

**Third Quarter 2024**

# Economic and Market Commentary

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## **Economic and Market Commentary**

It was just about three months ago to the day that I was sitting at the same kitchen table, working on my second quarter commentary, when the news broke that an assassination attempt had been made on former President Donald Trump at an outdoor rally in Butler, Pennsylvania. The date was July 13, 2024. A Presidential debate had occurred less than three weeks before, and tremendous pressure was already growing for President Biden to step aside for the good of the party and not run for election. Eerie similarities were emerging between this year's election and the election of 1968.

By the time I had finished my commentary and submitted it for editorial review, President Biden had announced to the nation his withdrawal from the 2024 United States Presidential election, and his endorsement of Vice President Harris as his replacement. In the words of master "consulting detective," Sherlock Holmes, "the game was now afoot," and the comparison to 1968 couldn't be more relevant.

## **A Quick Look Back**

As written previously, 1968 was a most violent year in American history: An unpopular war had expanded, three tragic American assassinations had occurred and there was political chaos at our Democratic national convention in Chicago against a backdrop of distrust and polarization of the American citizenry not seen since the American Civil War. All of this was preceded by a Presidential announcement, made at the end of March, that our incumbent 36<sup>th</sup> President, Lyndon Baines Johnson, would not run for reelection. A terrible set of circumstances to say the least.

One would think that, against this backdrop, our economy would be traumatized and our equity markets would be in steep decline. This is where investors needed to distance themselves from the thought that political gloom dictates economic performance. That's simply not the case.

If one were to look at the numbers for 1968, they would see: the broad based stock market up a solid 11%, inflation at just about 4%, unemployment around 3½ % and wage growth up near 7%. This was very solid market and economic data on all fronts in spite of the politics of the day and the morass of the American psyche.

## **Fast Forward**

Here we are, 56 years later, and it's like looking in a mirror with the reflection being 1968. Political analysts tell us that this year's Presidential election is a coin flip, simply too close to

call. In fact, it may be months after the election, before a winner is called because of court challenges, counts and recounts. We could actually see a repeat of the 1876 election, when candidate Samuel Tilden won the popular vote but the electoral vote was actually tied with Rutherford Hayes. A Congressional Committee was appointed to determine the outcome. Hayes was elected President by one vote. Since 1824, five Presidential candidates have won the popular vote but lost the Presidency. Most recently, this occurred in 2016, when Hillary Clinton won the popular vote by more than three million ballots but lost the election because of the Electoral College.

## **So, What Is the Electoral College Anyway, And Why Keep It?**

The basis for the Electoral College is rooted in the United States Constitution, Article II, and the 12<sup>th</sup> Amendment to the Constitution. It was basically designed as a compromise between those leaders who wanted the President to be picked by Congress and those who wanted the Presidency to be determined by popular vote. It would require a constitutional amendment to change the Presidential process, a very difficult process as evidenced by the fact that the abolition of the Electoral College has been talked about for 150 years yet is still the law of the land.

## **Here's How It Works**

Each state is granted an “elector” based upon its number of allotted members of Congress. When you add them all up, including those allocated to Washington, D.C. and Puerto Rico, you have 539 electors. The first Presidential candidate to reach the magic number of 270 wins the election. All but Nebraska and Maine allot their electors on a winner takes all basis. Whoever wins the popular vote in those states gets all the electors. Nebraska and Maine allocate electors by who wins each individual congressional district.

In this year's 2024 election, political analysts are paying particular attention to what is commonly referred to as swing or battleground states. These are states that have potential to be won by either party. Candidates typically spend a disproportionate amount of time and resources trying to win these states. Since 1992 alone, 30 states have voted for the candidate from the opposite party they voted for in the previous election cycle.

These states are typically won by a margin of 3% or less. Today, pollsters consider Arizona, Georgia, Michigan, Wisconsin, Nevada and North Carolina and perhaps the most closely contested are the 19 electoral votes of the Commonwealth of Pennsylvania.

## **How Appropriate!**

Now you might ask, why would Ray say something like that? The answer lies in the distinct nature, both geographically and culturally, of the state. By Eastern standards, Pennsylvania is a large state divided north and south by the Appalachian Mountain Range. Citizens of Western Pennsylvania once represented America's Western Frontier. These citizens tend to be independently minded and not afraid of confrontation. Let me give you an example.

