

# Ivory's Economic Outlook

WINTER 2021 • IVORY JOHNSON; CFP®, CHFC; FOUNDER; DELANCEY WEALTH MANAGEMENT, LLC

*Life is like being at the dentist. You always think that the worst is still to come, and yet it is already over.*

Viktor Frankl, Holocaust survivor and author of "Man's Search for Meaning"

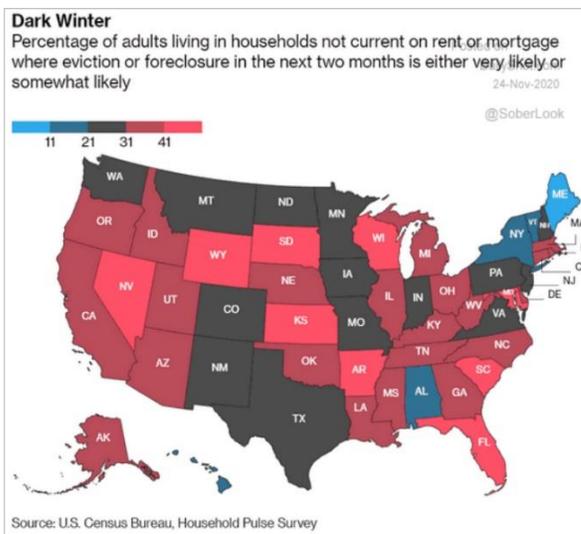
The morning of November 19, 1978 started out like any other Sunday. My sister and I went to Sunday school, got in trouble at church for eating candy when our mother wasn't looking (but Mrs. Taylor was) and then I watched the New York Giants game with my dad. To be clear, the Giants were perhaps the worst team in football, but on this November day they were poised to do the unthinkable - we were finally going to beat the Philadelphia Eagles.

And so here was my heathen non-church going dad equipped with his TV tray and seven-ounce Schlitz announcing to the family that "the Giants are gonna beat the Eagles" from his weathered valor La-Z-Boy recliner. After all, with only a few seconds left and a five-point lead all they had to do was snap the ball, take a knee and the game would be over.

My dad had this huge smile on his face advising our beloved New York Football Giants to "just sit on the ball, all you have to do is sit on the ball". Seconds later they approached the line of scrimmage to run an actual play and so he stood up raising his voice in disbelief at the unfolding calamity and pleaded "sit on the ball. All you have to do is sit on the ball". The rest is history. Joe Pisarcik took the snap from the center, fumbled the ball and the Eagles picked it up and ran it back for a touchdown to win the game as time ran out.

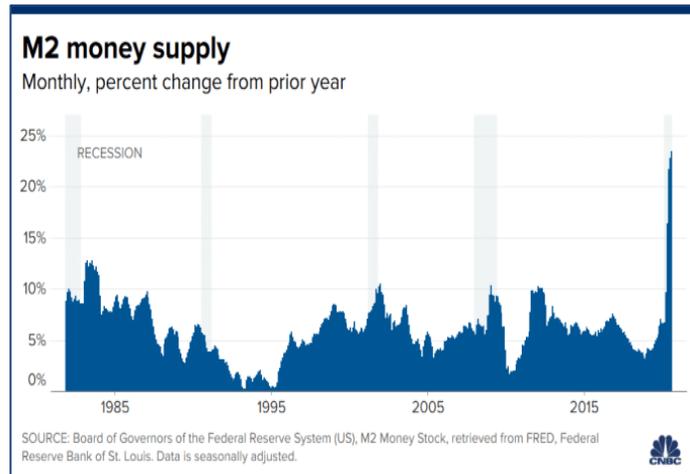
The mood of the house had changed. My dad was now violently shaking (and spilling) what was left of his seven-ounce beer all over my mother's light blue carpet with the mustard soaked wonder bread oozing between his fingers because he had choked the life out of the innocent hot dog hidden beneath it. Stunned by his misfortune he continued on for several minutes "Sit on the damn ball, all you had to do was sit on the damn ball!!!!" By now the family had scattered, the living room no longer the safe haven we had come to cherish. I went to my room to do homework.

The Giants won the Super Bowl several years later in 1986, but nobody could have envisioned that at the time. Last March the market collapsed by 30 percent, GDP growth contracted by 32 percent<sup>i</sup> and 10 percent of the workforce visited to the unemployment line in just a three-week period<sup>ii</sup>. With the pandemic-stricken economy shuttered and no end in sight, the Schlitz was replaced with bourbon.



