, What's the Connection?

Two years is also how long it's been since we've seen a down quarter in the equities market. It took the first quarter of 2020 for the world to acknowledge that a global pandemic existed and to go into a hibernation mode of sheltering in place. When the reality hit, equity markets went down roughly 45% from peak to trough. Who could forget the scenes on the nightly news: Hospitals overwhelmed, city streets like ghost towns and the tremendous fear of the unknown? Who would have ever imagined that, amid the fear and gloom, the stock market would take off on a tear and break new highs on a regular basis?

In many ways it was like Dickens'*A Tale of Two Cities*. For many companies, it proved to be "the best of all times," and for others like retailers and hospitality workers, it was "the worst of all times." What we all learned is that business would continue, and trade would go on. People, especially knowledge workers, realized that they could work very effectively from home leaving behind the two-to-three hours a day of commute time. As a result, the term "hybrid model" entered the lexicon, meaning people didn't need to be in the office all the time and corporations didn't need as much office space as they had.

In many ways, our government reacted promptly and decisively with PPP loans, a moratorium on evictions and student loan payments, extended unemployment benefits and provided a stimulus that was needed to prevent economic chaos. All the while inflation stayed low, and the Federal Reserve kept interest rates close to zero As we see now, perhaps for too long. There always becomes a time in which the piper needs to be paid. The longer the delay, the dearer the price.

Is There Any Wonder?

To say the least, we're living during trying and angst-inducing times. Think about it: This past quarter, we've witnessed the highest rate of inflation since the Carter presidency. We have a Federal Reserve Board that fears it may have kept interest rates too low and an accommodative monetary policy in place for too long. Now there is a "Fear of the Fed," a fear that they will try to make up for lost time and, in the process, choke the economy into recession. Further on the financial front has been the brief appearance of an inverted yield curve where two-year treasuries yield greater than 10-year treasuries. That runs contrary to the notion you should get paid more

for committing your capital longer. Sometimes, not always, this can be a harbinger of a shrinking economy.

On top of the financial fears, we are watching, in horror, the largest land war in Europe since World War II. At the same time, we are seeing more nuclear sabre rattling than any time in history since the Cuban Missile Crisis. From a global health perspective, much of the world, certainly the third world countries, are still in the throes of a pandemic while we here in the U.S. are trying to figure out how to transition from a pandemic environment to living with the long-term effects of an endemic environment.

Supply chain disruptions continue, and they too add to inflation which adds to the angst. In many ways, so much of the negativity is interconnected. Case in point, Russia and the Ukraine usually account for 30% of the world's wheat production. Here in the U.S. and Canada, we are wheat self-sufficient, but what about the rest of the world? Their shortages result in a weakening of their economy and an inability to pay for things we might ordinarily sell to them.

China's Draconian approach to dealing with Covid and the questionable efficacy of their vaccine has crippled much of their manufacturing which adds to the supply chain disruption for companies (and there are a lot of them) that rely on Chinese parts.

What's It Mean to the American Economy and the Equity Markets?

It always comes back to the idea of a glass half full and a glass half empty. Up to now, we've talked about the challenges the world is living through at this moment in time. It would be Pollyanna-like not to. We know that at any time, good or bad, there will be those who want to paint a doomsday scenario, not just for the markets but also for life as we know it.

In an effort to present a balanced assessment, let me remind you of the half of the glass that's actually full.

- **Employment:** The American unemployment rate is at or near all-time lows. The last time America needed to tamp down inflation, Paul Volcker-induced recessions and unemployment reached 10% to get the job done. Listen to today's central bankers and you will hear them talk as much about jobs and growth as they do about inflation. Most economists feel that if the Feds do overshoot the mark with interest rates and monetary policy, it won't be by much.

- **Home Equity:** Back during the Great Recession of 2008-2009, when the banks needed to be bailed out in large part due to the terrible loans they were making on housing, an acronym that one heard constantly was NINJA loans. Banks were making loans to people with "no income, no job and no assets." Since they had no skin in the game, was it any wonder that people walked away from their loans leaving the banks holding the bag. By comparison, today, 70% of American Homeowners have 50% or more in their home equity.

- **Job Growth:** The jobs that are being created today can't be filled fast enough. People who were out of the job market are now coming back in. It's important to note that these are not just tech jobs but building and manufacturing as well.

- **Housing:** There is a tremendous housing shortage in America today that needs to be filled. This creates a ripple effect from manufacturing to transportation, construction, furnishing and utilities. The list could go on and on, but I'll spare you. Regional governments are evaluating how to accommodate more housing, from approving rezoning, the use of ADUs, to repurposing property like malls into housing communities.

