

Second Quarter 2024

Economic and Market Commentary

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Right around the time gold was discovered in California, a baby was born in Ware, Massachusetts. His parents named him William Arthur Cummings. By the time William turned four, his family moved to Brooklyn, New York, where he was popular with friends, a good student with an inquisitive mind and a constant tinkerer.

As the years went on, William grew to be a little taller than average height, but was also thin and wiry, weighing in at 120 pounds sopping wet. By then he had acquired the nickname, “Candy,” a sobriquet that stayed with him for the rest of his life. By age 15, Candy was the star pitcher on his high school team. By the very next year, he was playing semi-professional baseball with the Brooklyn Excelsiors against men twice his age. A leading baseball writer of the day, Henry Chadwick, after spectating a game in which Candy pitched for his Excelsior club wrote, “Watch out for this young man. He has a most promising future.”

She Sells Seashells By the Seashore

While amusing himself at the beach one hot summer day, Candy noticed that when he threw seashells into the ocean with a certain snap of his wrist, he could make them drop down quickly from their otherwise natural trajectory. That made him wonder if he could throw a baseball with the same effect. Not realizing it at the time, Candy had discovered what came to be known as The Magnus Effect, a law of physics documented by Gustav Magnus of the university of Berlin just several years prior.

Simply put, the Magnus Effect is a force that acts on spinning objects in the air. If an object experiences backspin, the air under the object is moving quicker than the air moving on top of the object, creating lift. This allows the object to travel farther before gravity ultimately pulls it down. Think of a fast ball in baseball. Now, on the other hand, if the object is traveling with top spin, it produces a downward pressure that makes the object drop quicker than mere gravity alone.

Candy perfected this throwing technique and invented what we call today “The Curve Ball.” On an early fall afternoon in 1867, Candy introduced the baseball world to the curve ball by striking out hitter after hitter from the Harvard College team, thus inventing one of the most confounding pitches in baseball. A must have in any pitcher’s arsenal to this very day.

We Were All Thrown A Curve Ball

Like 50 million other Americans, the evening of June 27 found me glued in front of my television set to watch the First Presidential Debate between former President Donald Trump and our sitting President, Joe Biden. This early debate, by historical standards, was orchestrated by the Biden campaign to reinvigorate a stalled campaign which had gained little added momentum in spite of the former President's 34 convictions on felony counts, in a New York court room, just weeks before. Ten minutes into the debate, viewers' attention was drawn to President Biden's frail appearance and his often mumbling, confused and rambling answers to debate questions.

Like watching a tennis match from center court, heads shifted 180 degrees, and the public started blinking while asking themselves if they could believe their own eyes. Even if President Biden were to be re-elected, the question in everyone's mind was does he have the physical and mental capacity to lead the free world for another four years plus. Many were doubtful, and by the time you receive this commentary, someone else may very well be at the top of the Democratic ticket.

After June's debate, the Democrats found themselves in a precarious situation to say the least. And here I was poised to write about the election of 1892, the last time a former President ran against a sitting President.

In this case, it was Grover Cleveland, America's 22nd President, in a rematch against the incumbent and 23rd President, Benjamin Harrison. Parenthetically, the campaign was dignified and understated compared to the other Post Civil War elections that had occurred. For the third straight time, Cleveland won the popular vote, and unlike the election of 1888, he also won the electoral vote, thus becoming America's 24th President.

It quickly appeared to me that this election cycle might prove to be more closely aligned with the Presidential Election of 1968, the last time an incumbent President chose not to run for re-election. That year found the sitting 36th President, Lyndon Baines Johnson, with a disastrously low approval rating. Despite a remarkable domestic record which included The Civil Rights Act of 1964; the creation of VISTA (the domestic counterpart of the Peace Corps); passage of the Voting Rights Act; immigration reform; The Fair Housing Act; the passing of Medicare and Medicaid; and launching The War on Poverty, his undoing was a direct result of America's involvement in the Vietnam War.

A Hard Decision

1968 found the United States greatly divided over the War in Vietnam. Four years prior, Johnson was elected in a landslide over Republican challenger, Barry Goldwater, by painting Goldwater as an unhinged war monger. The effort was best encapsulated by "The Daisy Ad." The Daisy ad pictured a small girl picking petals off a daisy, next a strong male voiceover starts a countdown, and then a mushroom cloud appears in the background from the explosion of a nuclear bomb.

When the votes were tallied, Johnson had won 44 states and 456 electoral votes. By re-election time, much of America's perception of Johnson had soured. The January "Tet Offensive" against South Vietnam was a huge psychological victory (although not a military one) for the Viet Cong and North Vietnamese Army.

On the home front, America was in turmoil. By mid-March, Johnson barely won the New Hampshire Primary, and his approval rating was a dismal 36% (roughly what President Biden's was just before the debate).

Always a realist and dealing with health issues, Johnson held a press conference on March 31 at which time he announced, "I shall not seek, and I will not accept, the nomination of my party for another term as your President." That was the last time a sitting President chose not to run for re-election, and that's what I decided would become my new historical introduction to this quarter's commentary.

