

Watching & Waiting

Throughout 2022, the themes of *Uncertainty* and *Pendulum Shifts* were present in many of our communications. As we move forward into 2023, *Watching and Waiting* seems an apt description of the posture of investors and where we find ourselves today. That is, we are watching developments in the underlying economy, monitoring corporate earnings reports and commentary, and keeping a close eye on company fundamentals. This is all occurring while we await a decline in inflation and determine the ultimate outcome of the Federal Reserve's more restrictive interest rate policy. Meanwhile, the transition back to more normal economic conditions is taking longer than expected following a decade of ultra-low interest rates and record setting Covid pandemic stimulus.

In 2022, investors were forced to face challenging conditions in both the capital markets and the underlying economy. This created a great deal of uncertainty, and this uncertainty yielded to some identifiable trends that dominated investor preferences and permeated economic discussions. Many of these identifiable trends represented shifting dynamics that reversed course from their long-term trajectories. We recognize these as pendulum shifts and have been focused on identifying whether or not we believe they represent cyclical or secular change.

Despite two negative quarters, GDP growth remained positive in 2022. The U.S. economy did not enter recession, but investor fears intensified. Inflation has represented the principal concern of investors, and we take the Fed at their word when they say their primary goal is to restore price stability. While we are not predicting a recession, we recognize the alternative, a "soft landing," will be difficult to achieve.

2023 has begun with a mixed bag of economic signals. Given the outlook, we reason the best way to look forward is to start by looking back. Regardless of what occurs in the market, we will be watching and waiting, monitoring economic signals and indicators and assessing the strength of the securities in which we invest.

We take confidence in knowing that the long-term trajectory of the stock market is upwards. Recessions are by no means a good thing, but they are sometimes necessary to correct economic excesses and restore stability. We recognize that they do not occur that frequently, do not last that long, always end, and stocks always recover. We are on recession watch and our focus remains on quality.

In our experience, quality is the best way to combat recession. As a recession impacts both corporate earnings and stock prices, we underwrite each security to ensure safety and potential for growth in difficult

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economic circumstances. We believe our investment philosophy is well suited to the environment ahead. We seek to narrow the range of potential investment outcomes and in turn, provide our investors with a higher likelihood of success, a smoother ride, and a materially lower probability of permanent loss of capital.

We believe our strategy has led to successful outcomes for our investors in a variety of environments over the past 42 years, and we fully expect it will continue to protect and enhance the wealth of our investors going forward. As we watch and wait for more clarity, we are armed with high-quality investment characteristics and businesses that are much less reliant on the underlying economy to produce satisfactory returns for shareholders.

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