I learned a long time ago that it's never as good or as bad as you think it is, although it's instructive to examine how we recovered so fast. Even at this late stage in the rebound many small businesses and low skilled workers have been decimated. As I sit here and write this newsletter 18 million Americans are behind on their rent or mortgage and six million would have faced eviction or foreclosure in December were it not for the renewed moratorium<sup>iii</sup>. Of the 140,000 net jobs lost in December, 100 percent of them were women<sup>iv</sup>.

It seems the Federal Reserve spent \$3 trillion fixing the stock market<sup>v</sup> and not the economy. To offer a sense of how responsive the central bank has been, it's been estimated that 20 percent of all currency in circulation today was created just last year<sup>vi</sup>. That's a staggering number leading some to believe it's unsustainable. To this day my frugal mother would make a buffalo jump off a nickel; you can only imagine how often my sister I were told that money does not grow on trees.



Oh how wrong she was; apparently money is just a keystroke away. When you hear commentary describing the Fed's ability to print money, what's happening is the central bank credits the banks with money electronically. It seems simple enough, except there is such a thing as going to the well too often and suffice it to say we're a frequent visitor of the well.

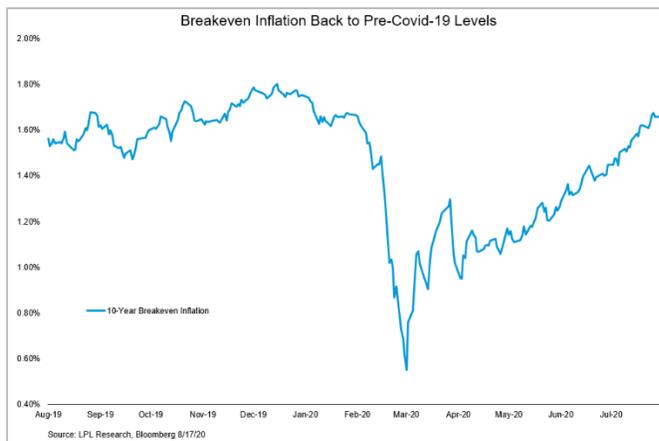
Early last year I changed my diet because rumor has it the body's check engine light comes on after 50 and I figured I'd get in front of this thing. The first food group to go in the once in a blue moon bucket was the red meat, then the chicken and then I crossed the Rubicon. No more bacon. I was never a big fan of salmon or avocados, but I read about the numerous health benefits and they were now on the menu.

Everything was fine until I started getting sharp knee pain in my left knee. It would come from nowhere like a drive-by at any time of the day or night if only for a split second. And because I believed myself to be invincible, I assumed it was a knee injury from lifting weights that would disappear with rest. When abandoning knee squats didn't work I stopped drinking alcohol to reduce inflammation. When that didn't work I started stretching and the pain went away until the weather turned cold again.

I went to the doctor who did strength tests on my knees and said it was probably wear and tear from playing sports in high school. She reviewed my blood work and the only change was an elevated level of cholesterol. And that's when it dawned on me - it was the diet. In place of turkey, chicken and pork with lots of vitamin B3 that increases blood flow I ate a lot more shrimp that's loaded with cholesterol, clumps up the blood and reduces circulation. During the summer I was fine, but in the cold weather, when circulation is more of a challenge, the pain returned. What I thought improved my health had the opposite result.

Stephanie Kelton makes a similar case in “The Deficit Myth”. Like most proponents of Modern Monetary Theory (MMT) she believes the Fed can print as much money as it wants provided we don’t get inflation. She opines that because the United States has the reserve currency status, it is a currency issuer as opposed to a currency user. This distinction is important. You and I must subscribe to a household budget because we have a constrained amount of currency. Uncle Sam, on the other hand, can print as much money as he wants with no consequences. According to MMT, legislation never has to be paid for because the dealer pays himself.

Consider the federal budget for example. When the government runs a budget deficit the private sector experiences a budget surplus. This tacitly implies that if there were a government budget surplus the private sector would correspondingly have a deficit of its own and being a currency user would suffer the harsh consequences many Americans face today.



