Good morning readers,

The market roller coaster continued this week, with a Wednesday-Thursday rally minimizing the earlier damage in the week. The Contego team spent Thursday in Toronto with our partners at Dynamic Funds, and appreciated their portfolio managers' perspectives on the current market. Our main takeaway was that the markets are wrestling with the possibility of a "Fed foul up," i.e., the US Federal Reserve raising rates too aggressively in the hopes of bringing down inflation, when the reality is that rate hikes can't and won't solve some of the issues that are causing inflation, such as a very gummed up supply chain.

China has continued its "Covid-zero" approach, despite the mountain of evidence that this approach simply does not work all that well in mitigating the virus, and the economic and social costs are enormous.

"Shipping volume has dipped drastically since early March this year, right after partial lockdowns began in Shanghai. By the end of March, as restrictions continued to tighten up, shipping activity dipped nearly **30%** compared to pre-lockdown levels."

How bad is the backlog? Pictures speak volumes. Click the link below and look at satellite imagery of the port of Shanghai, one of the world's busiest and most crucial ports. Thousands of ships are sitting idle, waiting to either drop off or pick up containers, but there is simply nobody working in the port to make this happen. They are in lockdown.

Vancouver's waterfront warehouses that house the incoming and outgoing goods are brimming over, with less than 1% excess capacity.

"Much of these delays are due to transport issues—an estimated 90% of trucks that support import and export activities are currently offline, which is causing dwell time for containers at Shanghai marine terminals to increase drastically.

Wait times at Shanghai marine terminals have increased nearly 75% since the lockdowns began."

Interest rate hikes will not fix this. Rate hikes similarly won't fix a shortage of construction workers, a massive factor in the North America-wide housing inventory shortfall. Rate hikes won't fix the oil & gas supply shortfalls due to sanctions on Russia. Certainly some aspects of the inflation problem that central bankers are grappling with are transient. They will heal with time. We have to hope the Fed in particular recognizes this, and recognizes the all-time strong labor market and doesn't overdo it on rates. A recession should not happen with the current economic backdrop, but one can be manufactured by a "Fed foul up" (more colorful language may have been used in discussing this, but we will keep things "SFW" as the kids say).

To end on a positive: The AAII Investor Sentiment Survey hit the most bearish (negative) reading we have seen since 1992 this week. Worse than in March of 2020. Why is that good? Since the advent of this survey in 1982, on 8 occasions, the investor bearishness sentiment touched above 55%. A year after those 8 occasions, the S&P 500 was up 100% of the time. It was also up 3 & 6 months later, 100% of the time.

I'm told by my family that I am too negative when I watch sports. Can I now tell them that negative energy begets positive results?

Have a good weekend, nice to see spring temperatures returning after winter’s last stand this week.

https://www.visualcapitalist.com/satellite-maps-shanghais-supply-chain-standstill/

-Penned by Trevor Johnson