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CAPITAL MANAGEMENT INC.

MARKET REVIEW

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WATCH EPISODE

MARKET COMMENTARY

Equity markets are recalibrating to higher interest rates and valuation multiples are compressing. Inflationary pressures due to supply shocks resulting from the pandemic and war in Ukraine have likely peaked, however the path towards a more normalized level will take longer to unfold. China's zero-tolerance COVID-19 policy is also impeding the resolution of supply chain bottlenecks and disruptive to general business activity.

The U.S. Fed hopes to tame inflation through interest rate increases and quantitative tightening while keeping unemployment steady and avoiding a recession. While history shows that a soft landing is difficult to achieve, it is premature to draw any conclusions.

Corporations have offset higher input costs through raising prices and productivity initiatives. With the exception of "pandemic-induced businesses", inventories are low, and demand is outstripping supply which is supportive for future growth. Steady profit growth will eventually be supportive for share prices.

Households and businesses in the U.S. are in sound financial shape owing to accommodative monetary and fiscal policy over the past two years. This underlying strength combined with a healthy job situation is helping to absorb the dual headwinds of higher interest rates and prices for goods and services. Nonetheless, the absence of fiscal and monetary stimulus means economic growth will moderate.

Against a backdrop of rising interest rates, inflationary pressures, slowing economic growth, and valuation multiple contraction, our basic tenant to invest in financially strong profitable companies that have industry tailwinds and pricing power at reasonable prices remains intact.

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