RISING RATES SCARE

A down week for all global stock markets and sectors, as the widely watched benchmark for longer-term interest rates, the 10-year US Treasury Bond rose to an annual yield of 1.5%. This is a pretty big jump from the lows of mid last year, around 0.5%. *"Scary inflation is back",* opined many of the financial pundits, and the resulting broad selling made for a negative week. Continuing the recent trend, the biggest losers were the market darlings that had benefited most from the pandemic shutdown. My regular readers will know I have been warning about crowded positioning and very stretched valuations in these companies (see last week's missive), just as I have been writing about rising inflation and interest rates. A few numbers - the Dow Jones dropped 1.8%, the S&P 500 down 2.5%, and the Nasdaq lower by 4.9%. Our TSX lost 1.8%; **however, all these losses were not enough to detract from making February a winning month for equities, not so much for holders of bonds.**

Federal officials were quick to soothe as Fed Chairman Powell called the recent run-up "a statement of confidence" in a strong economic outlook and played down inflation worries from another big fiscal stimulus package. While prices might pick up in the coming months, he said those increases are expected to be temporary given supply chain constraints. This is economist-speak for not enough supply to meet demand, or the classic definition of inflation *"too much money chasing too few goods".* And with the Biden stimulus package passed, make no mistake this is a lot of money in American consumers hands.

So what to make of it all? Modest inflation and higher interest rates are not bad. Even if the Benchmark 10-year Treasury reaches 2% or 3%, which it very well might over the next year or two, that is a far cry from the double-digit interest rates of the truly inflationary 1980's. If rising rates and inflation are accompanied by rising production in goods and services to meet demand then that translates into a thriving economy **and that means rising profits and higher stock markets ahead**.

Last but not least, a reminder that investing successfully is not easy, no matter how much experience you have. The **"Sage of Omaha",** Warren Buffet, in his annual report, noted an $11 billion (yes, Billion) write-off in a purchase of a 2016 investment in Precision Castparts. As Buffet commented, "I paid too much for the company." And that, in a nutshell, is the ongoing challenge for all investors: differentiating between a good company versus a good price to pay for it.