RIVERPLACE · CAPITAL ·

23rd Anniversary

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WHY RIVERPLACE CAPITAL?

- **Top Tier Financial Performance**
- **100 Years Investment Experience**
- **Personalized Investing**
- **Individuality of Thought**

NOTICE

Riverplace Capital welcomes the referrals you make to us. It reflects the trust and confidence you have in our firm. We work very hard to give you the best results possible given your needs, circumstances, and constraints. We will do so for anyone you may refer, and you can always be assured that we respect your privacy.

the Lonely Bull

Separate from the herd of same-minded investment strategies

April 2022 A Quarterly Market Perspective by Riverplace Capital Number 95

Featured Sections

TALK WITH US

Inflation is not necessarily bad for stocks. Good companies can either find efficiencies to help absorb increased costs, pass them on in price increases, or perhaps a little of both. Inevitably, many companies pad their price increases. They may rationalize that the unknown requires a little extra, but the net result is better profit margins.

During the high inflationary period of the early 1980's, many companies' stocks did very well. The rising price environment enabled many companies to easily pass along costs, including imbedded inefficiencies and poor management. Competition eventually forces greater discipline, but a lot gets hidden by the higher prices.

Inflation may begin from either supply constraints or spikes in demand. Our current bout is propelled by both. During the pandemic shutdown, consumers shifted their buying power to tangible items from services. Perhaps this was to make their isolation more comfortable or better enable working from home. This happened as factories were also being shut down. **So, with greater demand and constrained supply, a major imbalance occurred.**

Inflation is now being exacerbated by the constraints on the supply of oil and many other commodities because of the Russian invasion of Ukraine and the subsequent sanctions. Crops are not being planted in Ukraine, one of the more important growing regions of the world. The western world is reluctant to purchase oil as well as many important inputs for manufacturing from Russia. Alternative sources are few. So, prices have gone up. Again, too much demand for a constrained supply.

It will take both an increase in supply as well as a decline in demand to bring inflation under control. **Our Federal Reserve can do little to enhance supply. Through monetary policy, they can dampen demand.** They will do so with higher interest rates and by making credit less available. Hopefully they can do so while the availability of inputs and goods improves. That would be engineering what economists refer to as a soft landing. If not, a recession will bring things back into balance. Not the best way, but a risk. ***Talk with Us.***

PERSPECTIVES

First Quarter

"May you live in interesting times." Hopefully not the Chinese curse, but an accurate reflection of the first quarter's investing environment. Most interesting was that the Federal Reserve made it clear that the era of cheap money was coming to an end. **It might take time, but higher rates are on the way.**

Before investors could manage to adjust to a rising rate regime, Russia invaded Ukraine. **If inflation was a problem due to supply chain issues, then ensuing sanctions on Russia served to increase prices on many critical commodities.** Any hope of a near-term decline in inflation was out the window. This realization put both the stock and bond market under renewed pressure--the perfect storm. **Volatility went through the roof, especially on some individual securities.**

There has been a rotation from growth to value stocks occurring for some time now. Inflation and higher interest rates accelerated that shift. Growth companies have been pummeled during this year's first quarter. Unfortunately, value declined too, just not as much. Last year, there was a similar dynamic, but growth surged toward the end of the year, and both growth and value indices ended up with very similar returns.

We believe both growth and value stocks have a similar opportunity for returns this year. Growth multiples may be compressed by higher interest rates, but value stocks are sensitive to higher rates too. After all, most value stocks are affected by the business cycle. An economic slowdown means earnings compression for these names. Improvement in the outlook for either investing style is also for both.

Bonds should be the epicenter of decline because of higher rates driven by inflation. However, the war in Ukraine gave these a new safe-haven boost. That did not last. **Inevitably, inflation and interest rate increases by the Federal Reserve push bond prices lower and rates higher.** Expect this trend to persist. Remember, interest rate trends can last for decades, not mere quarters or years. The climb will not be smooth, but irregular and full of fits and starts.