Back in the early 1790s, America had only recently won her independence from Great Britain. We were deeply in debt from the cost of fighting the War for Independence, Hard money (coinage) was scarce and paper money was not trusted. In the frontier, most commerce was conducted through barter, and the most reliable “currency” in barter was whiskey. Distillation of fermented corn, wheat and rye is what people made, traded with and used. It was the Coin of the Realm.

A young and brilliant Secretary of the Treasury, Alexander Hamilton, got the not-so-brilliant idea of taxing the making of whiskey to help pay off the national debt. To make matters worse, the tax had to be paid in coinage, a commodity the people of Western Pennsylvania simply didn't have. Hamilton convinced a reluctant President Washington to go along with his idea, which he eventually did. This policy sat very poorly with the residents of the Frontier Counties like Fayette, Allegheny, Westmoreland and Washington. When federal tax collectors came in, they were roughed up and run out of town. Hamilton recognized that this type of disobedience couldn't be tolerated and that authority needed to be restored. First Federal marshalls were sent in, and when that wasn't enough, Washington called up the militia from the surrounding states.

The Pennsylvanians were riled. They were skeptical of the federal government to begin with (remember, we were established as The “United States” of America), and before you knew it, “The Whiskey Rebellion” was born. An attorney named David Braddock assembled over 6,000 volunteers on the outskirts of the frontier town of Pittsburgh. Shots were exchanged between the rebels and the militia. Several lives were lost.

Eventually, cooler heads prevailed. The combatants disengaged, and reluctantly, the tax was repealed. Come election night, watch those Western Pennsylvania Counties. They may very well determine who our next President will be.

### **No Matter Who Wins**

One thing is for sure: no matter who ultimately wins this election, half the country is going to be disappointed. The undeniable fact is that the new President will face a complex set of daunting challenges. Many of these challenges, and how they are addressed, will define America's future for many years to come.

Before we move on to the current state of the economy and the markets, let me bullet point for you the major challenges that our 47<sup>th</sup> President will face.

An ever-increasing national debt that now costs in excess of one trillion dollars a year just to pay the interest. That constitutes 16% of our federal spending. The national debt has increased every year for the past 10 years, and is now three times larger than it was just 20 years ago. The U.S. debt to GDP ratio surpassed 100% back in 2013. Today, it's close to 125%. We haven't had a balanced budget since 2001. Talk about a “Space Odyssey.”

Unified party control of the Oval Office, Congress and the Senate is doubtful, meaning that most legislative action is going to be deadline forced, leading to last minute high drama and threats of shutdowns and program cancellations.

Since most legislation needs 60 votes to pass the Senate, which allows the minority party to block bills, Presidents often resort to “executive powers” which leaves their goals vulnerable to court rejections and the biases of the next President even if those orders are enacted.

The federal tax cuts of 2017 dramatically changed the federal tax code. These cuts are scheduled to expire by the end of 2025. The question is: will they be extended, modified, scrapped or revamped. Without knowing how much the federal government has to work with financially, it’s so difficult to plan policy proposals on everything from filling Medicare and Social Security gaps to infrastructure spending, to even programs that enjoy bi-partisan support such as child tax credits.

In 2021, the Affordable Care Act saw extended increased financial assistance passed to enable people to buy their own health insurance. Those subsidies are set to expire at the end of 2025. The next President will have to decide how they will work with Congress to address this issue, one that affects nearly 50 million Americans.

Whether it’s the wars in the Middle East, Ukraine and Russia, increased tensions over Taiwan or the real possibility of Iran gaining nuclear missile capabilities, the world stage continues to be one fraught with wars, tension and hostilities. America cannot afford to be a spectator, and vigorous and effective diplomacy both abroad and with our own Congress will need to be a high priority for our next President.

For the past 40-odd years, the earning and spending capabilities of the Baby Boom generation has dominated the American economy. Now, with the greying of America, this segment of the population is no longer the driving force it once was. In fact, this group’s medical care is a monumental consideration. We’re not just talking about knee and hip replacements and pacemakers, we’re talking about an ever increasing need for senior housing, skilled nursing, cognitive care and in-home assistance, real needs that many American families simply cannot afford. This is a national problem that will require a national solution and Presidential leadership.

