



Principles and Performance®

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Three Approaches to Investing in Today's Volatile Market

When the president of the Federal Reserve emphasizes the "pain" that will be required to bring down inflation, as he did at Jackson Hole in August, it's probably a good time to check your portfolio. In doing so, you may find that stocks in sectors like technology, consumer discretionary, materials and housing are feeling the most pain. This might not be surprising. But it can be more challenging to discern which investments are poised to perform relatively well over the next few months. Below are three investment ideas for today's market.

#1: Businesses That Thrive on Risk

While most businesses are challenged in the current environment, some companies experience greater opportunity when risk is high.

Intercontinental Exchange (ICE) is a wide moat business that is well-positioned for a rising interest rate and high inflation environment. Through

the operation of its exchanges, ICE provides exposure to commodities markets and benefits from increased volatility in financial markets as customers are more likely to hedge more frequently. **Verisk** (VRSK) is a predictive data analytics provider offering risk management solutions to financial services, insurance and energy companies that may attract more customers when uncertainty is high. The company benefits from its status as a near-monopoly and has very high subscription renewal rates that support its pricing power.

#2: Super Solid Wide-Moat Businesses

It's likely that company earnings will be revised to the downside, but businesses that have very wide moats that allow them to raise prices without losing customers, pristine balance sheets and ample cash are more likely to avoid the steepest revisions.

Mastercard (MA) and **Canadian Pacific** (CP) are two examples of wide moat businesses that may weather stormy markets better than companies with weaker fundamentals. Mastercard is an established payments network with a sticky client base. The company has a strong moat: as replicating its network would be incredibly costly. Canadian Pacific offers a relatively cheap, efficient choice for long-haul transportation coupled with fully established track infrastructure that creates high barriers to entry. Canadian Pacific is also piloting a project to develop North America's first hydrogen-powered locomotive with zero emissions technology.

Today's Pain May Create Tomorrow's Opportunities

While we believe it's important for long-term investors to have a strategy for navigating volatile markets, it's equally important that investors keep the long view in mind when the market is falling. Although current volatility may be impacting entire industries, such as semiconductors and housing, with each drop in stock price, the high-quality companies in these industries are becoming increasingly attractive opportunities for active investors when the market regains its footing.

#3: Participants in the Commodity Boom

When oil and gas prices are elevated, investors may seek opportunities to participate that don't require owning fossil fuels.

Linde (LIN) is the largest industrial gas supplier in the world, with only a handful of competitors globally. The company manufactures and sells atmospheric gases and sustainable transportation fuels. Linde leverages a unique business model to support its consistent revenue growth. **John Deere** (DE) is a wide moat company with exposure to commodities. The company employs precision agriculture technology to make farming processes significantly more efficient, helping to feed more people with less land and cost. Deere is also investing in ethanol fuel.

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