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## Weekly Market Flash

### The Year In Three Phrases

*December 30, 2022*

This is our last weekly commentary of 2022, so it seems like a good time to reflect back on the year that has been. Next week we will go charging head-on into the year ahead, and whatever things good, bad and otherwise that may entail. Not too many investors will be sad to bid goodbye to 2022, but we will duly note that it could have been worse, on many levels.

Every year has its own bespoke words and phrases that attempt to capture and bottle the essence of the twelve months just passed. Here are our three contributions.

#### #1: *Zeitenwende*

The most important story of the year began on February 24, when Russian troops poured over the border into Ukraine and ignited the biggest land war on European territory since 1945. Not only did the invasion almost immediately change set beliefs about Russia's military prowess, which proved to be far inferior to the requirements of the task at hand, but Ukraine's brave resistance reshaped the military and political contours of Europe and its allies. The German word "*Zeitenwende*" means "turning point," referring to Germany's reversal of decades of determined non-intervention in regional military affairs to supply desperately needed resources in support of Ukraine's efforts. The map of NATO expanded to the border of Finland and Russia, exactly the opposite outcome from what Vladimir Putin expected would happen when the divided West of his imagination failed to unite in response to his bellicosity. Europe's dependence on Russian energy, though still a problem, proved not to be a dealbreaker for the imposition of meaningful sanctions including most recently those implemented last month against Russian crude oil.

The war in Ukraine is sadly far from over, but by now it is fair to say that it has been a very bad year for Putin. In fact it has been a bad year for autocrats generally and a relatively, and surprisingly, good year for democracy. Jair Bolsonaro lost his bid for a second term as Brazil's president. Xi Jinping, though consolidating his power for another term (at least) as China's "great helmsman" was forced to pivot abruptly from his inane zero-Covid policy when mass protests broke out systematically across the country this fall. Even in the US, the midterm elections mostly resulted in a victory for moderation over some of the most extreme elements of our still-troubled political discourse. Perhaps this year will eventually come to be seen as a "turning point" in more ways than one – only time will tell.

#### #2: *Crypto Winter*

There are no doubt many phrases that could encapsulate the reversal of trends in so many asset classes this year, most of which can be traced directly back to the end of easy money and the beginning of the Fed's campaign to bring down inflation from its highest levels since the 1980s. But the complete meltdown in cryptocurrencies stands out for a number of reasons. Recall that it was just one year ago when this asset class, which has never convincingly demonstrated that it has a genuine use case outside of shady dealings on the dark web, seemed poised to go full-on mainstream. Fortunately for those of us who resisted the hype of crypto evangelists at their fervid peak twelve months ago, the crypto takeover of "tradfi" (traditional finance) was forestalled by its collapse. That is fortunate because the fall of cryptocurrencies could have been a whole lot worse for many more people had the asset class become a bigger part of the financial holdings of systemically critical financial institutions. The spectacular fall of

Sam Bankman-Fried and his FTX empire in November was likened to a “Lehman moment” for cryptoworld – the difference being that there were enough linkages between Lehman Brothers and other major institutions to nearly bring down the entire financial system. That didn’t happen with crypto winter.

The easy money conditions that gave life to 2021’s darlings – crypto, meme stocks, “Uber of X” technology moonshots – are very unlikely to be coming back any time soon. It is entirely possible that crypto winter could be followed by a spring of sorts for digital currencies – but those are more likely to be of an ilk driven by central banks than by video game-playing dudes in cargo shorts.

### **#3: Polycrisis**

Polycrisis is a word that gained considerable traction in 2022 thanks in part to its liberal use by Adam Tooze, a Columbia University professor and the publisher of Chartbook, a newsletter widely read by economists and other denizens of the financial marketplace. It refers to the parallel existence of many problems at the same time, which does seem to be applicable to the world we inhabit. The daily challenges presented by sticky inflation and high interest rates contend for our attention with other unfolding crises such as climate change and demographic ageing, which in turn fade into the background when simmering geopolitical tensions boil over.

We will have much more to say about the polycrisis theme in our upcoming annual outlook next month. For now, though, we would like to remind you of something we used to feature at MV Financial in our marketing materials: the Chinese character for “crisis” is a compound made up of the characters for “danger” and for “opportunity.” Yes, there are many crises we are facing today, and there is danger contained therein. But there are also opportunities. We believe we have seen some evidence of that this year, including in some of the events we have described in this commentary. From the danger of Russia’s aggression came the opportunity for strengthening the alliance of democratic nations so often accused of being divided and soft. From the danger of high inflation came a necessary repricing of risk and return in financial markets. The ride is not always smooth – but we continue to believe there is always a way to see the path towards a solution even in one’s darkest days.

We wish each and every one of you a healthy, happy and joyous New Year.

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