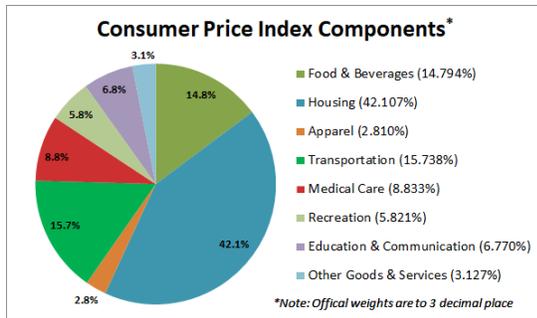
The only thing that would indicate too many visits to the well is inflation, defied as needing more dollars to buy the same goods and services. Supply and demand being what they are, when you manufacture 20 percent of your dollars in a single calendar year it stands to reason that those dollars become less valuable. According to the advocates of Modern Monetary Theory (MMT) we do not have inflation and so the size of the deficit is meaningless.

This may or may not be accurate. First, if the government is not constrained in the amount of currency it issues, why does the Fed issue breathtaking quantities of currency to bail out Fortune 500 companies to fix the stock market and resort to a household budget when the economy cannot sustain small businesses and Americans who cannot find suitable employment.

The second thing that comes to mind is we do have inflation. My dad spent \$7,200 for my freshman year at Penn State as an out of state student and my son’s college had a cost of attendance that approached \$50,000. It’s really not that hard to find. In fact, anyone who’s had the distinct pleasure of visiting a grocery store might discover some of that inflation hiding in plain sight.

The reason inflation is reportedly low is because the manner in which the Consumer Price Index (CPI) is calculated obscures our experiences. For example, housing counts for 42 percent, food is 14 percent, medical care is 8 percent and education and communication is 6 percent of the calculation. When the economy is sluggish for the average wage earner, landlords are limited in their ability to raise the rent. The cost of buying a house isn’t even considered, rather they calculate how much the homeowner could receive in rent for their property. Healthcare, however, is 18 percent of the economy and those prices increase by double the rate of general inflation<sup>vii</sup>.

Don’t take my word for it, just look at the price of commodities and crypto currencies, both reflections of inflation. Moreover, the destination of the currency will show the largest price increase and that is reflected in the price of stocks. If we’re being honest, none of us know exactly how many times we can continue to revisit the well before our reserve currency status is challenged. Let’s hope we never find out.



Source: BLS; The most recent annual reweighting was in December 2019.

Fortunately for us this rebound took less time than it did for the Giants to turn things around because the United States issued enough currency to reflate asset prices. Meanwhile, 45 percent of Americans don't own a single share of stock<sup>viii</sup> and could care less about all-time highs. If anything, our prosperity comes at their expense because the economy had sunk to such low levels that subsequent readings look fantastic to investors when compared to the abyss.

These conditions are remarkably different from where we were in 2018 when both inflation and the GDP were decelerating. Today it's the exact opposite - they're both accelerating. Any time we have GDP and inflation growth headed higher investors should react accordingly. You'll notice that energy and technology stocks have performed well alongside commodities. On the flip side of the coin, treasury bonds have lost value because the dividends will be worth less when they are received than when the bonds were initially purchased.

The year 2020 was a rollercoaster like no other. My dad went from post COVID Alzheimer symptoms to being a little forgetful and investors went from squeezing innocent hot dogs in disgust to breathing a huge sigh of relief. We'll play the game that's in front of us until the conditions change once again. These are the cards we've been dealt, and if we're lucky, the dealer won't go out of business.

<sup>i</sup> US economy contracted record 32.9% in Q2 amid state shutdowns, COVID-19 contagion fears; USA Today; 7/30/20

<sup>ii</sup> Here is everything the Fed has done to save the economy; CNBC; 4/13/20

<sup>iii</sup> Nearly 6 million Americans — roughly equivalent to the entire population of Singapore — are threatened by eviction and foreclosure this month; Business Insider; 12/2/20

<sup>iv</sup> Women accounted for 100% of the 140,000 jobs shed by the U.S. economy in December; Fortune; 1/8/21

<sup>v</sup> Federal Reserve's \$3 trillion virus rescue inflates market bubbles; Reuters; 7/13/20

<sup>vi</sup> The ballooning money supply may be the key to unlocking inflation in the U.S.; CNBC; 8/20/20

<sup>vii</sup> Inflation is at historic lows, so why do things seem so expensive?; Fortune; 2/13/20

<sup>viii</sup> Most Americans Don't Have A Real Stake In The Stock Market; Forbes; 8/31/21

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