

# APRICUS

07.23

This note is a brief about how we use cyclical economic data to anticipate changes in markets. While we won't always be right, we will always work toward developing independent views that support our goals of protecting and growing our portfolios. For example, in December 2020, well before the phrase "transitory inflation" was in vogue, we predicted that inflation would pick up and persist. In the summer of 2021, we wrote that rising wages would likely support wage and economic growth, last December we wrote that the imminent recession most people were then forecasting was further off than feared, and, last quarter we proposed that banks would slow lending which would further slow the US economy. (All of our past quarterly notes are available on our website.)

## APRICUS NOTES

We consider it our fiduciary responsibility to vote shareholder proxies on behalf of our clients which surprisingly isn't a universal concept. We believe that using our collective voice to influence business strategy and operations is an important component of our equity ownership. In order to better track our voting and sharpen our guidelines, we have recently contracted with Egan-Jones, the third largest full-service proxy service provider to tabulate, submit, and report on proxy voting.

## TRANSITORY HEAT

In many parts of North America this week it is too hot to spend more than a few minutes outside. In seven months when summer turns to winter it could be too cold to go out. This is the nature of periodic variation where a variable such as a temperature is dependent on the timing of a cycle or cycles (hourly, daily, yearly) that may amplify or cancel out each other. **The direction of the economy and markets is the result of the eternal forward motion of progress and both cyclical and secular changes.** The unemployment rate, inflation, corporate profits, and markets all have their own cycles at times synchronous and other times in opposition.

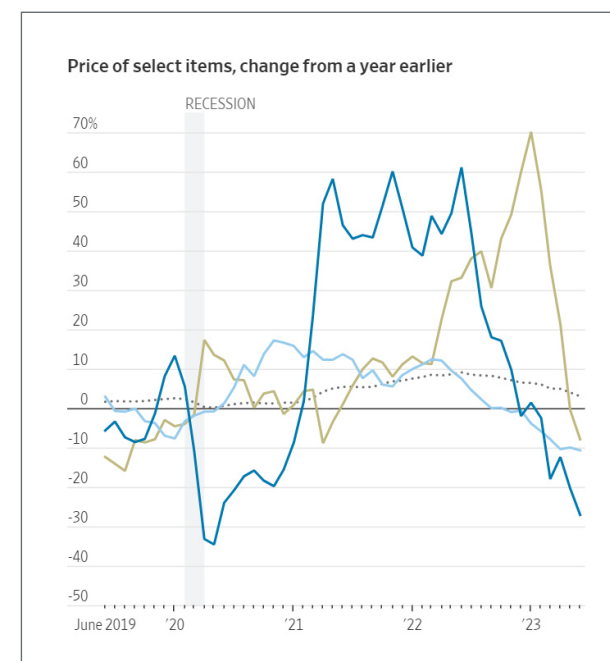
## LOOKING FORWARD

As we write, inflation has dropped considerably (see chart), the dollar is strong, the unemployment rate is at a historic low, and corporate profit margins are just off all-time highs. These cyclical data points are considered "positives" by the Federal Reserve Bank which may raise short-term interest rates yet again.

We, however, view the data levels and their cyclical tendencies through a cautious lens. Given their cyclical natures, we wonder how going forward, wages that we call "the primary price" and corporate profit margins can both improve. Our view that 2023-2024 profit growth will become harder to achieve is unchanged.

In equity portfolios, we find this to be an excellent time to focus on enduring businesses that are trading at reasonable values and that pay shareholders cash dividends to be patient. For fixed-income investments, we see economic productivity as underreported and underappreciated, and short-term interest rates near cyclical peaks. We view current credit and long-term spreads as too low for serious consideration.

*Gratefully,*  
*Joe, Jim, Ernie, Susi and Lisa*



■ Consumer-price index for all items ■ Eggs ■ Gasoline, unleaded regular  
■ Major appliances

Chart courtesy of the Wall Street Journal / Source: Labor Department

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