

# Ivory's Economic Outlook

FALL 2020 • IVORY JOHNSON; CFP®, CHFC; FOUNDER; DELANCEY WEALTH MANAGEMENT, LLC

*The truth is, I've never fooled anyone. I've let men sometimes fool themselves.*  
Marilyn Monroe

My father was not the least bit concerned about COVID-19 during the early stages of the pandemic. I suppose surviving the Korean War and Jim Crow would give one a false sense of invincibility. In classic old man seen it all fashion he said he wasn't worried about "some damn cold". Of course, it's not the war that kills most veterans, but rather the deadly scars of combat.

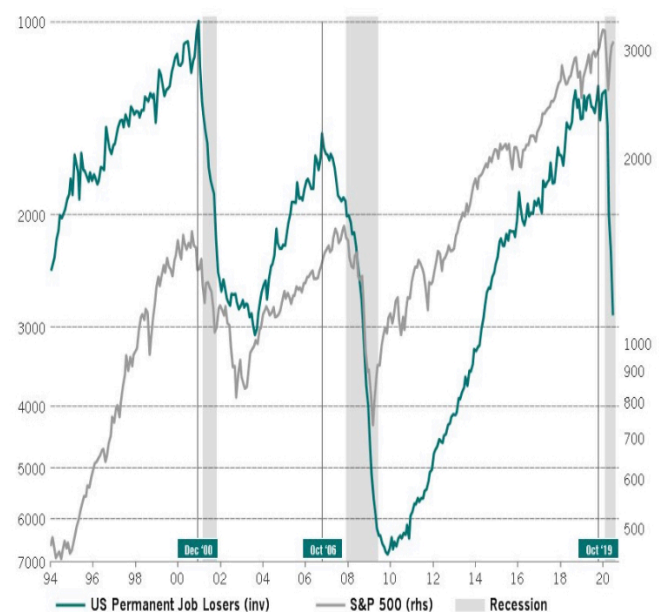
My 86-year-old diabetic father survived the virus with nothing more than a slight fever, although the aftereffects have accelerated his cognitive decline. What was recently an old timer who could shoot his age on the golf course is now a man who cannot identify the object in his hand when the object in his hand is a phone. Hubris has its consequences, and while we are hopeful he is what's known as a long hauler, people who survive COVID and suffer 6-9 months of lingering effects, God's point is well taken.

The American economy seems to have survived COVID as well. In the wake of the shutdown we had depression-like numbers. Over 40 million workers had filed unemployment claims<sup>1</sup>, GDP growth declined by 32%<sup>2</sup> and earnings growth fell by a third<sup>3</sup>. Suddenly things are getting back to normal with the return of sports and the fear of a wholesale economic collapse disappearing.

It's instructive to review how we dug ourselves out of that ditch to gage the odds of our economy and its rank and file becoming long haulers themselves. The exact details are well chronicled and so I won't review the mechanics of central banking operations. Suffice it to say the Federal Reserve, and not anything resembling capitalism, served as a bodyguard to the stock market.

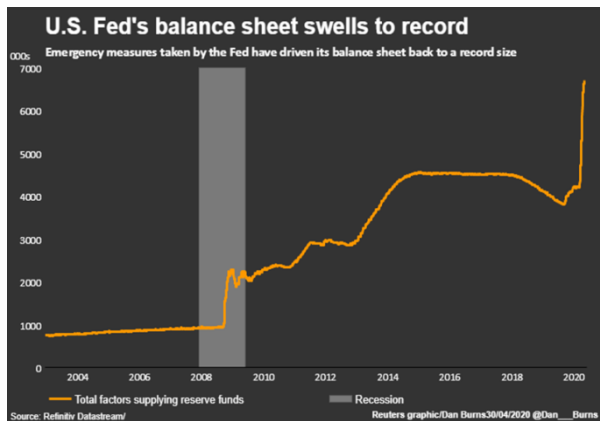
Keep in mind that the 2008 housing crisis happened because the banks were in trouble, this crisis happened because the customers of the banks were broke. These bad business models were not allowed to die because their lobbyist convinced government officials that a bankrupt airline, for instance, would not be bought out for pennies on the dollar and restructured by better management that increases revenue. Private Equity firms must have been vacationing in the Hamptons.