- **Infrastructure:** Last year's Infrastructure Investment and Jobs Act (IIJA) was the first piece of bi-partisan legislation to pass in who knows how long. In essence, you have one trillion dollars plus dedicated to building and fixing things. Not a handout but a hand up for America and her workers.

- **Savings:** Many Americans see their savings levels in a vastly better position in large part due to limited spending during Covid. This gives them a buffer against the inflationary pressures currently at play.

- **Monetary Tightening:** The flip side of "Fear the Fed" is that monetary tightening will bring down inflation. It's a tight margin of error to operate in but not impossible by any means. It has been done successfully numerous times over the past 60 years, most recently in the mid-1990s. Let's hope Chairman Powell can execute a soft landing like Captain Sully Sullenberger.*

- **Big Tech:** Perhaps no other sector has been maligned more over these past six months than Big Tech. It's here where we've seen severe price swings and significant price declines. For those that would say Big Tech has had its day, I'd say, au contraire, and here are a few observations that go to the heart of my thesis:

  If you were to take the four mainstay Big Tech companies of Amazon, Apple, Microsoft and Google, you'd be looking at four trillion-dollar plus companies—Apple is actually worth almost three trillion alone—that are not only constantly adding new customers but are also constantly adding new services. By adding subscription-based offerings, they are consistently adding to their free cash flow.

  The pandemic had all of us with more time to spend with technology, and as the pandemic ultimately winds down, it's not like everyone is going back to their old ways. These companies are finding ways of capturing a slice of everything we do. The pandemic actually illustrated how much room there still is in our lives for adding even more technology. Here are just a few numbers to put things in perspective:

* In case you forgot, Captain Sullenberger was flying a U.S. Airways jet out of La Guardia Airport in New York in 2009. Twelve minutes into the flight, a flock of Canadian geese flew into his engines. Knowing he couldn't make it back to La Guardia, he made an emergency landing on the Hudson River, saving the lives of all crew and passengers.

Apple now has close to 800 million paying subscribers to its various services. That number grew by 165 million last year alone, roughly the equivalent of half the population of the United States

Amazon generated more than $70 billion in revenue last year in its Web-and-Cloud-based services alone.

Microsoft generated more than $10 billion in advertising revenue—just a drop in the bucket compared to its overall revenue. But that $10 billion represented five times the revenue of Pinterest whose only revenue source is advertising.

To me, this temporary pull back in Big Tech should be viewed as "a pause to refresh." Some have called the coming investment boom in tech the "Fourth Industrial Revolution."

Let Me Bring It Home

Every few years I find it a helpful reminder that investing success is not as a result of trying to "time the market" but actually comes about as a result of "time in the market." I promise not to bore you to tears with numbers, but here are just a few examples to drive home the point:

If a person had invested $10,000 in the broad-based market as measured by the S&P 500 back in 1980 and left it there until the end of 2020, they'd have $952,512 today.

Now let's say that same person felt they could avoid unnecessary losses and pull in and out of the market during scary times. Like the recession of '82, Black Monday of 1987, the Asian Flu of 1997, the dot-com bubble of 2001, the Great Recession of 2008 and the sell off at the start of the pandemic of 2020. That 40-year period represents 14,610 days. If that same investor missed jut the best 30 days in the market, one month out of 40 years, they'd find themselves not with nearly one million dollars but instead with $154,184, or 84% less in returns.

Investing for most is counter intuitive. If you were to relate it to shopping and saw your favorite department store was having a 50% off sale, you'd be down there in a flash. However, when the markets are down 50%, there is panic selling. That's why Warren Buffet has always been fond of saying, "When there's blood in the streets, that's when I like to buy." A bit sanguine for my taste, but you get his point.

The equity markets are extremely resilient in times of stress. Just one more set of data points and I promise I'll stop. The following represents the five-year returns (again measured by the S&P 500 after four extreme low points in the market):

TIME	OCCURRENCE	RETURN
May, 1932	Bottom of the Great Depression	367%
July, 1982	Severe Recession	267%
December, 1994	Most Dramatic Fed Tightening in 20 years	251%
March, 2009	Great Recession	178%

It's our expectation that we'll continue to see market volatility in the months ahead with a lessening of inflation sometime in the second half of the year. Here at Putney, we will continue to stay diligent in seeking out companies with strong earnings and diversified product offerings that enjoy high barriers to competition.

We hope that the second half of the year will find public health conditions such that we will feel safe in having the in-person meetings I miss so much. In the meantime, please continue to stay vigilant and well. As always, with...

Very Best Regards,

Ray Lent
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Enclosures