

Don't Sweat the Small Stuff....Focus on Impact

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At Seven Summits Capital, we read and listen to many economic, industry, and company-specific analyses. We also consume a significant amount of raw data on a whole host of subject matter.

As we process incoming information, we are alert to anything that would materially change the base-case assumptions that we have developed to inform our investment decisions. The trick to not continually changing course or second-guessing "big picture" assumptions is to expect that much of the information flow we process is essentially irrelevant.

Take inflation expectations as an example. Once we could see that a very effective COVID-19 vaccine would be available, we moved up our timeline assumption for the beginning of an economic reopening process. We assumed that the reopening would not occur smoothly or without fits and starts, but a 2021 reopening became our base case scenario. With that scenario, it was evident that after nearly a year of pandemic-related supply chain disruptions, supply and demand imbalances would create higher than average inflation within some areas of the economy. We also expected that year-over-year GDP comparisons would lead to economic growth readings like we have not seen since the 1980s. Given the nature of the above trend inflation and the comparison anomaly related to GDP, we did not materially change our long-term outlook for either long-term inflation or potential GDP growth from 2% to 2.5% on both counts.

We are now almost three-quarters of the way through 2021. Over the last six months, investors have been inundated with frightening analysis and punditry discussing hyperinflation, stagflation, and an over-heating economy. Yet, we saw no data points during this time which shook our confidence in our baseline long-term economic assumptions. Unlike many who analyze every economic release, we are not under pressure to respond to every month's economic readings and publish "what-if" scenarios or linear trend analysis to increase readership or viewership. Our assumptions are not developed for public consumption, and they are big picture and "normalized" over a long-term economic cycle to match our long-term investment time horizon.

We continue to expect both economic growth and inflation rates to decline from the post-pandemic "shut-down" highs to a more normal range in the 2% to 2.5% range, which is only slightly higher than what the U.S. economy had in the ten years following the 2008-09 financial crisis and Great Recession. As we see it, two primary factors will cause these averages to settle in slightly higher than before the pandemic. First, inflation will likely be somewhat higher due to upward wage pressure is driven by a trend toward higher minimum wage levels and aging baby boomers leaving the workforce. Younger workers are increasingly attracted to the gig economy jobs and remote work options, leaving many employers trying to fill more traditional positions begging for candidates and raising wages to compete. Second, higher economic growth is less secular and more dependent upon policy decisions ranging from immigration, infrastructure investment, and potential changes to the tax structure. Our base case of 2-2.5% average GDP growth assumes materially higher infrastructure investment than we have experienced over the last 20 years. Additionally, on immigration, we see a more constructive immigration policy than during the previous five years, leading to a higher number of legal immigrants, and we see a moderate approach to tax policy emerging from Congress.

To maintain a long-term outlook, an investment manager cannot be reactionary to a constant flow of many times contradictory data points. It is infrequent but not unprecedented that we must significantly adjust our long-term assumptions. We test new information for impact. The meaningful impact is not sentiment impact or market impact, but instead, meaningful impact factors are those which cause one to rethink future assumptions. For example, the surprise presidential election results in 2016 caused us to rethink investments in renewable energy because the adoption timeline was put into question by an abrupt change in federal government engagement on climate change issues. Conversely, when we became very confident that there would be an administration change in 2020, we reentered several renewable energy stocks once again. Likewise, the 2020 COVID-19 pandemic and the U.S. and global response required us to accelerate our assumptions about user adoption of technology and services, which consumers demanded when they found themselves working from home and avoiding physical brick and mortar stores.

We do not consider ourselves "trend investors," however, because we are 100% forward-looking investors, we naturally must form certain significant big-picture assumptions about technology, societal, and government policy matters. For example, I believe that my early years working as a technology, healthcare, and consumer discretionary equity analyst during the dot.com bubble years of 1998-2000 shaped my understanding of the importance of identifying changes that mark the beginning of a secular shift.

Most people would likely point to the commercialization of the internet as the most significant catalyst for change that came out of the period between 1996 -2000. However, at the time, I was much more interested in companies like Citrix, Sun Microsystems, and Cisco Systems than I was with Yahoo, Netscape, and the hundreds of retail-oriented dot.com start-ups. It occurred to me at the time that the internet itself was not the opportunity. Instead, the internet would act as a catalyst that would shatter the decentralized PC computing model and replace it with an enterprise-centric model. It was impossible in the late 1990's to formulate a clear picture of what the "internet age" would look like, but it was possible to formulate a big picture of where technology was headed. The modern "cloud computing" and software as a service (SAAS) business models resulted from the inflection point that I observed in 1998.

Healthcare had a similar inflection point in the late nineties which significantly changed the entire idea of drug discovery. Before the U.S. government-funded "moonshot" program, which resulted in the successful mapping of the human genome, most drug discoveries relied upon biological discoveries of plants or other naturally occurring elements, which in laboratory tests indicated efficacy in treating certain diseases. However, the human genome mapping unleashed an entirely new universe of potential treatments of previously incurable diseases and devastating genetic conditions. Twenty years later, we see the impact of this inflection point in action with the rapid development of highly effective COVID-19 mRNA vaccines. These vaccines were developed by rapidly mapping the genome of this novel virus and using AI computer technology to design a messenger RNA protein that mimics the spike protein of the virus. This mimicked protein does not carry the

virus itself. Still, it tricks our body's immune system into producing antibodies to fight the virus, giving the vaccinated person a custom-designed defense against the actual virus.

When discerning the impact of current economic, technological, or government policy actions, one must resist the temptation to react in real-time. Instead, a forward-looking investor must rely upon an understanding of how previous inflection points looked in real-time, such as the introduction of public education, Henry Ford's assembly line produces automobile, the electrification of America, the interstate highway system, the understanding of Moore's law of semiconductor processing speed, etc. Today we have private-sector space ventures, CRISPR gene editing, artificial intelligence, virtual reality, a rapid leap in robotic technology led by Google-owned Boston Robotics, blockchain technology, a version of Moore's Law applied to solar energy efficiency, and what looks to be the most significant secular investment of the century, the coordinated global effort to combat carbon emission caused climate change. Having started my investing career in the late 1990s during the Dot.com bubble market, I believe what we see today in innovation and public policy-driven investment dwarf's innovations during the advent of the internet and the mapping of the human genome.

At Seven Summits Capital, we could not possibly be more excited about the opportunities we see ahead. Our equity portfolios will continue to reflect our enthusiasm for what looks to be the most dramatic transformation of the world around us that anyone alive today has ever experienced. So, this commentary is going to end with two quotes, one from a brave fictional character and one from a brilliant scientist, that very much reflects what we at Seven Summits fully embrace and on which we endeavor to capitalize:

"You know the greatest danger facing us is ourselves and irrational fear of the unknown. There is no such thing as the unknown. Only things temporarily hidden, temporarily not understood." **James T. Kirk, "The Corbomite Maneuver"**

"We live in a society exquisitely dependent on science and technology, in which hardly anyone knows anything about science and technology." **Carl Sagan**

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