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PERSPECTIVES

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Markets Reflect Truth

By Bill Koehler, CFA, President, and CEO

At a recent meeting of our investment professionals, my long-term colleague Gary Cloud, made a simple and thoughtful point. Gary relayed that over the course of his career, he has learned to "trust the message of the markets." What does that mean? It means wise investors pay attention to the price actions across a diverse range of capital markets. These include precious metals, currencies, cryptocurrencies, commodities (ex energy), energy, as well as areas of the stock and bond markets such as growth/value, small/large, credit spreads and inflation breakeven points.

Following just one or two of these markets, as many analysts do, can send contradictory messages. However, as Gary observed, following multiple disparate markets provides a more robust and complete picture into market signals when tracked collectively. This approach is based on the premise "Markets Reflect Truth." It requires a "trust but verify" mentality in evaluating the efficacy and duration of these market signals. It says market prices and their movements are serious real-time expressions of individual beliefs and preferences made with risk capital. In effect, it is an analytical approach based on the idea that actions speak louder than words thus lending credibility beyond just words and opinions.

Market Prices: The Clearest Window

Every market cycle produces an abundance of opinions. Television commentators confidently forecast recessions and recoveries. Economists debate inflation, employment and interest rates. News organizations craft narratives to explain each day's market movements. Social media amplifies thousands of competing voices, each claiming to understand what comes next.

Yet amid this constant stream of analysis, one source of information, market prices, stands apart in the capital markets, not because it is the loudest, but because it is accountable and timely.

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Unlike commentary or speculation, markets require commitment. Every trade represents a decision backed by real capital. Every buyer believes an asset is worth more than its current price. Every seller believes otherwise. Those decisions carry consequences. Unlike pundits, market participants cannot be repeatedly wrong without paying a price. The discipline and act of deploying risk capital make markets fundamentally different from every other opinion source.

Market prices are not merely expressions of belief; they are the aggregate judgment of millions of individuals and institutions continuously processing new information. They represent the collective intelligence of participants weighing economic data, corporate earnings, geopolitical events, innovation, consumer behavior and human psychology in real time. This is why successful investing begins not with prediction, but with observation.

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Listen and Observe

For many investors, there is a temptation to develop a thesis first, then search for evidence that confirms it. Markets reward the opposite approach. The most durable conclusions emerge from listening to what markets are communicating rather than attempting to force them to validate preconceived beliefs. Prices should inform opinions, not simply confirm them.

Markets are not perfect. Emotion, fear, speculation and exuberance periodically overwhelm fundamentals. Bubbles form. Panics occur. Short-term prices can diverge dramatically from intrinsic value. Yet even those periods contain valuable information, because market prices reveal not only changing fundamentals, but also the expectations, fears and convictions of millions of participants.

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Market Messages Around Warsh

Newly appointed Federal Reserve Chair, Kevin Warsh, has also promoted the importance of observing market prices, arguing financial market prices are among the most important sources of information available to central bankers. He wants the markets to make independent decisions, not for market participants to be dependent "Fed watchers" hanging on every word of "guidance." We agree with Warsh's stance. I think he and Gary have been talking! Price stability, achieving low, stable inflation at the near-2% level, is Chair Warsh's home base message and markets have taken notice. Markets are saying they believe in Warsh.

In fact, market prices sent messages earlier this year, likely in anticipation of his arrival. Precious metals and cryptocurrencies peaked months ago and have since plummeted. Since mid-May when Warsh assumed the chair role, bond yields and inflation breakeven levels have declined further. Concurrently, the U.S. dollar is stronger and more cyclical parts of the stock market, like financial and industrial stocks, have rotated into favor. Policymakers should continue learning from the independent information embedded in market prices. We are bullish on Warsh's leadership of the Fed and believe he will help achieve the proper level of price stability for the U.S. economy

Signals and Stewardship

In an era dominated by endless commentary and instantaneous news, it is easy to mistake confidence for truth. Headlines describe yesterday. Opinions compete for attention and may contain embedded biases. Narratives often adjust after markets have already moved.

Markets are not perfect. They never have been. Yet over time they possess an extraordinary ability to reconcile optimism with reality, conviction with consequence and opinion with evidence.

For those entrusted with stewarding capital, the obligation is not to outguess the markets, nor to follow every fluctuation, but to continually listen, observe and discern what market prices are revealing. The steward's responsibility is not to predict every outcome, but to faithfully interpret what market prices are revealing and to allocate capital accordingly. This discipline provides the foundation for thoughtful decisions, prudent risk management and successful long-term stewardship. Gary, thanks for the insightful reminder. Markets do reflect truth.

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