MH & ASSOCIATES • SECURITIES MANAGEMENT CORPORATION

INVESTMENT VIEWS

OCTOBER 31, 2022

A NEW ERA UNFOLDING

Easy Money Era Is Ending...For Now

Inflation and rising interest rates have changed everything in the financial markets and the economy. For nearly 15 years the Federal Reserve has employed easy monetary policies centered around low to zero interest rates (ZIRP) as well as quantitative easing (QE). These easy money policies created conditions which allowed for technology stocks and other "growth" sectors to flourish, attracting trillions in investment capital. With interest rates so low, investors really had no other choice but to invest in equities, and technology and growth oriented firms offered large enticing returns. On the other hand, value oriented firms with lower growth rates and a higher capital investment requirements were seen as an unattractive alternative since returns were slower in coming.

Higher Rates, New Opportunities

However, this is all beginning to change and flip over, with technology firms having a more challenging time as interest rates rise and investors have other alternatives to speculative growth. Higher interest rates also mean dramatically lower valuations even on those firms who continue to grow. Conversely, value oriented firms tend to have more steady profits and a certain degree of pricing power to overcome inflationary pressures. Also, those firms who actually made capital investments in prior years will be in an excellent position to control costs in the years to come.

This is definitely a stock pickers market, where one would not want to be invested in an "index fund." Many firms will struggle while others thrive. It is up to investors to determine which companies are in favorable positions.

A YEAR UNLIKE MANY OTHERS...OR ANY AT ALL

Since 1928, there have been only five years (1931, 1941, 1969, 2018, 2022) where the S&P 500 and 10-Year Treasury Bonds have both been down. There has been only **ONE** year where they have both been down more than 10%....2022.

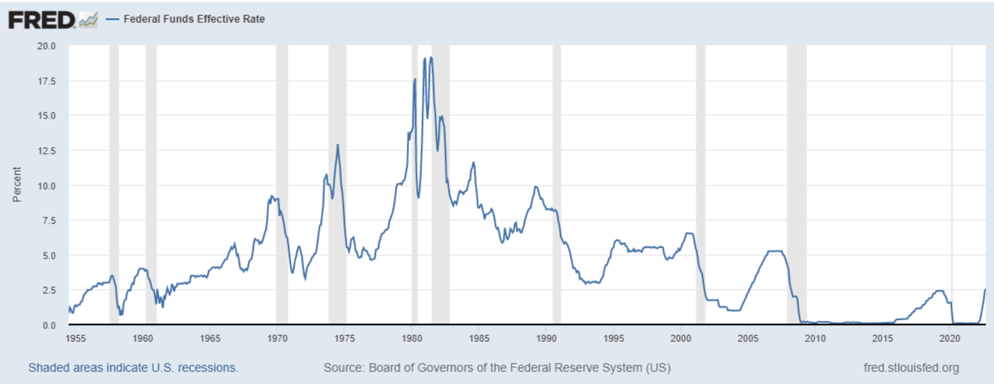
Albeit a small sample, after years where both were down, only once (1932) has the return on the S&P 500 been negative. Even with this one down year, the average return of the S&P 500 following years where both are down was +11.4%. Certainly something to be hopeful for going forward, but with such a small sample, not a very reliable statistic. In fact, out of the twelve years since 1928 that the S&P 500 was down double digits, only seven of those following years saw positive returns. More foreboding is that the five with additional negative returns, only one saw a smaller decline than the preceding year.

That said, the market responds best to outright dovish policy stances that are in response to market and economic stress. Pauses and conclusions of tightening cycles (maybe the best outcome we can hope for right now) have seen below average gains over the following 12 months on average.

Yet, we are entering the most bullish phase of the four-year Presidential Cycle. Monetary and fiscal policies typically bottom before midterms & accelerate thru the pre-election year (i.e. 2023), thus a Fed policy "pivot" would be true to form. The consensus view is that the U.S. enters a recession in 2023 (if not already in one) and this would be a macro-headwind the Presidential Cycle has not faced in over 90 years.

DEBT BOMBS

Over the past several decades there have been an enormous growth in the amount of debt issued by both government and corporations. We are particularly concerned about non-investment grade or "junk" rated debt, with the outstanding amount now at $10 trillion.



Our concern stems from the dynamic where the Federal Reserve progressively lowered interest rates over time, allowing otherwise unprofitable firms to refinance at lower rates and even take on more debt. After decades of this, it seems some of these "junk" firms will be in a very difficult position.

As interest rates rise, the interest burden on junk firms will become overwhelming and likely lead to defaults and bankruptcies. Many firms that avoided such fates for years will suddenly be faced with what was probably inevitable.

Companies in such positions should definitely be avoided by investors both in their bonds and their stock as well. This may be an ongoing issue that could take a decade to fully play out. Note that, while the U.S. federal government is surely in an extreme level of indebtedness, it always has options that corporations do not. The government can raise taxes, cut spending and even print money if it needs to.

URANIUM'S BRIGHT FUTURE

After years of a brutal bear market, uranium stocks have broken out of a large base, but will always remain volatile. If the world is going to move away from oil and gas in favor of cleaner technologies, nuclear power must be a significant part of the mix. Nuclear power is one of the only non-carbon emitting technologies that provides stable baseload power. We are especially encouraged by small modular reactor (SMR) designs that are virtually accident proof and are mass produced in a factory. The big advantage of factory production is that marginal costs will decline over time, making SMRs cheap as time progresses.

In the meantime, uranium prices should move higher as buyers deal with a loss of supply from Russia. Investors beware, volatility may continue in this space, however we will definitely see it as a chance to add to our positions.

How We Are Invested In Uranium

Cameco (CCJ) – One of the largest uranium miners in the world, they also have positions in virtually the whole nuclear cycle.
Sprott Uranium Miners ETF (URNM) – A diversified portfolio of uranium miners, including smaller explorers.
Centrus Energy (LEU) – A nuclear fuel manufacturer with innovations that will change the industry, making nuclear energy far safer.
BWX Technologies (BWXT) – The sole manufacturer and maintainer of US Navy nuclear reactor fleet. Developing innovative small modular reactors (SMRs) for use in the field, space and even aircraft.

& 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