Berkshire
DIVIDEND STRATEGY

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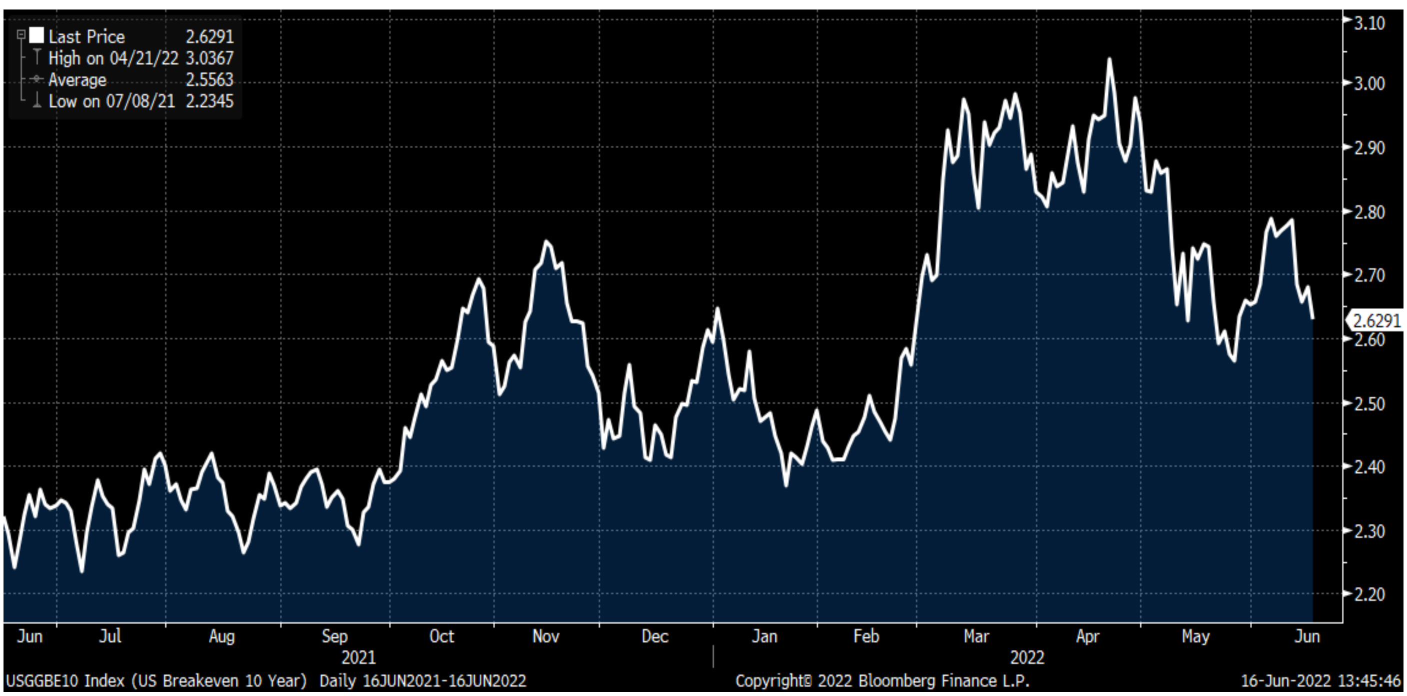
"Casual Friday" Commentary

