

**Technology** as a sector, has been leading the market this year. Over the last decade this sector has done very well, typically leading bull markets. Last year, it was the worst performing sector.

So, what is the difference between this year and last?

Well, as interest rates started to rise, technology (growth stocks) started to fall in value. Growth stocks as a whole are long-term assets and their value is based on anticipation of future growth. When interest rates rise that growth is effectively discounted and valuations drop. Technology companies also tend to need constant capital infusions that get more expensive as interest rates rise.

Recently, we experienced the quickest rise in interest rates in history by central banks in order to fend off inflation. However, the market seems to be anticipating stabilization in interest rates and eventual retraction and as a result, we are seeing technology shares starting to rise.

Since 1987, growth stocks have tended to trade inversely to interest rates.

I think there are two forces at work in the market right now. One is anticipation of stabilization and eventual reduction in interest rates and the other is recession as the economy gets squeezed by those higher interest rates. Hmmmm.

**Bull & Bear Markets as you age ...**



**# of bull and bear markets you have lived based on your age (S&P 500)**

Age	Since	# of bear markets	# of bull markets
25	March 1998	4	3
35	March 1988	4	3
45	March 1978	6	5
55	March 1968	8	7
65	March 1958	10	9
75	March 1948	11	10
85	March 1938	11	10
95	March 1928	12	11

CIO Office (Data via Refinitiv, Case Shiller). As of March 1, 2023. \*To count as a bear (bull) market, the period must cover both the peak (bottom) and the subsequent bottom (peak) of a given cycle. Bear markets = drawdown of at least 20%, Bull markets = rally from bear market bottom to subsequent peak.

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- They will all feel different
- They will all test your abilities
- They will all make the headlines
- They will all test your financial plan
- They will all hurt/excite you
- They will all ... **END**

I think Artificial Intelligence and Cyber Security have significant potential in the technology space.

An easy way to participate is to own the backbones like Alphabet, Microsoft, Nvidia, Advanced Micro. The same can be said in cyber security space where leadership is among four or five names.

What about a recession? Well, given the balance sheets of many technology companies and an economy that still has full employment, I suspect any recession will be of the light in nature. I am more interested in what these types of companies will be worth in a few years, particularly given the pullback in their shares last year.

Sure, there are some adjustments. For instance, semi-conductor demand for vehicles will likely fade a bit from major shortages last year if car sales weaken with rising interest rates. Otherwise, stay the course owning technology as one of several diversified sectors within your portfolio.

\*I and/or my family own shares in the companies mentioned in this letter.

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Best,

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Sources: NBF, Stockcharts.com, Fidelity, Reuters

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