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**The Novelli Group
At Morgan Stanley
Private Wealth Management**



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Speeding the Game Up

Baseball's season is upon us with a year that brings three significant changes to speed the play of games and put more action into each inning. With a pitch timer, larger bases and defensive shift restrictions, the game might become a lot more exciting this year!

For different reasons, capital markets are also becoming more exciting this year too. 2023 has brought many competing and opposing conditions that seem to be creating an environment where more 'action' day to day and week to week could emerge.

We've spoken in these pages about the impact of geopolitical conditions forcing companies across the globe to reconsider their supply chains following the pandemic and seek nearer and friendlier shores from which to integrate operations. As war continues in Europe, world powers are posturing and recasting their friends and foes in ways that might make the next 20 years different from the past.

Effects of Intervention

America's capitalism has always worked alongside our democracy running a two-legged race between free enterprise and carefully casted regulatory oversight and constraint. With a country dominated by the rule of law, there have been seasons when policy makers have eased their intervention and seasons when greater involvement has occurred. Between the onset of the pandemic and this year, we are witnessing the effects of intervention in ways that in my humble opinion, might suggest greater levels of market volatility in the years ahead. Let me break down this point of view with a few highlights.

- Following 2008's great financial crisis, monetary policy became increasingly easy with the Federal Reserve focusing on never before techniques beyond interest rate policies known as quantitative easing. This direct market participation led to two distinct outcomes, higher levels of liquidity and relatively lower volatility.
- Following the pandemic of 2020, US policy makers embarked on fiscal support that reached never before scope and scale leading to even greater liquidity and the shortest recession on record as reported by Investopedia, of only 2 months.¹
- Entering 2022, policy makers believed higher levels of inflation would be transitory only to be left on their back foot and entered one of the most aggressive interest rate increases in history, as reported by Forbes.²

¹ <https://www.investopedia.com/articles/economics/08/past-recessions.asp>

² <https://www.forbes.com/advisor/investing/fed-funds-rate-history/>

- Remaking supply chains given geopolitical uncertainty requires significant capital investment, coming at time when capital is getting more expensive through higher rates and more difficult to attain through lower levels of liquidity.

Liquidity and Volatility

In capital markets, liquidity is a key element of security price stability. Highly liquid securities which trade easily day in and day out, like US Treasuries and some of the world's largest public companies are highly liquid mitigating price swings. More thinly traded securities like tax free municipal bonds and small companies which trade rarely often suffer greater swings in price.

The incidence of higher rates and tighter monetary policy sets the stage in our opinion, for greater volatility in the coming years ahead as market participants will be less able or willing to participate in transactions when their cost of capital is higher and their access to capital is tighter.

In an environment like this, portfolios will likely benefit somewhat from stable assets like cash. For many years, returns on cash were so low that many echoed the sentiment that *cash is trash*. Not so much anymore. Money market instruments now pay much better returns than only a few months ago and offer comforting stability. Could we be entering a season of time where we might hear mentioned, cash is king?

Be Thoughtful, Patient and Prudent!

I have long said that investing is a complicated and long-term journey which favors the thoughtful, the patient and the prudent. It takes a lifetime to build a nest egg and it can be wiped out in the blink of an eye!

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