

# INVESTMENT VIEWS

APRIL 30, 2025

## STAYING FOCUSED - INFLATION RISKS REMAIN

As investors navigate through the current maze of unprecedented uncertainty, we remind our clients and friends to stay focused on inflation. We believe that irrespective of the political party in power, inflation would be one of the primary issues investors need to keep their eye on. Inflation is the loss of currency purchasing power, mainly caused by excessive government deficit spending. The fact is that federal government deficit spending has been an ongoing and worsening issue for several decades and is at a critical place right now. The size of the deficit – now over \$2 trillion annually -- makes up a sizable percentage of the economy, making it very difficult to cut spending without triggering a recession in economic growth. Drastic cuts, involving entitlements are simply not politically achievable and the American citizen is not prepared for a deep recession. Instead, expect continued deficit spending that may gradually be brought down over time.

One way or another, inflation is the path of least resistance politically for this country to deal with the deficit and the overall debt. While taxes and tariffs are hot issues currently and could be part of the longer-term solution, they simply cannot fix the situation on their own and inflation must play a major part.

Preparing for inflation involves taking certain risks as simply staying in cash or certain bonds exposes the investor to the significant risk of erosion of purchasing power over time. Cash bank deposits are likely to provide a negative real rate of return over time and longer maturity bonds “lock” in investors into a rate that cannot adjust if inflation moves higher. Instead, it is appropriate to invest in a strategic mix of investments that acknowledge the volatility, while also aiming for a real rate of return over time. Of course, cash has a role in this, as well as shorter maturity bonds. These assets cushion volatility and allow for adjustments to the interest rate when inflation rises. Precious metals, commodities, quality, value-oriented stocks, as well as individual names in technology and other growth areas that have strong secular fundamentals behind them seem to be the right mix.

Indeed, these times are unprecedented in modern history, with changes rapidly occurring as markets and the economy adjust to unfolding new realities. Investors need to stay alert and position properly for inflation and volatility.

## GOLDEN MILLENIUM

During the month of April, gold surged to touch \$3,500 per ounce. Even before this latest run to all-time new highs, gold has beaten the stock market since January 1, 2000, when it was around \$300 per ounce, rising over 1200%. Gold is the universal money recognized around the globe for thousands of years. Demand for the shiny yellow metal continues to be strong, with countries like China facing intense demand as citizens simply do not trust fiat, or paper currency. Indeed, for many in this country, faith in the currency is also being tested as massive government deficits persist.



That said, the precious metals have led the markets now for over a year. They are due for a period of consolidation and correction. We have taken some profits and are looking to potentially add positions once the consolidation is over.

## NUCLEAR UPDATE

Momentum in the ongoing nuclear renaissance continues to build. This is an issue that transcends politics, with both parties showing real support to significantly increase nuclear power generation in this country. Globally, nearly all major areas of the world – even those who shunned nuclear power in the past – are now acknowledging the value of the stable baseload energy it provides.



Our positions in nuclear energy have gone through a period of correction. We now believe that they are in the early stages of another positive move upward.

# TECHNICALLY *Speaking*

## We Have Thrust

On Friday April 25th the market triggered a Zweig Breadth Thrust. This indicator was developed by Martin Zweig to calculate the ratio of advancing stocks to total stocks. When the percentage of stocks trading above their 200-day moving average drops below 40% and then quickly surges above 60% within 10 days, the thrust is triggered.

While not fool proof, it has a very good track record of positive performance returning positive returns 100% of the time over 6 and 12 months later. This is the nineteenth thrust since World War II and only the fifth time a thrust has occurred within eighteen months of the last thrust which was November 2023. When thrusts occur in quick succession like this, the results tend to be even better. In these cases, returns six months out average +20%, versus +15% average for all previous occurrences.

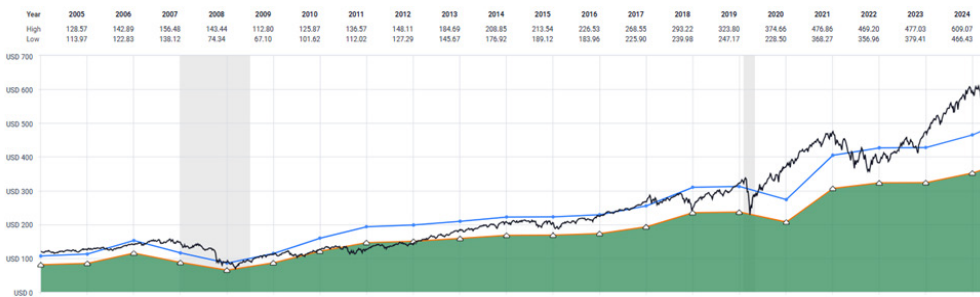
The chart below shows the last 15 years of the S&P 500, with the Zweig Thrusts shown by the orange lines. As you can see they tended to mark significant lows in the market and advances tended to follow. While 2015 did eventually experience a lower low after the thrust signal, the market did have a nice rally post-thrust.



While uncertainties continue to plague the economy and the market overall, these are the kind of bullish signals that build confidence that the worst of the damage is likely over. If the market is not showing positive returns a year from now, it will be one for the record books.

## TARIFFS OR NO TARIFFS, THE MARKET WAS OVERVALUED

While the negative effects of tariffs are getting all the headlines, a reset was definitely in order as the market was just getting to be too expensive. The chart below shows the S&P 500 going back to 2005 in the black line and its normal PE over this period of time in the blue. The orange line marks a 15 PE which traditionally indicates fair value. The grey shaded areas mark recessions, with the 2022 recession being so short-lived it is nearly impossible to see. One thing is painfully obvious that the further the market is stretched from its normal value (blue line),



the sharper the decline back down below it. Another thing to note is that in recessions the market tends to fall back to a the traditional "safe" value. As the market still lies above its normal value, it is not pricing in a long recession. Therefore should one occur, expect the market to drift lower.

**Recommendation List:** A list of all previous specific investment discussions published over the past 12 months will be provided upon request. Please email [lara@mhandassociates.com](mailto:lara@mhandassociates.com) or call our office for this list.



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