> "The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage."
>
> *-Warren Buffet*

MAJOR INDICES

as of 3/31/2022

Large Cap Stocks (S&P 500)	-4.95%
Dow Jones Industrial Average	-4.57%
Mid Cap Stocks (S&P 400)	-5.22%
NASDAQ Composite	-9.10%
Small Cap Stocks (Russell 2000)	-7.80%
MSCI EAFE	-6.61%
Barclay Aggregated Credit Index	-7.64%
Inflation	7.9%

Equity indices are twelve-month returns excluding dividends.

FORECAST

Economy

The U.S. economy is strong. Businesses are generally in good shape. Consumer balance sheets have a record amount of savings. **So, what's not to like? This boils down to the future.** Will higher interest rates stall progress, or will inflation eat up purchasing power? Is a recession on the horizon?

No one can answer these questions with certainty, but **our experience tells us that economic growth will slow.** The Federal Reserve is trying to combat inflation by slowing or reducing demand without sending business activity into a tailspin; this is not an easy thing to do. They have engineered such a soft landing before in 1994, but it has been rare.

If a recession occurs, it will probably not be this year. There is simply too much momentum. At Riverplace Capital, we are watching the signs very carefully. Unpredictable macro events will play a big roll. A surprising resolution of the war in Ukraine could make a big difference.

Equities

During the first quarter, the sell-off of growth stocks became overdone. Toward the end of this period, a recovery began. Investors realized that most value style stocks are business cycle sensitive. A slowdown or recession will not be good for valuations in this category either. Growth firms are much less sensitive to the economy, so the rotation from growth to value paused and growth began to recover.

We look forward to more recovery in growth. However, Riverplace Capital also expects this not to be a straight line. News events, economic vital signs, and other indicators will play a role in day-to-day trading. **Expect bouts of intense volatility to continue.**

Riverplace Capital's experience with corrections is that the best course is to make necessary adjustments, but otherwise stay patient. Eliminate failed business models, upgrade where possible, and pick up bargains. The business culture in America is very resilient and has prevailed over and over.

Returns for stocks over the next few years are probably going to be more subdued than the past few. After the extraordinary run we have had, moderation is an easy call. **Riverplace Capital does, however, expect positive returns.** The business environment in the U.S. is excellent. Monetary conditions are still expansionary and should remain so for some time yet. Inventories are low and the federal government is financing an infrastructure upgrade in many segments that will play out over years. All this is an excellent backdrop for investors.

Fixed Income

The bear market in bonds has begun. The rise in interest rates is underway. It will be irregular but persistent. **The Federal Reserve has clearly signaled higher rates to fight inflation.** Interest rates have needed to normalize for a long time now. Appropriate rates should reflect business demand, and inflation, as well as Fed policy. They have only reflected Fed policy for too long.

With a potential recession on the horizon, quality fixed income holdings are paramount. When business activity slows, the ability of weaker borrowers to make interest payments and payback principal comes into question. A high-profile default could cause a run on many lower rated securities.

INVESTMENT STRATEGY

Equities

In such an uncertain environment, a balance between growth and value seems appropriate. **Riverplace Capital has a bias to growth and probably always will, but we have introduced more value names into its strategies over the past year.** We constantly monitor trends and the performance of all our approaches and accounts. So far, we believe we continue to be well positioned for the year ahead.

Fixed Income

The only way to manage bonds through a rising rate environment is to keep maturities short and place money into high quality investments. **As always, we prefer instruments that have a specified return, (interest rate), and a defined maturity date.** These are always liquid and have reduced volatility, no matter what interest rates do in the future. **We view fixed income as an allocation to reduce risk, not add to it.**

Wealth Management

Riverplace Capital recently adjusted a few weightings in its asset allocation strategy. **We increased the proportion of small and mid-cap companies and reduced the large-cap category.** This is a valuation call with the belief that **smaller will have better returns this year.** Never all or nothing, this is only a slight shift. Growth has also been slightly deemphasized in favor of value. Fixed income commitments remain short-term. We are happy with the results so far.