Not to lump all of these challenges together because each represents a major national issue that the next administration, like the administrations before them, will need to come up with effective and comprehensive policy to address:

Border Security  
Immigration  
Affordable Housing  
Homelessness and Fentanyl

It won’t matter who’s in the office insofar as the fact that these problems will be sitting on the “Resolute Desk” starting on day one.

## Let Me Bring It Home

In spite of the ongoing global wars, in spite of the international tension and distrust, in spite of an excruciatingly hostile political environment at home just as existed in 1968, both the American economy and the American equity markets have performed exceedingly well through the first three quarters of 2024 and are predicted to continue to do so, albeit probably at a slower pace, well into 2025, barring a “Black Swan” type event.

Even though many families continue to feel the pinch at the grocery, with food costs up more than 20% from pre-pandemic levels, corporate profits have been robust, with almost 80% of the companies that have reported their third quarter sales and earnings results surpassing their prior guidance. So the question begs to be asked. Just what’s driving these encouraging results?

American Gross Domestic Product (what we make and what we sell) is forecast to come in around 3% higher this year than last year. That is a very good number and one that is expected to continue positively through 2029.

Inflation has come down dramatically, although food costs continue to be stubbornly high.

Unemployment remains very low by historic standards, an indication of American productivity.

After four grueling years of high interest rates, rates have begun to come down and, most importantly, not because the Federal Reserve decided it needed to try and stave off a severe recession, but instead, because they realized they no longer need to remain at the heightened level they were at. Many analysts are predicting a Fed funds rate in the mid-threes by the end of next year.

Spending on business equipment has risen throughout 2024 and is expected to ramp up even greater in 2025. Additionally, as companies incorporate more and more AI and other technologies in the coming years, investment in intellectual property is also expected to increase.

The U.S. trade deficit peaked in 2022. Its decline is a solid indicator of greater demand for American-made goods and services. To put this significant trend in perspective, our trade deficit hit a significant high in 2006 when it represented almost 6% of American GDP. Today, it’s below 3%.

## Conclusion

Over the next weeks and months, the air ways and social media will be in a state of frenzy. Unless one lives in a cave, it will be hard to escape the noise. Markets can experience volatility, but armed with the underlying understanding that our economy is stable and, in fact, in better shape than any

other major economy in the world, knowledgeable investors should weather the storm without adding too many grey hairs.

Since we all share a small planet which we far too often take for granted, it's easy to miss those stories that remind us that sometimes ordinary and persistent people can come together, work hard and make a positive difference. This difference brings hope, and leaves people with the feeling that things will ultimately work out just fine. I'd like to leave you with such a story that I've been following for years.

In the late 1800s, construction began, along the 250-mile Klamath River, of four dams for the purpose of producing hydroelectric power. The Klamath River runs through a rugged part of Southern Oregon and Northern California. The area has been inhabited for thousands of years by the Karuk, Yurok and other Klamath tribes. These tribes depended on the salmon runs indigenous to these rivers. The dams provided neither water storage nor flood protection. Since the early 1900s, the four dams prevented salmon from swimming hundreds of miles upstream to what were once considered the third largest salmon producing rivers in the west.

Over the years, the cost of running these outdated facilities became prohibitively expensive, and Pacific Corp (the owners of the dams and their hydroelectric facilities) continuously lost money in their operation. For the past 35 years, native American tribes and non-profits, along with conservation groups worked tirelessly to have these dams removed to give the river a chance to once again run free and allow salmon to swim the river and spawn.

Eventually the coalition's efforts paid off, and a \$500 million bond initiative was approved by voters and the Pacific Corp utility company agreed to the project. It took several years for all four dams to be removed, with the end work just completed several months ago. Scientists quickly set up sonar cameras to monitor the activity along the river in the hopes of confirming the return of the salmon. Some two weeks ago, sonar cameras captured images of the first Chinook salmon swimming up the river. Joyful fish biologists celebrated the beginning of the recovery for the fish of the Klamath. Small green shoots for sure, a win for the planet and, absolutely, a feel good moment for all.

Please stay well, stay safe, and enjoy your autumn. As always, with...

Best Regards,

Ray Lent  
RLL/dot  
Enclosures