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THE PRICE OF TRADE

APRICUS

Spring is the season of hope and promise. After two years of restricted movement and social distancing we were particularly hopeful for 2022. The war in Ukraine has altered our optimism but not shattered it. We do believe in the universal force that pulls investors, markets and economies forward and around obstacles but we need to recognize this is a moment of consequence and incorporate it as we can, into our view. As always, our hope is that you and your loved ones are safe.

With best wishes and gratitude,
Joe, Jim and Ernie

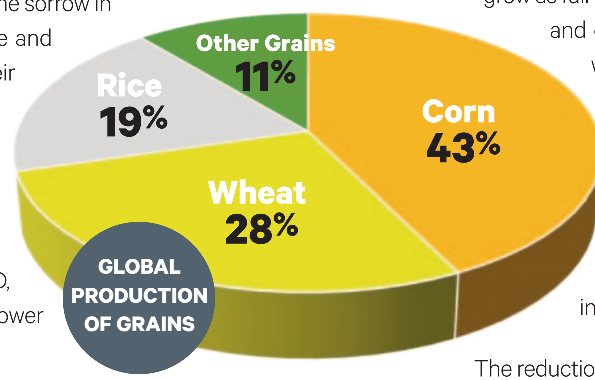
THREE GRAINS:

CORN, RICE AND WHEAT account for the vast majority of mankind's caloric consumption either directly (45%), or as a component in fats and sugars (20%) and as animal feed (17%). According to United Nations Food and Agriculture Organization research, in 2010, 32% of global grain production was used to feed livestock.

(Source United Nations FAO)

Last summer we touched on the idea that fair trade improves the standard of living for both sides of the trade. Trade allows a farmer to exchange food for the labor of a carpenter or a country with technological expertise to barter with a country that has natural resources. In theory, the interdependence of two trading partners should align their self-interests and increase harmony. This idea, of mutual self-interest, was a motivation in the globalization movement of the last half century that is now receding. Unfortunately, we are witnessing that the line between interdependence and dependence is thin, complex and riddled with unwelcome consequences.

As we write to you, the Spring planting season in Ukraine is passing by unsown and a normal autumn harvest of wheat, corn and sunflowers in Ukraine is unlikely to occur. Because Ukraine is the fifth largest exporter of grains globally, this lost harvest, along with droughts around the world and high fertilizer prices will extend the sorrow in Eastern Europe to Africa, Western Europe and Asia. Commodities always flow toward their highest price and shortages are felt acutely by the most vulnerable. Food insecurity is highly correlated with political unrest, violence and declines in democracy and the rule of law. Since many emerging economies are still recovering from COVID, we expect some countries to experience slower GDP growth or contraction.



In the developed world, the reduction in the supply of grain and higher energy prices (which are a key input in fertilizer) will reduce the supply of cattle, hogs and chickens. The resulting food inflation, on top of already high energy prices should pull consumption away from other goods. The OECD forecasts that this war will reduce global GDP growth by over 1% and increase already high global inflation by over 2%. Due to our abundant natural resources, world leading agricultural practices and global reach The United States should be largely insulated from the scarcity and unrest. U.S. farmers and machinery manufacturers may even benefit but, Americans will continue to see higher prices.

Here at home, the US Federal Reserve Bank appears to be panicking in its attempt to limit the consequences of decades of interest rate suppression. The Fed has plans to raise short term interest rates several percent while simultaneously selling off its portfolio of longer-term mortgage, corporate and government bonds (which they should have done years ago). They are working under the assumption that higher borrowing costs reduce demand and therefore constrain price increases. However, the inflation we are experiencing now, is in large part a result of COVID related supply issues, not demand, and most food and energy demand decisions are non-discretionary.

For the remainder of 2022, we expect the US economy to continue to grow as full employment, growing workforce participation and exports of energy, agricultural products and weapons support production. We are raising our twelve-month expectation for US inflation from 3-4% to 4-5% and keeping our estimate for real GDP growth to be above 3%. This should result in corporate profit growth in the high single digits albeit with largely disparate outcomes across industry groups.

The reduction in economic clarity, higher interest rates and modest earnings growth will, we think, keep the stock market trading in a range as some sectors benefit more and some less in this evolving environment. At the moment we see "less bad" as the most likely positive catalyst. As you might expect, our appreciation of the value of investing in enduring businesses hasn't changed. We continue to favor profitable, conservatively financed, and inexpensive world class businesses that make meaningful payments to their shareholders through dividends and share repurchases.