Little Did I Know

About two hours ago, I decided to take a break from writing and made myself some lunch and a cup of coffee. I sat down in front of the TV to eat my sandwich and turned on the news to quickly learn that there was an assassination attempt made on former President Donald Trump's life. Fortunately, it was unsuccessful, although he was nonetheless grazed by the assassin's bullet. Tragically, one spectator at the rally was fatally shot, and two more critically wounded. Ironically, 1968 does turn out to be a most appropriate and analogous year to use for this column's content because not only are we facing the possibility of an incumbent President not running for re-election, but now we are reminded how bloodshed and political assassination can rise to the forefront in a fractured society. Remember, 1968 was the year that Martin Luther King and Robert F. Kennedy were both assassinated, and third-party segregationist candidate George Wallace was paralyzed for life by an assassin's bullet.

Let Me Bring It Home

As always, this commentary never endeavors to engage in partisan politics. My views are my own, just as your views are yours. What I do fervently believe is we are all entitled to see our political leaders behave in a respectful and civil manner, both toward each other and toward us, the electorate. I believe we all want to see thoughtful intellectual discourse be the norm, not the exception. Perceiving ourselves as blue states and red states, and forgetting the fact that we are the United States endangers us all. Perhaps this near brush with national tragedy will enable us all to step back from the brink.

So with that simple and most basic premise stated, allow me to move on to the intended economic and market-based substance of this commentary which is to emphasize the foibles of political-based investing. Some call it "voting with one's investment portfolio."

Allow me to propose an experiment: Suppose, just suppose, for a moment you felt your party knew best how to run the country's economy. In fact, your conviction ran so deep that you would only stay invested in the market when your party was in office. In order to conduct our

experiment, we need a starting date. I propose January 20, 1961. Why that day? Because that was the day John Fitzgerald Kennedy took office as the 35th President of the United States and challenged all Americans in his inaugural address with the words, “My fellow Americans, ask not what your country can do for you, ask what you can do for your country.”

Now using January 20, 1961 as our start date, if you were a Republican investor at the time who invested \$10,000 in the S&P 500, you’d have approximately \$102,000 today. Now on the other hand, if you were a Democratic investor, you’d have approximately \$545,000—quite a difference you might say. And you’d be right, that is of course until you looked at what an Independent investor would have today. An Independent investor being one that stayed in the market regardless of which party held the White House. Today, an Independent investor’s \$10,000 would have grown to almost \$5,420,000. A stark reminder of the foibles of political-based investing.

Not To Be Misconstrued

Please don’t get me wrong. I am a firm believer in the importance of sound and inspiring leadership. Leadership matters greatly. That goes for all three branches of government. It affects our freedoms, our security, our values and how we are perceived in the eyes of the world. With that said, it’s the economic cycle, not the political cycle, that dictates the trajectory of equity and capital markets.

So, Ray, where are we then in the economic cycle? Let me break it out for you. All economic cycles can be broken down into four phases before they start all over again. They are trough, expansion, peak, contraction, then back to trough. From an economic cycle perspective, the majority of economists see us now as being well into the expansion phase. This can be evidenced by full employment, growing (although slowing) GDP, corporate earnings growth punctuated by production efficiencies and technological advancements. All made better since they are occurring against a backdrop of lowering inflation.

To think this all has occurred in spite of global conflicts, higher interest rates and entrenched ideological differences at home makes our accomplishments that much more dramatic. With all the challenges we faced in this post-pandemic era, it does appear that we achieved the ever desired “soft landing.” With that said, no one should ever become complacent but should always maintain a sense of balance and vigilance.

State of the Union

So the question begs to be asked: what’s on the horizon financially post the 2024 election? Now I’m no political prognosticator. I’ll leave that to my old school mate David Axelrod, whose brilliant mind was evident even in high school, but I will share some deeply held convictions nonetheless.

Regardless of who wins the Presidency, there remains an enormous amount of debt to be faced. This can has been kicked down the road so many times it’s barely recognizable. Currently, public national debt represents approximately 99% of the GDP. Even if our next Congress buys

into belt-tightening, our debt will soar in future years. It's projected to grow by two thirds come mid century. That's not accounting for the under funding of Social Security or Medicare. Additionally, Obamacare health subsidies, and 2017 tax breaks, are set to expire next year. Although extending them may prove to be the politically popular action, extending either or both would only exacerbate the debt problem. As it is, we are just an eyelash away from spending as much in interest payments on our national debt as we do on defense.

Bottom Line, raising taxes (in a material enough way to make a difference), tightening eligibility for government-subsidized programs and the like will be painful regardless of which party takes control of Congress. Now, growing the economy will help, as would a thoughtful, humane and enforced immigration policy (more people paying taxes and spending money). As 250 years of American history have demonstrated, immigrants want to work. So whether it's elephants or donkeys that rule the house, debt is one problem that won't go away and will require bipartisan leadership to reign it in.

