April 1, 2022

"The fight is here; I need ammunition, not a ride"
-Volodymyr Zelensky

While President Zelensky of Ukraine is responsible for the heroic comment above, one could imagine hearing it uttered more mundanely by the Fed Governors as they debate how best to tame the inflationary pressures enveloping the economy. Once characterized as being transitory, it is now apparent that inflation is overheating and undermining the living standards of many Americans. In this quarterly update we'll provide a summary of the most salient issues facing the equity and bond market in early 2022.

The markets are experiencing a challenging start to 2022. The S&P 500 is down 5%, the NASDAQ is 9.1% lower, and the 10-year treasury bond now yields 2.33% vs. 1.49% at the end of December. The price of a 10-year treasury has fallen 6.8% since December as prices move inversely to yield. The common factor hurting bond and stock markets is the fear of inflation and the Fed's need to act aggressively to combat it. At its last meeting the Fed raised the discount rate for the first time since December 2018 and indicated additional rate increases would occur until inflation moderates. We wrote last year that we thought the Fed should begin tightening rates in 2021, and now many observers are worried the Fed is late. The consumer price index of 7.9% has overshot the Fed's target of 2% and there is concern that the Fed will raise rates to a level that could stifle economic activity. Russia's invasion of Ukraine has added additional pressure to commodity prices as oil, wheat, corn, cotton, aluminum, and iron ore are all up 20%-30% since December. Beyond the human tragedy of Russia's aggression, the rest of the world is also paying a price.

During times of upheaval, we recommit to our focus on disciplined investing. We have always emphasized owning quality companies generating excess cash flow used in shareholder friendly activities like stock repurchases and dividend increases. Of the 39 businesses on our holdings list, 34 paid a dividend and raised their dividends by an average of 12.2%. Regarding share repurchases, 27 of our companies repurchased stock in the last year. Looking toward future growth, earnings of companies we own in 2022 is projected to be up in the low single digits after increasing 45% in 2021. Growth in 2023 is forecasted to accelerate to mid double digits as post covid comparisons become easier. The market multiple has contracted slightly and is now in the high teens.

While client portfolio performance will vary from that of market indices over periods of time, we believe that, over the long run, our approach will generate solid results with less volatility. We look forward to speaking with you in the coming months and hope to hear from you should you have any questions. Thank you for entrusting us with the management of your money.

Sincerely,

JM Sam Nevin, Jr
Managing Partner

W. Joseph Ryan III
Partner