Eliot Finkel Investment Counsel, LLC

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First Quarter 2023 Update and Commentary

Generating safe returns for our clients is the primary goal at Eliot Finkel Investment Counsel. Successful investing requires patience and a long investment horizon. Our focus on company fundamentals and economics backed by 49 years of experience and in-house research continues to produce superior results. This, plus the personal service we provide, explains why our clients have been with us, on average, over 18 years.

Successful investing is best measured over the long-term. Since the dot com bubble broke in 2000, we have generated 7% annual returns for our clients, significantly outperforming both the S&P 500 (5%) and tech heavy Nasdaq (4%). An investment with us in March 2000 would now be worth 78% more than an equal investment in the S&P 500.

Since January 2022, the S&P 500 has dropped 11% while the Nasdaq has dropped 18%. The portfolios we manage are down 1%, further evidence of the safety we provide. Performance in a bear market is what distinguishes the best investment managers from the rest.

The Federal Reserve now has two competing concerns to address - inflation and the banking system. To combat inflation, the Fed has raised interest rates 4.75% since January 2022, the largest set of increases in over 40 years. Controlling inflationary expectations is important for the long-term health of the economy.

Major factors driving inflation today are the low unemployment rate (3.5%) and large number of unfilled job openings (9.9 million). Preventing a wage-price spiral is necessary to controlling inflation and the damage it causes. Other factors driving inflation include the cost of building more secure supply chains and the cost of minimizing climate change. The benefits of securing supply chains and reducing climate change will be a stronger, more sustainable economic future.

The Fed's other major concern is the banking system. When the interest on government bonds recently rose to exceed bank deposit interest, depositors withdrew $160 billion to purchase money market funds. Some banks had to sell assets at a loss to cover the withdrawals thereby depleting their required reserves. To help out temporarily, the Fed lent banks over $160 billion in March, accepting government bonds at above market value as collateral. This calmed the banking system.

The loss of deposits will make banks more cautious with their lending going forward, especially small and mid-size banks which are major suppliers of commercial real estate loans. Any reduction in bank lending should slow economic growth.

Meanwhile, the Fed's determination to control inflation is showing results. Supply chain issues, manufacturing output, real estate prices and job openings are all moderating. Economic cycles are inevitable, but we appear well prepared for a slowdown and the Fed is committed to minimizing the long-term damage.

Thank you for your interest. For more information please call 310-271-2521 or visit our website at efinvest.com.

* Past performance is no guarantee of future results and does not preclude the possibility of loss.