"Casual Friday: Inflation's Rollover? + LIV Explained"– *June 17th 2022*

TGICF,

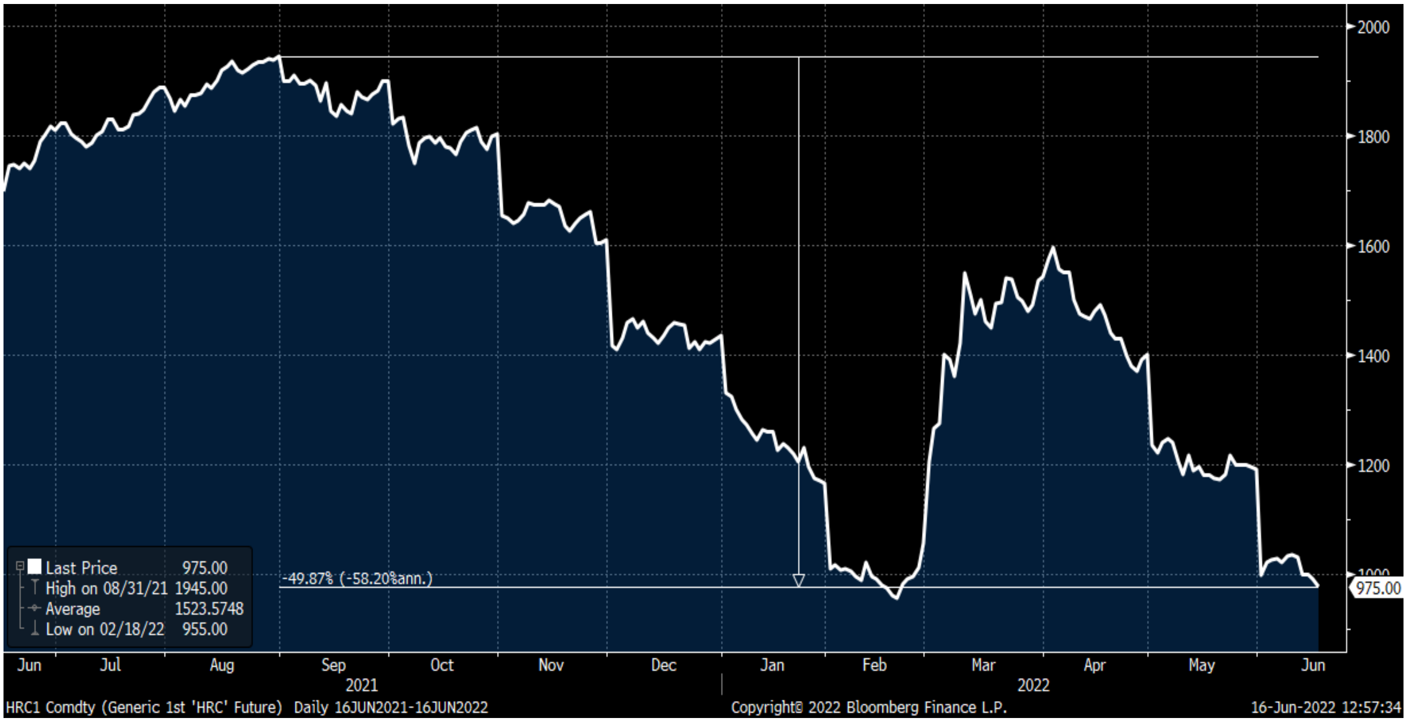
Investors felt pain over the past weeks -- inflation, equities and bonds are all biting. The Fed meeting was highly anticipated. A 75bps move was the largest in decades. Immediate gyrations followed, markets appear indecisive. "Hard landing trade" controlled the narrative yesterday. Interestingly, areas of the market may be telling a different story about inflation. The TIPS market has been pointing to lower average inflation expectations -- 10 Yr Average Inflation expectations moved from roughly 3% to 2.60% -- This trend began in mid-April.



