



Mermaids, Pirates and Sea Monsters

We're trying to imagine what comes next. Who isn't? There's no shortage of useless information--day after day after day, a virtual carpet-bombing of anecdote and opinion. But hard facts? Obvious blazes? No. Crumbs, mostly. We've been loath to add to the cacophony, but we can't just sit by and let you believe we have nothing to add. It brings to mind the Abe Lincoln quote: "Better to remain silent and be thought a fool than to speak and remove all doubt," but speak we shall. This time we start at the beginning.

Early European explorers of the new world - first mocked, then deified and now condemned - must have been a seriously different bunch. Sail west...to where? For how long? On those little ships? With pirates and criminals in the crew and zealots at the helm, the whole adventure must have been considered lunacy. To be in the middle of the Atlantic, as alone as anyone has ever been and completely lost, their imaginations' had to have run wild—mermaids, pirates and sea monsters, along with the more mundane: storms, scurvy, and starvation...the icy deep. Day after day the tension must have built; the Admiral quietly, very quietly, concerned; the Captains, alarmed; the crew, mutinous and of a mind to believe anything.

As you have no doubt guessed, we (the investors) are the crew and we're well past the point of turning back. Of course the analogy only goes so far. We're not all pirates and criminals, but can there be any debate about the state of our Captains' minds? They surely be lunatics. Seriously though, what we seek is a normally functioning economy and democracy. We are decidedly not there, and it's looking increasingly likely that we might have to redefine what 'normally functioning' actually is. We'll get past the pandemic, but can we spend without limit? Certainly not. Are zero percent interest rates and trillions in bond purchases medicine or perfume? What are the consequences of the extraordinary measures taken over the last two recessions? We humbly offer that we don't know. Supply chain disruptions will be solved, as they have always been, but what was deemed transitory inflation now seems less so. And what to make of millions of jobs unfilled with millions of unemployed unwilling to fill them?

Of more immediate concern and the reason for this note, the stress of the voyage does seem to have affected the crew. Meme stocks (questionable stocks pumped up on retail chat rooms), NFTs (non-fungible tokens), cryptocurrencies, and some wildly expensive tech names are all evidence of a speculative undercurrent that is threatening. Every one of the aforementioned themes is unsupported by earnings or promise of payment, the bedrocks of investment. Some of this stuff, perhaps most, is literally worthless. Imaginations are running

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wild; some will believe anything. But we have to admit that we have no idea when or how this will end. Bubbles, more often than not, get much bigger than anticipated. They can get to the point that they suck all the air out of the room, littering far too much of the discourse with siren songs of instant riches. Judged by these admittedly flimsy measures, we're probably not there yet, and we may never get there. In any case, we strongly advise against speculating on these things, but if you just can't help yourself, please don't use leverage to do so. You'll be regrettin' it.

If our analogy has unsettled you, let's end this thing on solid ground. Second quarter earnings for the vast majority of companies were very strong, supporting the markets' year-to-date performance. Back in the early days of the pandemic, analysts were expecting 2021 earnings to only approximate 2019 earnings; they will handily beat that. 2022 earnings estimates are likely still too low, again very supportive of equity prices. Corporate margins, as measured by large public companies, have never been higher. That part of our economy is in outstanding shape. On Main Street it's tougher, but an end to the pandemic and the realities of having to make a living should be positive for economic growth.

Like it or not, we sail west.

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