STONE ASSET MANAGEMENT LIMITED

Sleep well.

STONE SLEEP WELL COMMENTARY

May 5, 2022

I just learned this week that May 4th is Star Wars Day – "May the Fourth be with you." The force sure rang true in the stock market yesterday after the Fed raised rates 50 basis points – the biggest raise in 22 years. Any news, good or bad, somehow finds a way to be received as positive in this market. Our conviction is that the market may not be as good as investors want to believe.

Over the last 10 months we've managed our clients' investments with preservation of capital as the priority, ensuring that our exposure to stocks that could have high risk of price declines were removed, and that the portfolios were constructed with the proper weight to minimize further price risk. It's not that we see anything nefarious in the market, but we do see it as expensive, and we have a strong conviction that central banks will continue to raise rates.

The investment pundits on Wall Street and around the world have been much more hawkish with their expectations of Fed Chair Powell's comments concerning aggressively raising the Fed funds rate and implementing quantitative tightening. In our view, his comments yesterday were consistent with his recent hawkish positioning about inflation and raising rates. The Fed has positioned itself so that over the next four months it can monitor economic data and have the flexibility to modify its strategy as required. We expect going forward the Fed will be focused on using quantitative tightening and interest rates to fight rising inflation. Inflation is nefarious and in our opinion the Fed is now on the right track to benefit us all.

As we have been writing since April of 2020, we knew that the global supply chain would have headwinds in trying to restart and operate smoothly and that remains true today. Since the onset of the pandemic both fiscal and monetary policy have taken a stance of easing and support low interest rates in an environment of low inflation. This relationship has existed for nearly 14 years and in our view the pandemic became the catalyst of change resulting in higher inflation, and unfortunately interest rates have been too slow to move in line with higher inflation rates.

We can all feel it when we're buying food and fuel. Affordability and price are now top priority in 50% of North American households since they live month to month and even week to week with managing cash. High inflation, high taxes and government programs of supporting the economy by putting money in the hands of households and leveraging our national balance sheets is now forcing the hands of central banks to raise rates. While the employment numbers look perfect, it is our expectation that we will see rising unemployment. The risk of a recession in the near future is still on the table. Interestingly, if you talk to the average consumer and hear their outlook on spending, they are already in a recessionary mindset.

Recessions do bring a benefit, and we should soon begin to see fabulous buying opportunities of great businesses. We can't wait! We will remain prudent with our decision making with a focus on preserving the capital in our clients' accounts and having enough cash to buy when the time is right. In the interim, there will be lots of up and down days in the market and you will have emotions running from greed to fear and back again. Our job is to guide us through this volatile time.

Update on recent corporate developments

I founded Stone Investment Group 27 years ago, and it has been a fabulous journey during a time where my industry has experienced continuing dramatic change. To put it simply, Stone is a boutique firm operating in an environment where bigger is better. During the past few years our Board, management team and the Stone family have monitored these changes and assessed how they were impacting the business. While we understood that bigger was better, we recognized that the new threshold of assets under management to remain competitive was a far-reaching growth goal. Collectively we agreed that having a partner for the stewardship of the business in an environment that will not change, would benefit our customers and stakeholders.
Recently we announced that Stone has been acquired by Starlight Investments Capital LP ("Starlight Capital"). This is a wonderful partner for the business and our customers. The investment management style for both firms is so similar that Starlight Capital's CEO & Chief Investment Officer, Dennis Mitchell and I can finish each other's sentences. Starlight Capital provides a new home for Stone's employees, resulting in an expanded investment management team and staff for providing customer service at the standards to which you have grown accustomed, and ensures a vision for the business that can compete in the current industry environment.

I will happily be joining the Starlight Capital family as a member of the Investment Management team and participating in the integration of Stone's Mutual Fund and Private Wealth Management businesses. Following the completion of the transition I will manage the Private Wealth division.

To quote Martha Stewart, "It's a good thing." I look forward to this next chapter and as always, thank you for entrusting your investments with Stone.

Sincerely,

STONE ASSET MANAGEMENT LIMITED

Richard G. Stone
Chief Investment Officer