MH & ASSOCIATES • SECURITIES MANAGEMENT CORPORATION

INVESTMENT VIEWS

SEPTEMBER 30, 2022

KING DOLLAR REIGNS

If we had to point to something in the financial markets that embodies the current uncertainty and turmoil it would be the US Dollar. Yes, our currency is currently wreaking havoc in our economy and across the globe. In prior newsletters we have described the crucial role the Dollar plays in nearly all aspects of the global economy. Briefly, the US Dollar is the primary currency in global trade and trillions in debt are also denominated in the greenback. As currencies across the world collapse, the USD is soaring to levels not seen in decades. Not only does this make many basic items more expensive for other nations but it also put enormous strain on their financial systems too.

Case in point, the UK had to intervene this week in their bond market after a sharp sell-off sent yields soaring and threatened to render their pension system insolvent. The Japanese central bank also had to take action recently when their currency began to collapse after they decided against raising interest rates. The Euro has also dramatically weakened due to high inflation on the continent. These problems are only made worse by the aggressive policy of the Federal Reserve. Our concern is that the Dollar may continue higher as economic conditions deteriorate in Europe and Asia.

PARKING EXESS CASH

We were fortunate this past 2 years of remaining in cash instead of bonds as the decline in bonds this year has been almost as severe as the decline in stocks. The risk versus reward was clearly unappealing at that time as the yields in bonds were hovering around 1%. Any sustained uptick in inflation would send prices crashing down. Below are the year-to-date losses for some of the major bond categories:

Investment Grade Corporate	**-21%**
10 Year US Treasury	**-16%**
30 Year US Treasury	**-29%**

At this point we have reentered the bond market, albeit in a very conservative manner, focusing on US Treasuries with maturities of 2 years or less. Yields are now well over 3%, even approaching 4%. We consider this to be very attractive now and the price risk to be minimal since we are planning on holding until maturity.

As for investors, it really makes sense in this inflationary environment to make sure you are getting the best interest rates on any excess cash. While money market funds and checking accounts still are not paying interest, CD's and US Treasuries certainly are. As mentioned above, investors should stick to maturities under 2 years as interest rates may have further to rise and one can quickly rollover their shorter term maturities at higher rates.

GOLD UPDATE

Gold appears to be trying to make a bottom after a tumultuous decline that began in May of this year. Considering the number of risks that investors are facing, gold surely has a place in a portfolio. We cannot rule out further weakness, however we should be headed to a solid long term bottom.

ENERGY CRISIS UPDATE

The month of September was a miserable month for oil prices and energy stocks as they were dragged down with the Fed's rate hikes that have pushed the dollar a lot higher, making commodities priced in the currency more expensive. The decline was not due to supply/demand dynamics.

We continue to maintain our positive outlook for the energy markets as we expect demand to increase on an annual basis well into the next decade. Our current energy crisis is a result of many years of underinvestment in oil and gas production. The crisis is not going to go away any time soon and will require years of sizeable investments to bring supply and demand into balance. Unfortunately, many governments are opposed to more oil and gas investment out of climate change fear, not realizing the precarious situation we are in. Furthermore, the Russian invasion of Ukraine has only compounded the situation and is not the cause. We continue to hold energy positions in producers, pipelines and refiners.

STRATEGIC OIL RESERVE (SPR)

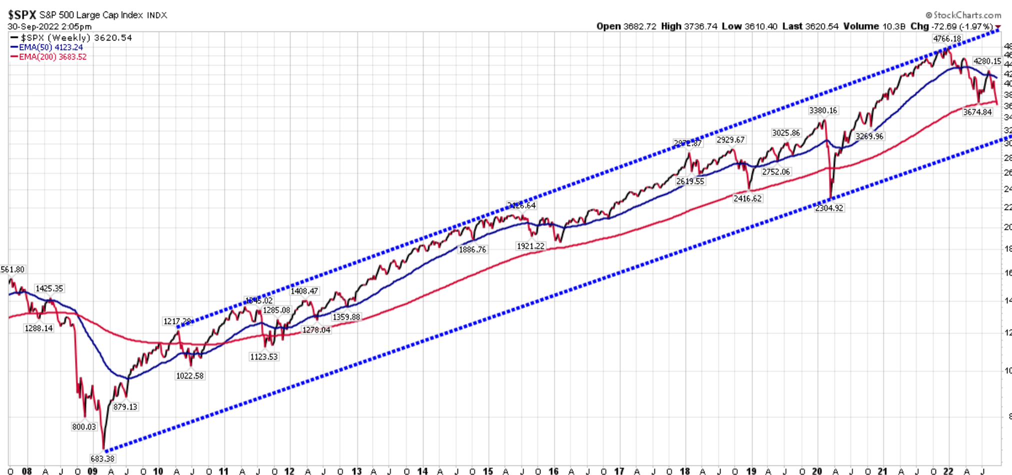
In March of this year, the Biden Administration approved the release of 1 million barrels per day from the SPR in order to help bring the price of oil down. The release of these barrels will last through the end of October, and sometime in the future the plan is to go into the open market and replenish these reserves. The SPR is now down to its lowest levels since 1984. From a peak of 727 million barrels, we are now down to 450 million barrels.

It is interesting to note and reflects the current oil imbalance that even with the SPR release, this country's overall oil stockpile has been dropping for most of the year. When the SPR stops releasing next month we expect supply to get tighter because there is little in the way of new supply to make up for this loss and for the natural depletion that occurs.

TECHNICALLY *Speaking*

For the last few months we pontificated that the 3900 level on the S&P was a key to hold and if it didn't a retest of the June lows was likely. Unfortunately, a breakdown did come to pass and we sit now testing those June lows. Last month we showed a trendline which stretched back to the COVID lows, but wanted to zoom out a little bit and show the channel the S&P has been trading in since the lows of the 2008-2009 Credit Crisis.

The breakdown of the 3900 level changed our short term stance on the market overall from constructive to more bearish. While we are seeing data that is pointing to the market being higher a year from now, it can certainly go lower from here in the short term. Currently the market is in an oversold position, but with so much resistance now overhead, we would expect any rally to be short lived (barring a pivot in behavior from the Fed).



With another earnings season upon us and still a lot of economic uncertainty, we could be in for more cuts to company outlook.

The most likely downside target is the lower channel line around 3200. A target that is so much further below the current level would make us lean towards to de-risking portfolios during any attempted rally unless we see a more beneficial economic environment unfold.

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