US Unemployed Persons: Permanent Job Losers vs. S&P 500



Source: Datastream, BLS, Pictet Asset Management

**So Uncle Sam did what drunk uncles always do with other people's money and gave them lifelines. Then the Fed purchased corporate bonds, junk bonds and municipal bonds which served as a synthetic bridge loan.** In a strange twist of fate, or irony, heavily indebted large businesses lost revenue for one month and needed a bailout while only 60% of small businesses even applied for the first round of the Paycheck Protection Program<sup>4</sup>. Let's hope the false narrative that the middle class and small businesses and athletes and homeowners and millennials – pretty much everyone other than Fortune 500 companies – are the only demographics to mismanage their money.



But what's done is done. The additional \$3 trillion spent by the Fed<sup>5</sup> and the \$3.3 trillion spent by Congress<sup>6</sup> is gone and I would anticipate another stimulus package coming down the pike if volatility picks up. The question today is twofold: how does this impact the economy for the average American and what happens to the stock market for investors. There are no certainties in this matter, but what we know so far is the Fed has fixed the market and not the economy which may have unintended consequences down the road.

Bulleit Bourbon is a 90-proof Kentucky bourbon that delivers a wonderfully complex taste with hints of vanilla and honey and a long smoky finish. Present-day operations fall under the purview of Thomas Bulleit, great-grandson of 19th-century distiller Augustus Bulleit whose first batch was bottled in 1830.

Thomas Bulleit was adopted and isn't a blood relative of Augustus - his biological father was killed on D-Day in Normandy. He was a successful lawyer and Vietnam vet who gave up his career for a shot at pursuing his passion. He almost went broke a few times, got bailed out when Seagram's purchased the brand and survived when they were purchased by Diageo.

In the book "Bulleit Proof: How I took a 150-Year-Old Family Recipe and a Revolver, and Disrupted the Entire Liquor Industry", Tom Bulleit repeatedly talks about falling uphill, or turning a setback into a comeback. He was close to calling it quits when by chance he ran into old friends who knew an executive at Seagram's. When Diageo bought out Seagram's, instead of his brand getting dropped he convinced them to give his brand more marketing and distribution resources. He quotes a JFK campaign line that said "In the Chinese language the word crisis is composed of two characters, one representing *danger*, the other *opportunity*".

Who knows for sure if we're falling uphill, but our growing intolerance for economic risk and loss is undermining the natural resilience of capitalism. Companies and their investors have every right to believe they can always borrow as much money they need at near zero interest rates because apparently the money is free. When government will buy just about anything it distorts market prices that normally guide people to make good decisions.



Right now 20% of all publicly traded U.S. companies are zombie companies<sup>7</sup>, defined as firms who cannot sustain themselves with their business model and rely exclusively on debt to keep the lights on. This would be the equivalent of living off credit card debt because you can't pay your bills with the income you generate. Sure, you might be able to get additional cards or increase your credit limit, except there comes a point of inertia when credit is no longer available because you can no longer make the minimum payments on the money you already owe.

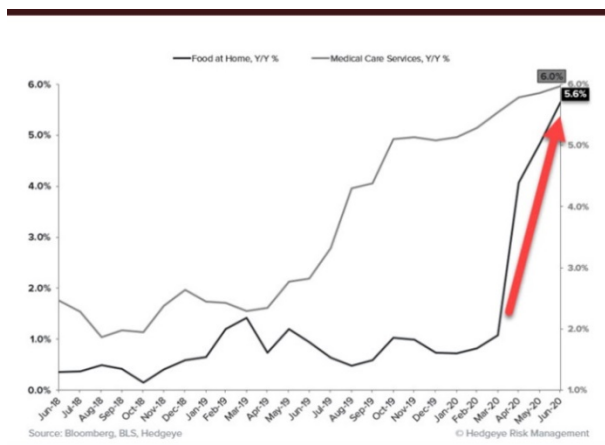
These companies exist at the expense of startups that typically drive innovation. Without entrepreneurial risk and creative destruction capitalism doesn't work - just ask any sports team with a roster full of aging players with big contracts. Even before the pandemic, the U.S. was generating startups at the slowest rates since the 1970's, the easy money keeping bad companies afloat<sup>8</sup>.

