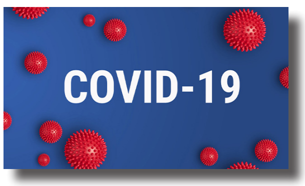
INVESTMENT VIEWS

MH & Associates Securities Management Corporation NOVEMBER 30, 2021

Market Headwinds Appear

Investors were looking forward to a smooth finish to 2021, with equity indicies up double digits year to date. At the time of this writing, two headwinds have appeared that have spooked investors and caused volatility to increase in recent days. First, we learned about Omicron, a COVID variant spreading across the globe and secondly, increasing signals that the Fed will begin tapering sooner than expected. Below, we offer a summary of our current thoughts on these two situations.

Omicron



The new COVID variant Omicron has gained increasing attention across the globe, including with investors. Fears are based on spike protein mutations that may make vaccines less effective, leading to a step back in the global economic recovery efforts as governments potentially increase various restrictions. We do think Omicron will spread, however early anecdotal evidence suggests that the variant, while more contageous, may be less likely to trigger severe illness. Health officials have remained optimistic that availability of boosters and upcoming anti-virals leave us in a much better position to deal with variants. Rising cases of Delta and the arrival of Omicron could still negatively impact already strained supply chains.

From an investment standpoint, this represents a challenge to monetary authorities who have recently signaled their desire to taper emergency measures. If Omicron turns out to have a more severe impact, those desires will be put on hold and it is possible new measures could be implemented eventhough officials are downplaying that scenario at this point.

Fed Tapering

As inflation continues to capture headlines and put pressure on consumers and companies alike, this week the Fed signaled that the awaited taper of pandemic emergency measures may be accelerated. Most recently, Chairman Powell removed the word “transitory” from inflation as higher prices have become a trend. Pressure on the Fed to taper is now real, even if it is possibly mistake.

We have long discussed our concerns regarding inflation, and this year those concerns have come to fruition. While inflation is nothing to celebrate, as investors we need to deal with reality and invest accordingly to capture any benefits. While we believe that inflation will be a persistent trend that will last for several years, it also will not follow a straight path. Instead, we believe that inflation pressures will ebb and flow over time. The root causes are highly correlated and are leading to increased prices almost across the board. These problems are not easily addressed but are manageable if wage gains continue to keep above the inflation rate.

Current supply chain issues will eventually fade which will help with inflation concerns. These issues could stretch longer if Omicron fears take hold in the US and globally, as restrictions could be put back in place. Indeed this has started in some ways in other countries. On the opposite side, these actions could likely put the taper on hold. In either case, investors should prepare for a volatile year end.

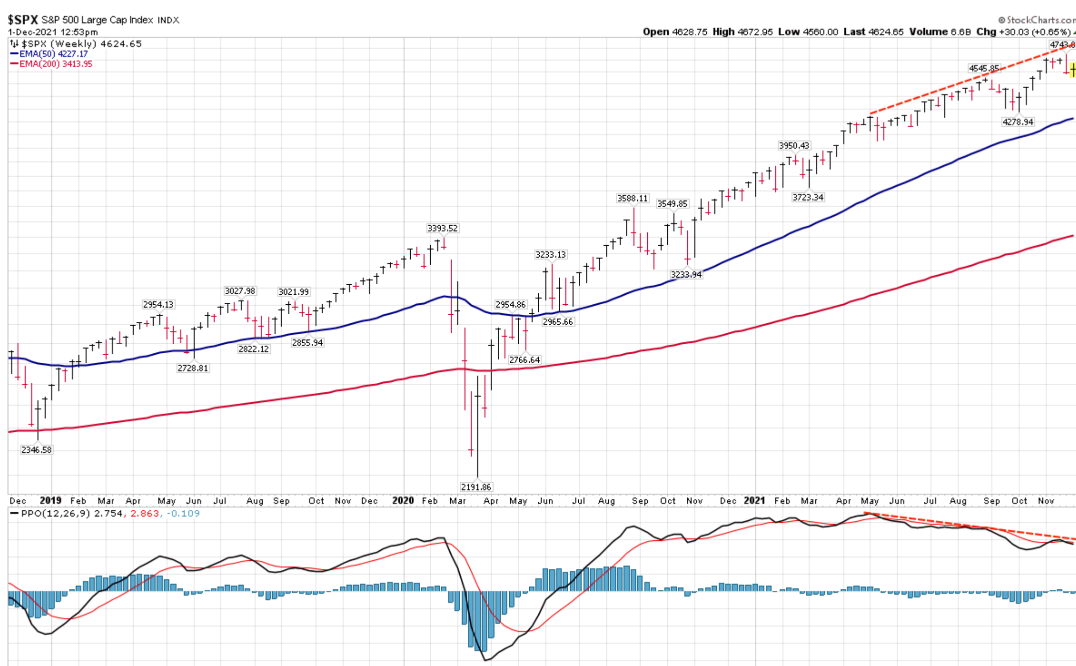
Growing Renewable Energy, Will It Be Sufficient?

Recently released information from the IEA shows that renewable energy capacity will grow over 60% by the year 2026 to more than 4,800 gigawatts. This is an increase from their prior report as new policy measures and climate targets are being implemented. Hopes are that support from governments around the world will outweigh the rising commodity prices which have increased the costs of building new wind and solar installations. These higher costs pose challenges from an already expensive form of energy, but potentially rising cost of oil will actually make renewables more competitive. If trends continue, renewable energy capacity will exceed that of fossil fuels and nuclear energy combined by 2026. There is a long way to go as challenges beyond just costs remain, as power grids need integration and wide use will take time. Even with all the rapid growth, the IEA says it will still not enough to be net-zero emissions by 2050 and to reach that goal, growth in capacity would need to be 80% higher than our current estimates. We believe that nuclear will still play a larger role in global capacity than is expected today and traditional fossil fuels will continue to fill a large gap as a transition occurs.

Technically *Speaking*

Market Not Healthy Under The Hood

November ended with a loud thud as concerns about a new COVID variant and Fed speak about inflation spooked investors. On top of that we are in the traditional period of investors doing tax loss selling, so beaten up names are getting even more beaten up. So while indexes are down 4% or so from after Thanksgiving, the average stock is down much worse. This is also true for the whole of 2021 in general, it has been driven forward by fewer and fewer stocks. We discussed market breadth in our newsletter a few months ago and how it was starting to improve, and while the market has rallied by and large, breadth has again started to deteriorate. This is a bad sign for a sustained rally as this will need to recover in order for the market to see gains going forward. The chart below shows a weekly (long term) look at the S&P 500 in the top window and the bottom window shows the momentum in price. Since May of this year, the S&P has broadly moved up, but the momentum line has been falling. It has in fact been getting weaker with every rally we have seen and making lower highs and lower lows. After the September sell-off we would have wanted the momentum line to hit levels it had been at in the Summer. This did not happen and lends credence to the idea that any upcoming rallies will be short lived. The good news is that as long as the momentum indicator is above its zero line, then the market is still in an uptrend. It is well above the zero line currently and even a market sell off to the blue 50-day moving average will not change that. If a sharp correction were to occur, that would be where we would be looking for the S&P to fall to and assess the market conditions at that point. The first day of December is showing some resiliency, but even that has been fading from the strong market open.



1981 - 2021
40 Years
& Associates

MH & Associates Securities Management Corporation
2888 Loker Avenue East, Suite 318 ● Carlsbad, CA 92010
23901 Calabasas Road, Suite 2005 ● Calabasas, CA 91302
(626) 440-9694 ● www.mhinvestments.net