

**First Quarter 2024**

# Economic and Market Commentary

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The year was 1733, and a small naval ship named Anne traveled 20 miles up river to be greeted by Tomochichi, leader of the local Shawnee Tribe. The expedition was led by General James Edward Oglethorpe at the request of King George II of England.

Oglethorpe was charged with establishing a buffer in the American colonies between the British controlled Carolinas and Spanish Florida. With the aid of Indian traders, John and Mary Musgrove serving as translators, he did just that. On February 12 of that year, he established the colony of Georgia and an outpost destined to become one of America's most beautiful cities—Savannah, Georgia.

## **Savannah Grows Quickly**

Designed in a grid pattern featuring 22 park-like squares, the town wanted air to move freely to help stave off the summer's stifling heat and humidity. Within its first 40 years, Savannah developed into a thriving seaport, the southernmost seaport in the Thirteen Colonies and the capital of Georgia.

Through most of the Revolutionary War, the city was occupied by the British. Numerous attempts were made by French and American troops to retake the city, but all failed. The city remained under British control until the end of the Revolutionary War. Back in American control, the city grew and developed its own rich and unique cultural heritage.

By the time of the American Civil War, Savannah had grown to be the Confederacy's sixth largest city and a prime target for Union General William Tecumseh Sherman's, "March to the Sea." The city's leaders negotiated a peaceful surrender of the city which helped preserve its graceful architecture and diverse cultural institutions. They included the First African Baptist Church, one of the oldest African-American Baptist churches in the U.S. along with Temple Mickve Israel, the third oldest synagogue in America as well as the Telfair Academy, the first public museum in the South.

## **Favorite Sons and Favorite Daughters**

Over the years, Savannah has produced a myriad of the most accomplished people among them John C. Fremont, explorer, military officer and first Republican presidential candidate in 1856. Wonderful author Flannery O'Connor set many of her stories in her beloved Savannah.

Bucky Dent, the New York Yankee short stop, helped the city win two World Series before becoming the Yankee's Manager. Let's not forget Supreme Court Justice Clarence Thomas, who has been on the court for more than 30 years. As accomplished as these people are, none of them will serve this writer's purpose in moving the narrative along. The focus of my attention comes from a prominent Savannah family who embraced music and hard work. For now, we'll refer to him as Johnny.

Johnny's family roots in America go back to the American Revolution when one of his ancestors was a revolutionary war general who died at the Battle of Princeton. Johnny's aunt once told him that she had heard him humming music in his crib at six months old. Our young musician was born during Teddy Roosevelt's presidency. Although he had no formal musical training, you could say he was born for it. By age six, he was singing in the church choir. His Black friends turned him on to the music of Ma Rainey, Bessie Smith and Louis Armstrong. By the time he was a teenager, he was already the child of the Jazz Age. By age 19, he'd moved to New York, living meagerly in Greenwich Village.

By day, he worked in a brokerage house, and at night, he sang on the Vaudeville stages trying to sell the songs he wrote to the likes of Eddie Cantor and Bing Crosby. His persistence and talent eventually paid off when Hoagy Carmichael, already famous for his song, "Stardust," asked him to write some songs for him. The next year their collaboration, "Lazybones," flew to the top of the charts after just one radio broadcast. By the early '30s, Johnny was a fixture on Tin Pan Alley, the very center of American song writing. I am, of course, telling you about one of America's great lyricists, Johnny Mercer.

## **The Beat Goes On**

With the success of "Lazybones," Johnny Mercer was launched. By 1935, he left the confines of Tin Pan Alley and headed west to Hollywood. By then talking movie pictures had really taken hold. They represented hours of escapist entertainment and great value to everyday Americans fighting the gloom and hardships of the Great Depression. Now it was time for gaiety on the big screen, and the Hollywood musical was born.

The 30s were a most productive period for Johnny, whose creative life spanned five decades. During this period, he wrote the lyrics for songs like, "Jeepers Creepers," "I'm An Old Cowhand from the Rio Grande," and "You Must Have Been a Beautiful Baby." Quick, witty and with an uncanny ability to weave words into memorable stories, Johnny had America singing along with him for the rest of his long and productive life.

During the 1940s, Mercer wrote American standards like, “One For My Baby and One More For the Road,” “Fools Rush In,” “That Old Black Magic,” and one great song I’ll about to tell you about that was written for a most unremarkable film.

## Der Bingle

Fresh off his Oscar-winning performance as Father O’Malley in “Going My Way,” Bing Crosby signed on to star opposite Betty Hutton in the movie, “Here Come the Waves.” Not one of Crosby’s more memorable movies, but the movie did feature a Johnny Mercer song so good it earned an Oscar nomination for Best Original Song. Alas, the Oscar eluded Johnny and was instead awarded to Rogers & Hammerstein for their song, “It Might As Well Be Spring.” Don’t feel bad for Johnny. Although he lost in 1945, he came back the very next year and won an Oscar for his song, “On the Atchison Topeka and the Santa Fe,” just one of four Oscars Johnny would ultimately win for his lyrics.

## And the Envelope, Please

The song from “Here Come the Waves” that I alluded to before is titled “Accentuate the Positive,” a song whose lyrics help frame the substantive economic narrative contained in this commentary.