Source: Bloomberg

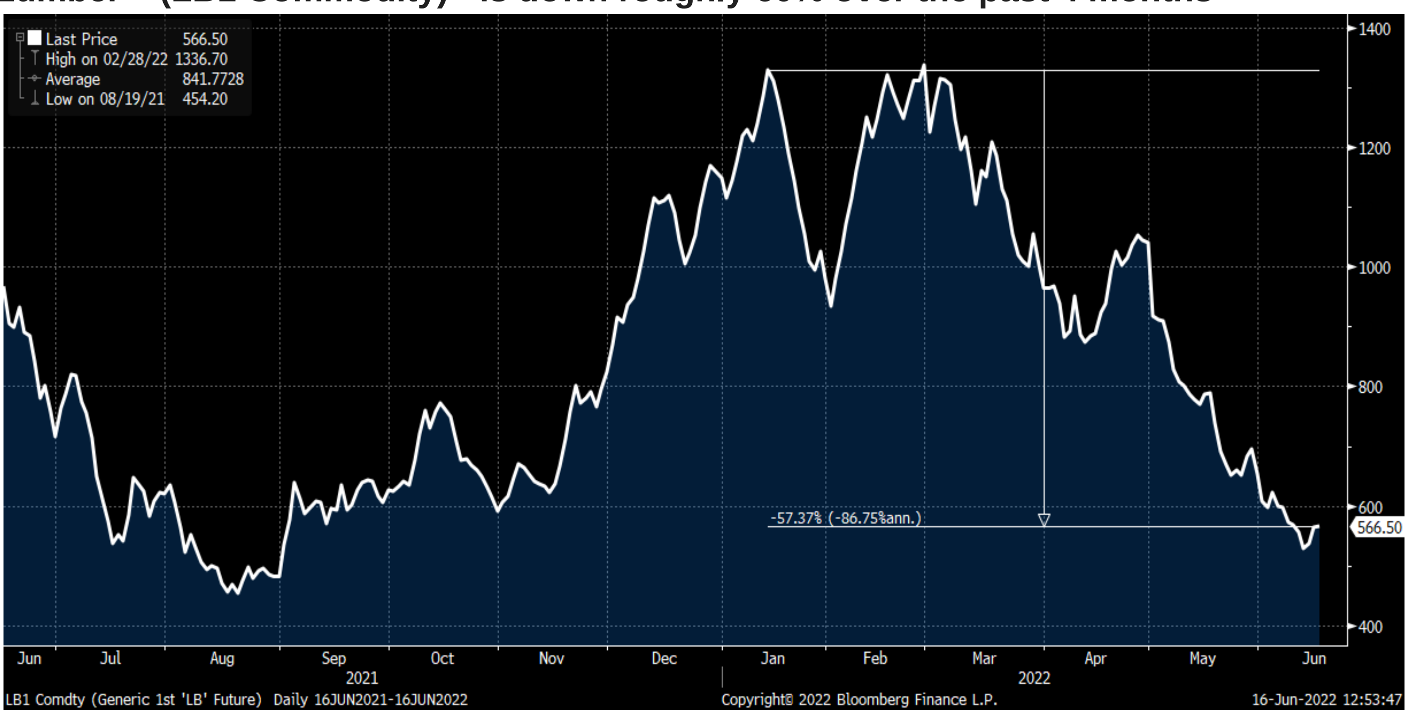
Other charts are rolling over as well, suggesting peak inflation may be behind us.
It's possible the inflation narrative may fade...

