



“I’m not a doctor but”

Omicron is the obvious elephant in the room these days, but we can't lose sight of the impact of changes in Federal Reserve policy taking place. After over a decade of very easy monetary policy designed to at first help the economy recover from the global financial crisis, then to promote growth toward the Fed's full employment mandate, and finally to come back from the pandemic induced recession of 2020. Now suddenly confronted with increasing inflation that has proven to be less transitory than the Fed had predicted, it is the Fed's other mandate that is taking precedence, namely price stability. The new policy involves speeding up the tapering (reduction) of the Board's bond purchases and proposing to implement three rate increases in 2022 in an effort to rein in the rate of inflation. However, I wonder about Chairman Powell's commitment to said policy after hearing his answers to some of the questions posed at his press conference. In particular he said "In dealing with balance sheet issues, we've learned that it's best to take a careful, sort of methodical approach to making adjustments. Markets can be sensitive to it and we thought this was – this was a doubling of the speed...". While somewhat convoluted in speech, I am convinced he remains worried about the effect of policy on financial markets. Put more simply, he is fully prepared to reverse course and step back on the gas if there is a significant market decline and Omicron only adds to that possibility. Fed credibility has already come into question and such an outcome won't help. For now investors seem to have accepted the need for some measures to control inflation, but the Board will be walking a very fine tightrope: tighten too much and risk recession and weak markets (at least until the Fed steps back in), or not tighten enough and inflation will get worse (at least until the Fed tightens even more). The obstacles are not insurmountable and, ever the optimist, I hold out hope that inflation will ease, and such sledgehammer responses will not be required.

Everyone's favourite tag line "I'm not a doctor but"; has found renewed over-usage with the advent of the Omicron variant

and its future. Nevertheless, evidence so far has indicated it is much more transmissible but also less severe. We shall see. Whether through an "abundance of caution" or "political panic" new restrictions are being put in place around the world. The result will certainly lower economic growth expectations at least for the near term, but the effect on inflation remains to be seen. The new restrictions will definitely have an impact on production (supply) and spending (demand). True optimists are pointing out that the 1918 Spanish Flu pandemic came to an end when new variants that were more widespread but less deadly led to more herd immunity. It is to be devoutly wished.

An old pal used to say there's nothing worse than bad news or bear markets during the festive season. Nonetheless I'm forced to mention challenges that Omicron has managed to push off the front page but remain serious: Russia on the doorstep of Ukraine; China flyovers of Taiwan; energy crises in Europe; Iran developing a nuclear capability; Senator Manchin – a one-man wrecking crew opposing Biden and Democratic Party fiscal spending proposals; etc. etc.

Through it all the S&P 500 continues to trade near all time highs though until very recently breadth has been concerning. Those that look at price charts of the index have interpreted recent action as either building strength for a breakout to much higher levels or forming a double top leading to lower prices. I will wait and see, but I do favor the argument that we will see a rotation in leadership in 2022 in which crazy valuation stocks (eg. Tesla) and wildly outperforming stocks (FAANGS) will come back to earth and be replaced by more mainstream companies that have been out of favor for so long (eg. energy, financials).

Finally, don't forget family gatherings (if allowed) are more pleasant if religion and politics are not discussed. I would suggest you add vaccines and Bitcoin to that list.

Please have a happy and safe holiday.



Disclosures

Mulvihill Capital Management Inc. is registered as an Investment Fund Manager ("IFM"), Mutual Fund Dealer ("MFD"), Exempt Market Dealer ("EMD") and Portfolio Manager ("PM") in the jurisdictions of Ontario and Newfoundland, as an MFD and PM in the jurisdictions of Alberta, British Columbia, Manitoba, Prince Edward Island, Saskatchewan, as a PM in the jurisdictions of New Brunswick and Nova Scotia and as an IFM, PM and EMD in the jurisdiction of Quebec. Mulvihill's directors, officers and portfolio managers are registered with the various commissions.

The information contained herein is for general information purposes and should not be construed as an offer to purchase fund units or advice on the suitability of the fund for your specific investment needs. Important information regarding the Fund including its risks, costs/fees and tax treatment are set out in the fund's offering memorandum or simplified prospectus which should be reviewed with your financial advisor before investment.

Historical returns and their performance relative to the benchmark returns shown herein, may not be indicative of actual future fund returns. There can also be no assurance that actual performance will be in line with targeted performance set out herein. Any third party information provided here has been obtained from sources believed to be accurate, but cannot be guaranteed. Any opinions expressed in this document are based on current analysis of market events and circumstances as at the date of publication and are subject to change. Mulvihill Capital Management Inc. does not undertake to advise the reader of any such changes.