The problem is not government intervention as we saw in the Great Depression, it's how the money is being spent. Deutsche Bank research recently showed that each U.S. recession has been met with more bailouts and easy money. To say nothing of the mounting national debt, keeping profitless companies alive retards productivity and future growth prospects because they compete for capital and accumulate talent at the expense of little guys who offer more economic upside.

In the midst of all of this, a number of our elected officials knelt in kente cloth hoping their constituents would fall for it, leaving the black community with Cause Marketing and racial harmony peddling like it's Estee Lauder pushing products linked to breast cancer with a pink ribbon on the bottle. The racial divide has always been the elephant in the room, except now it has become a circus that distracts opposing demographics that are in the same boat who should be rowing together in what seems like very choppy waters.

Caste is the bones and race is the skin of injustice. It is caste, a system of embedding permanent rankings of human value based on arbitrary variables that institutionalizes oppression. A recent analysis of the human genome established that all humans are 99.9% the exact same, such that color is a fact and race is an illogical social construct. And since the aggrieved would have a great deal of difficulty in many circumstances proving racial prejudice to the skeptical, we are left to fight holograms instead of a system that continues to evolve and doesn't work for a lot of people, usually poor, many times brown, but certainly not a homogenous recipient of bias.

Go tell the small business owner who put his house on the line and lost everything about the unlimited credit facilities and special purpose vehicles he didn't have access to, about the free markets, about how the government doesn't pick winners and losers, about the perils of socialism. The tools of the free markets, namely access to capital, have not been meritoriously distributed, even as some have been shielded from the consequences of incompetence. If anything, the Fed's policies have created a double whammy for the most vulnerable by devaluing the dollar and dramatically increasing food prices in a bad economy.



For our purposes, economic growth is still slowing and we know that because bond prices are going up as interest rates decline. Inflation is on the rise (for

the time being), explained by the recent increase in commodity, gold and crypto currency prices. In this environment utilities and tech do well relative to other asset classes (provided we have inflation), although this is a fluid situation that can change on the dime and force investors to rely on potential policy decisions. Likewise, one would be loath to predict whether or not we'll have another market crash except to admit that risk happens in clusters and lord only knows how many more rabbits the Fed has left in that raggedy old hat of theirs.

When I was 12 years old I got pulled off my bike by the back of my collar and dragged down a crowded Manhattan street by NYPD for an offense I didn't commit and was released without an apology. At 17 I dodged an incoming billy club because the officer wouldn't wait for me to tell him I was sitting on my own car. At 22 I was told to get out of my car at gun point by a state trooper so he could search my car without a warrant or cause. By 35 my son would tell complete strangers that "daddy's going to jail" at the store at the park at a birthday party or whenever it crossed his mind because I got pulled over so often.

Over time it became clear to me that nobody wins from a contest of sorrow and most would agree that obstacle measuring is a dicey proposition. What is also obvious is the extent to which our economy has become increasingly bifurcated in favor of institutions because our citizens are preoccupied with holograms, unable to focus on the bones of this old house, even as the bankers refinance the property.

<sup>1</sup> Americans have filed more than 40 million jobless claims in past 10 weeks, as another 2.1 million filed for benefits last week; Washington Post; 5/28/20

<sup>2</sup> Second-quarter GDP plunged by worst-ever 32.9% amid virus-induced shutdown; CNBC; 7/20/20

<sup>3</sup> Corporate America Is Choking on Debt and Imperiling the Recovery; Bloomberg; 4/21/20

<sup>4</sup> LendingTree

<sup>5</sup> A \$10 Trillion Fed Balance Sheet Is Coming; Bloomberg; 6/22/20

<sup>6</sup> Coronavirus Spending Pushes U.S. Budget Deficit to \$3 Trillion for 12 Months Through June; WSJ; 7/13/20

<sup>7</sup> Here's one more economic problem the government's response to the virus has unleashed: Zombie firms; Washington post; 6/13/20

<sup>8</sup> The Rescues Ruining Capitalism; WSJ; 7/24/20

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