With global hostilities in the Middle East, a war in Ukraine, and the ever looming threat of Chinese, Russian, North Korean and Iranian aggression, it is incumbent on the United States, as mandated by the United States Constitution, to "provide for the common defense." Well over 100 years ago, President Theodore Roosevelt emphasized that "A strong United States defense is an infinitely more potent factor for peace than all the peace societies of every kind."

After years of skimping on our defense budget, and now drawing down on our stockpiles in the defense of our allies, again it's incumbent on us to modernize our defense apparatus, restore our stockpiles and maintain a well trained and well paid military along with providing the support (both financially, medically and socially) to those men and women who have previously served our country. This is a bipartisan issue as demonstrated by the last budget that authorized close to \$1 trillion in spending (not counting support to Israel or Ukraine) passed by a Republican Congress and signed by a Democratic President. This bipartisan support and American need won't change regardless of the outcome of November's election.

The last topic I will raise that represents a universal national need and garners bipartisan support is a cohesive energy policy. Case in point: the country of Turkey has a population of approximately 87 million people. It is estimated that, with the current growth of AI, our AI dedicated data centers will consume more energy than the entire country of Turkey within the next four years.

Just this past session of Congress, the "Advance Act" sailed through with overwhelming bipartisan support and was signed into law by President Biden. This legislation is designed to cut the time and cost to build modern nuclear reactors. Here, we find ourselves in a catch-up mode, with China and Russia. By building more SMRs (small modular reactors), we hope to maintain our energy independence while achieving clean energy goals.

Yes, one would have to concede that depending on the composition of the House, Senate and White House, certain industries will be more appealing to investors than others. In an effort to not overtax (no pun intended) my readership, allow me to give us three forecasts based on JP

Morgan's institutional analysis as it pertains to the upcoming election.

- Should the Democrats hold the White House, and the House and Senate either go Republican, or are split as they are now, technology companies that have benefitted from the "Chips Act," bringing more and more state-of-the-art semiconductor chip manufacturing stateside will continue to benefit. Bottom line, a division of partisan power definitely bodes well for big tech.
- Should the Republicans sweep both houses and retake the White House, don't bet the farm on subsidy supported alternative energy. Wind, wave and solar will be hit the hardest and defense will benefit the most as will domestic fossil fuel exploration..
- Should there be a "Blue Wave," which most prognosticators deem highly unlikely, healthcare stocks and related companies could take a beating. Not because healthcare will not be a major priority, but because of "pricing reform," which will cut into the profit margins of companies involved in Big Pharma along with a host of others.

Conclusion

When I was a young dad, I remember singing a children's song with my son every single morning. It's one of those tunes that, once it's in your head, it's almost impossible to shake:

*The wheels on the bus go round and round
round and round
round and round
The wheels on the bus go round and round
all through the town*

Please forgive me if you have a hard time getting the song out of your head; I tried to spare you by just sharing one verse. The point is America's wheels are spinning, and spinning quite fast. Major changes in Medicare, our income tax system, financial regulations and our government agency system have already taken place or soon will. Changes that affect all of us. All of this occurring against the backdrop of the most contentious and fractured political landscape since the Civil War.

Over the weeks and months ahead, I will be writing to you more frequently in an effort to keep you fully informed and current.

One Final Thought

In the early morning hours of March 4, 1861, Abraham Lincoln rose after a fitful night sleep. Later that day, he was to take the oath of office as the United States of America's 16th President. Regrettably, we were anything but united at the time. Seven states had already seceded from the Union with more to follow. It must have felt like the weight of the nation rested squarely on the shoulders of this 52-year-old former rail splitter, and they did.

Lincoln had worked and reworked the words of his inaugural address in his mind for weeks, methodically trying to wordsmith the message that would keep the country intact and undivided. The moment arrived for Lincoln to mount the crowded steps to the first portico of the nation's unfinished Capitol building. Preparing to address an audience estimated to be between 25,000 to 40,000 people, he handed his stove pipe hat to his longtime advisor, Senator Stephen Douglas, who graciously offered to hold it for the incoming President while he gave his address.

The speech itself was less than 4000 words. It took less than a half hour to deliver to a hushed yet emotional crowd, many with tears streaming down their cheeks, when Lincoln addressed the crowd with the words, "Fellow citizens of the United States..." Although respectfully received by almost all in attendance, it was the closing paragraph of the address that cemented its place in history as one of the greatest speeches ever made.

"I am loath to close. We are not enemies, but friends. We must not be enemies. Though passion may have strained, it must not break our bonds of affection. The mystic chords of memory, stretching from every battlefield and patriot grave to every living heart and hearthstone all over this broad land, and will yet swell the chords of the Union, when again touched, as surely they will be, by the better angels of our nature."

Since people retired their hunter gatherer ways, commerce has always found new ways to develop and prosper. Markets, although sometimes challenged, have always grown and innovated. But it's societies that have faltered. For ours to continue to serve as we have through our history as that "shining city on a hill," a beacon of freedom, prosperity and peace, it's time to tone down the rhetoric and be in touch with "the better angels of our nature."

Please stay well, stay safe and enjoy the summer. As always, with...

Best Regards,

Ray Lent
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Enclosures