Hot Rolled Steel – (HRC1 Commodity) is down roughly 50% over the past 9 months



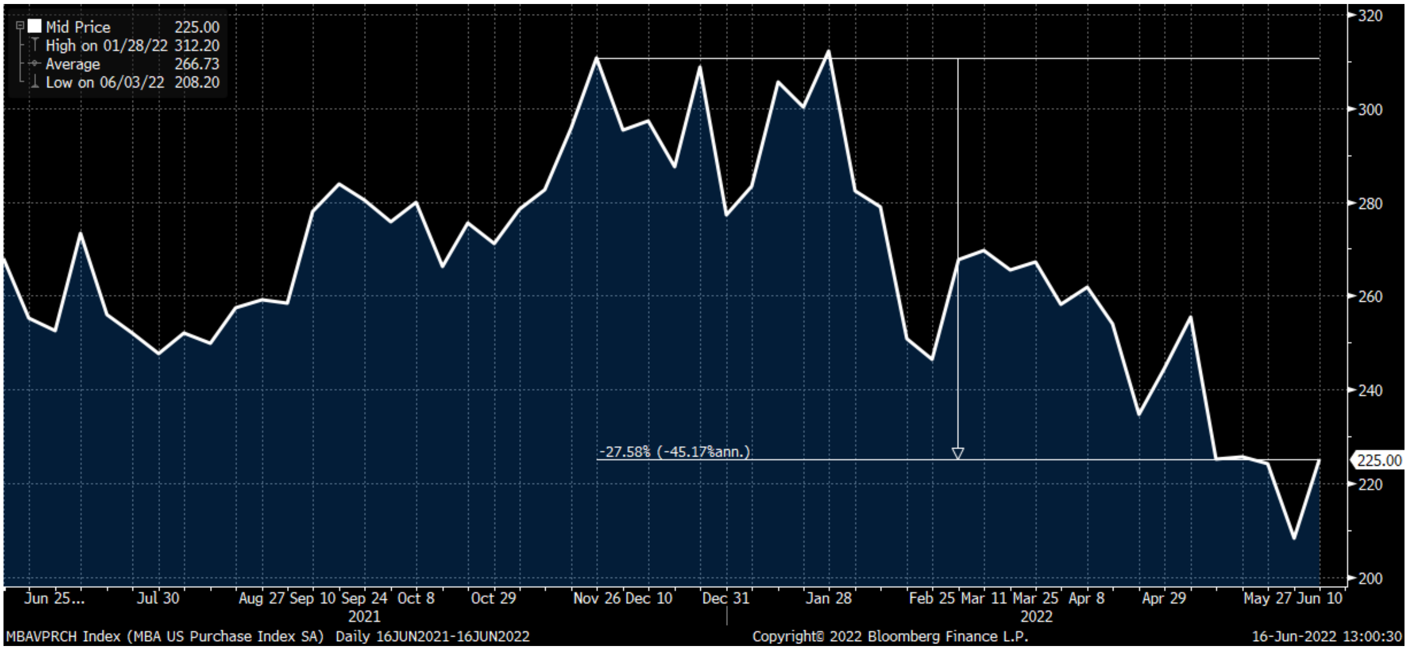
(Source: Bloomberg)

Lumber – (LB1 Commodity) - is down roughly 60% over the past 4 months



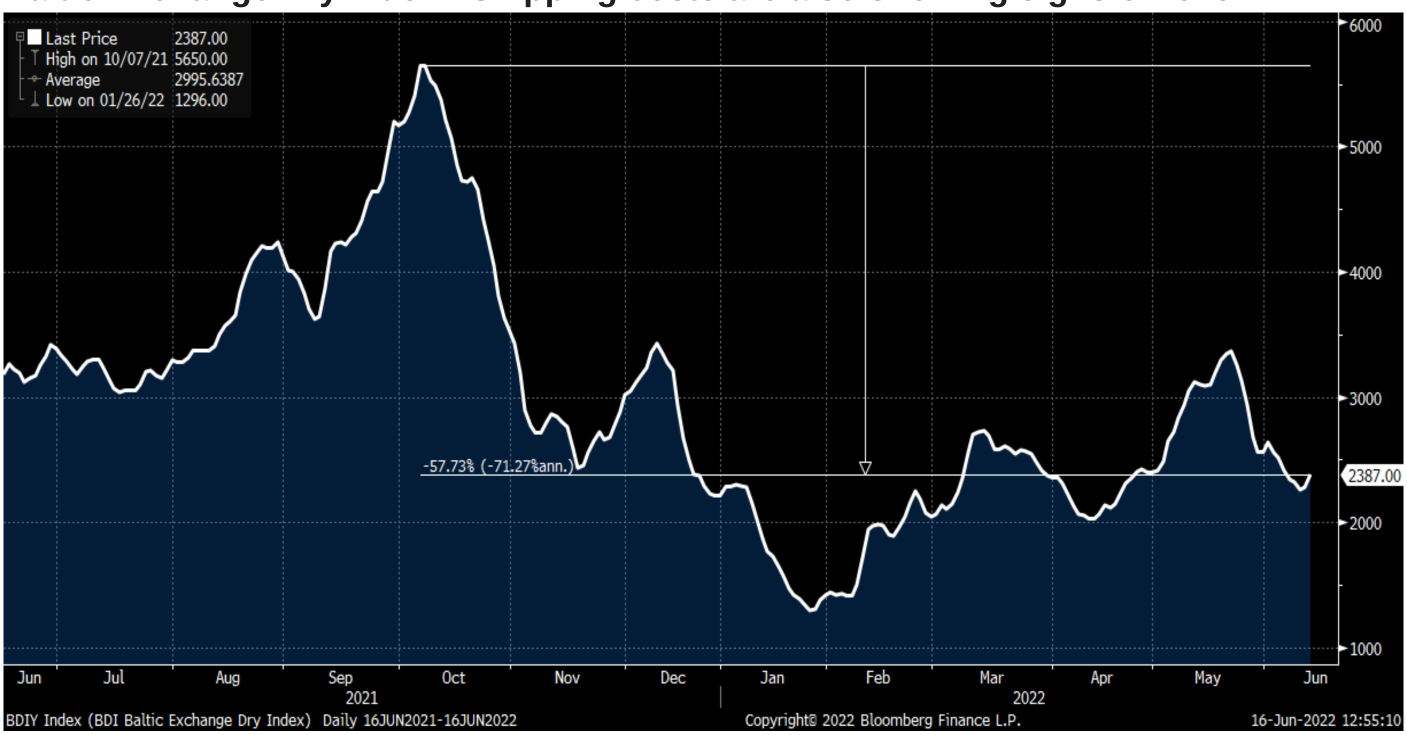
(Source: Bloomberg)