Here are the opening lyrics to the song’s chorus:

*“You’ve got to Ac-Cent-Tchu-Ate the positive*

*E-lim-i-nate the negative*

*And latch on to the affirmative*

*Don’t mess with Mister in-Between...”*

**For the whole song, there is a You Tube sing-along with lyrics featuring Bing Crosby and the Andrew Sisters that you might enjoy.**

It’s at this point that I would veer away from Mr. Mercer’s advice when it comes to markets and investments. It’s here that I’m reminded of Sir John Templeton’s (founder of the Templeton Growth Fund) sage observation that “Bull markets are born on pessimism, grown on skepticism, mature on optimism and die on euphoria.”

## Let Me Bring It Home

Think of the condition of the American economy at this moment as a barbell weighted at one end with a ton of positives, and at the other, with an equal amount of negative challenges.

The market has enjoyed a prodigious run up over the past 15 months powered by strong earnings and innovative technologies along with the recent acceptance that how we view the workplace has changed forever as viewed through the lens of a post-pandemic landscape.

Now when one is looking to accentuate the positive they would point to:

- America's necessity to rebuild our defense stockpiles. This creates jobs and drives productivity. Think of how the underused Detroit automobile plants of the 1930s were converted into around-the-clock powerhouses producing bombers, tanks and jeeps, or think of all those "Rosie the Riveters" in Marin City and Richmond producing Liberty ships. This work literally pulled America out of the Great Depression by its bootstraps.
- Innovations in technology and robotics are constantly enhancing productivity, quality control and earnings. It's been earnings growth that has been the driving catalyst in the equity markets recovery since late 2022, and future corporate guidance continues to be positive. Some of these technologies are in their infancy stages, like "Large Language AI", but already they are being implemented across industry lines. Next time you're in a Safeway, Rite Aid or Walmart, take a look at the proliferation of self checkout stations if you want to see just the tip of the iceberg.
- The obesity drug revolution is just underway. These GLP-1 hormones are now tackling a whole host of co-morbidity factors, from cardiovascular risks to liver failure to substance abuse and even Alzheimer's. It's only a short matter of time before these treatments can be taken orally adding years to life expectancy while dramatically reducing the cost of healthcare (a key inflationary component).
- With America's newfound recognition of the paradigm shift that has occurred around flex time and remote work, more prime age workers (those ages 24 to 54) have been coming into the workforce. Yet unemployment remains near record lows.

The list of things to take heart in could certainly go on, but it's time to turn our attention to Mr. Negative, and he has a lot going on as well. At the time of this writing, Iran has launched over 300 missiles and drones into Israeli airspace, the first time strikes have been made emanating from Iran itself and not one of its surrogates.

During the same time period, for the first time in American history, a former president showed up in a federal courtroom as a defendant in a criminal trial. No matter what one's political disposition might be, it's obvious we're in for the most contentious presidential election in our lifetime. The Ukrainian War has entered into its third year, and China continues to closely watch the West's response and support as it formulates its own strategy toward Taiwan.

The tenor of Americans' discourse in engaging each other reflects a grossly bifurcated population not seen since the Vietnam Era. Border and immigration policies need to be overhauled. Secure, safe borders are a must, yet we still want to be that 'shining city on a hill' that attracts a new generation of Americans who will richly add productivity to the American fabric.

We continue to run up our national debt and operate on borrowed money. Our infrastructure continues to decay and business and development often have to deal with paralyzing regulations. Inflation, although down significantly, continues to be sticky. Environmental issues abound, not just here but globally. The opioid epidemic and our efforts in eradicating homelessness have produced very anemic results. Wow, I'm going to have to stop before I scare myself.

### So Let Me Ask You This

How would you try to lift a barbell off the ground? Would you try focusing on lifting it from just one end? Would you run back and forth, first trying one end, and then racing to try the other? Of course not. You'd plant your legs wide apart, center yourself in the middle of the bar, and lift. If you didn't try to bite off too much and kept realistic expectations, you'd succeed. That's what I call Mr. In-Between.

### Conclusion

One can never get cocky when viewing market performance. The market's strong performance in the first quarter of 2024 coming on the heels of last year's market surge have led some skeptics to think the market has gotten ahead of itself and is poised for a major decline. The first couple of weeks of April have been choppy, and it's important to remember the old market adage that "trees don't grow to the sky." It's been almost six months since the market has seen anything close to a 5% pullback. Pretty unheard-of. On the other hand, we have already seen the S&P 500 Index hit 22 record closes year to date, so a modest recalibration can be healthy.

This is not a market where rising tides will lift all boats. This is a market that will reward innovative, well-run companies that demonstrate increased earnings, sound management, strong financials and discipline. Companies without strong earnings potential will not be rewarded; they will be punished.

Most economists we follow predict a slowing in U.S. growth to somewhere in the 2 to 2 ½% range. Fed watchers are now forecasting fewer rate cuts that probably won't start, if at all, until the second half of 2024. You won't see rate cuts too close to election time to avoid the appearance of the fed playing politics.

It's a given that over time stocks typically trend higher. The rub is that many investors fall victim to their own emotional swings, and don't have the discipline to sit tight in a well curated and diversified portfolio of quality companies. Professional investors often refer to this phenomenon as "Renting Returns and Owning Risk." Perhaps if I were a songwriter, my market advice, put to music, would have a chorus like this:

***"You've got to temper your enthusiasm***

***Don't fall victim to your pessimism***

***Never lose your realism and***

***Stay good friends with Mr. In-Between"***

It's my hope this spring is a happy and healthy one for you. As always...

With Best Regards,

Ray Lent

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Enclosures