



Cautious Optimism

John M. Gustafson – 30 March 2024

“Never make predictions, especially about the future.” - Casey Stengel

In some ways it's nice to see things play out as we predict, but it makes it challenging to have a new “take” on what we're seeing in the economy, the markets and politics. So far, this year simply hasn't been highly surprising based on our previous expectations. There remain plenty of concerns for sure, and I will point them out again as best I can, but the good news is that the slow, grind higher has been a refreshing change from the chaos of the past several years.

The strong stock performance does contrast with the bond market, where yields have stabilized after a period of significant increase and volatility. And recent economic numbers may have paused the Federal Reserve actions, but they are clearly on a glidepath for a soft landing without recession.

Currently, market participants are sure that even if rate cuts take longer than originally expected to materialize, there is a far smaller chance for further increases. That reality is appearing in mortgage and other commercial lending rates that peaked in the fall and have begun to settle back toward historically normal levels recently.

“A man always has two reasons for doing anything: a good reason and the real reason.” - J.P. Morgan

We do have a bit of a governor on our potential economic growth – one that we've experienced for years: our continuing immigration problems. It has become such a politicized discussion the past decade or so – and actually back into the early 20th century when different foreigners were frowned upon than what we see today. The reality remains that we need more people to fuel our continued economic growth.

The fact remains that there are currently more job openings than there are people on unemployment or looking for work and Americans just don't move for jobs the way we did in the past.

The previous administration did a lot of talking about “illegal” immigration, but until COVID allowed border policies and asylum laws to be suspended for a health emergency, it didn't really do much to stem the flow. The one thing they did do was almost completely halt “legal” immigration. It was one of the reasons so many of our allies in Afghanistan remained in that country after our disastrous retreat and put into limbo a significant sleeve of highly skilled, technical employees across the tech landscape.

The American economy needs workers and despite all the political noise regarding crime and violence, jobs are the catnip that draws the vast majority of immigrants (both legal and otherwise) to our shores. And one thing we have all seen in great detail these past few years is that there are plenty of corporations around the country who rely on non-documented labor to function. Not just agriculture...

It would be nice if we could get back to the days where politicians tried to legislate and solve problems rather than simply point fingers and cry on TV. In my old corporate life, if you highlighted a problem without proposing a solution it was called “recreational complaining” and that behavior wouldn’t put you to the head of the line to get promoted.

“Nearly all men can stand adversity, but if you want to test a man’s character, give him power.”
- Abraham Lincoln

Right now, the election picture is like Yogi Berra exclaimed, *deja vu* all over again! The same two guys with the same rhetoric – it’s as if the last campaign failed to end. One side spewing nonsense propaganda at every opportunity and the other trying to get folks to appreciate the reality of the current economy. Unfortunately, doomsday messaging always has an audience because that is how humans are wired. We all know this, and social media algorithms are designed to exploit it.

In the investment world there are no such things as “alternative facts,” but it has become a staple in American politics and it will certainly enhance volatility as election day draws closer. It is the reason for the title of this note and the reason we continue to hold excess cash despite the reality of the business economy.

I’m not sure when the tide will fully turn or if this is simply the new reality driven by social and partisan media, but we will continue to deal with reality on reality’s terms to navigate these choppy financial waters.

“Great minds discuss ideas; average minds discuss events; small minds discuss people.” - Eleanor Roosevelt

Also, because the Presidential election is such a focus this year and Congress continues to have such razor-thin majorities, I don’t expect any actual legislation to pass for anything. Simply more recreational complaining to motivate the base and most importantly (to them) raise money.

There is one interesting scenario brewing to keep on our radar – the House GOP seems to be slowly killing itself to halt a takeover. So far, there have been more than a dozen Republicans who have not only stated they will not seek reelections, but that they are leaving office within days and have now closed that majority down to one vote. Some are forcing special elections where holding the seat seems unlikely in the future.

Because the outrage over the most recent bipartisan budget deal may cause another Speaker to be tossed over the side, there is a slim chance that a Democrat takes the gavel simply to avoid more chaos from members who entered Congress looking to become famous rather than actually governing.

From what I can uncover, nothing of this nature has ever occurred previously in our government – a party basically ceding power across the aisle to ward off their internal extreme flank. It truly gives context to the old Chinese curse, “May you live in interesting times.”

“An intelligent investor is a realist who sells to optimists and buys from pessimists.” - Benjamin Graham

Perhaps truer words have never been spoken to outline the “why” markets have crept higher. We have previously discussed the “wall of worry,” but this gets to the real, psychological differences currently and why we need to listen to all the noise and learn to discern the reality from the nonsense.

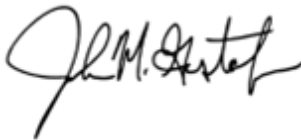
Despite the insanity on the horizon, my overall market outlook for 2024 remains cautiously optimistic. Stock market performance will hinge on factors like corporate earnings growth, economic data, and the trajectory of interest rates as they always do – however, we remain locked into the never-ending, political clown season that will continue to surprise everyone in the short term.

What that means is that we will continue to invest when we see a strong opportunity and will likely continue to hold a decent level of cash. The good news on that front is that we make money on those cash holdings now, unlike the previous decade where it was an anchor in the mix.

Our global mix remains U.S. focused as despite our political problems; we still have the best economy that rebounded from COVID far better than much of the world. And other than the technology sector that is close to fully valued at current levels, the rest of the industry sectors don't show any serious red flags. At least when it comes to valuation levels.

Thank you, as always, for your business and friendship and never hesitate to reach out if you have questions, comments or just want to catch up on the world.

Cheers!

A handwritten signature in black ink, appearing to read "J.M. Gustaf". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.