MBA Purchase Index - Home purchases are much lower



(Source: Bloomberg)

Baltic Exchange Dry Index - Shipping costs are also showing signs of relief



(Source: Bloomberg)

Next time you order chicken wings -- no more “Market price”???
Wholesale chicken wing prices are rolling over…

(Source: USDA / Barchart)

More possible good news?
Remember hand sanitizer buying during the pandemic? Everyone rushed to stockpile. Fearing a similar fate of supply uncertainty, companies we talked to this week did the same thing – They stock piled inventories. We suspect demand was pulled forward all throughout the economy... If the "stockpiling" is through, supply chain will be able catch up, moderating prices.

Overall net read on this week?

- Fed gained credibility by going 75bps -- Inflation expectations (via tips) are coming down.
- Indications that commodity prices / inputs are easing
- Prices reflect a ton of bad news
    - Berkshire currently trading at 13x BEst EPS with a 2.90% dividend yield

Recession? Possible, but a reduction of earnings or maybe even stock market losses should not cause panics. They are normal flows of a business cycle and associated with investing in stocks. The most important issue or concern during a recession? A credit event that potentially decimates liquidity in the marketplace. We'd argue liquidity, lending standards and overall economic health should help us avoid this outcome...

- Banks have only been lending to their best customers
- Banks have exceptional levels of excess capital
- Job market remains very strong, labor shortages at the moment
- Balance sheets have ample amounts of cash

Garden variety recessions, in the past, averaged 32% market draw down in the S&P 500. As of close 6.16.22, the S&P is down about 23.5% from the high. So, for clients wanting to hit the "panic button" we offer: IF we go in to a recession, you might miss an additional 10%ish draw down in equities BUT you'd be selling stocks at prices that generally provide investors with 8% annualized returns over 10yrs, you might have a big capital gains tax and it is incredibly hard to know when to get back in.
(Source: Bloomberg) *Past performance is not indicative of future results.*

Long Weekend... Want to get caught up on recent Berkshire practice management / Implementation ideas?

How to Position Dividend Strategies? - Casual Friday: Long Term “Parking”? + I Don't...
Redefining Manager Comparisons? - “Casual Friday: Redefining Manager Comparisons + The First Casual Friday”

LIV Explained...
Arguably the most pivotal moment in PGA history, "a new Saudi golf league has the sport talking about scandal, dishonor and murder."

https://www.wsj.com/articles/liv-us-open-phil-mickelson-saudi-arabia-golf-dustin-johnson-defect-qualify-11655325805

Have a great long weekend!
Gerry

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