Ivory's Economic Outlook

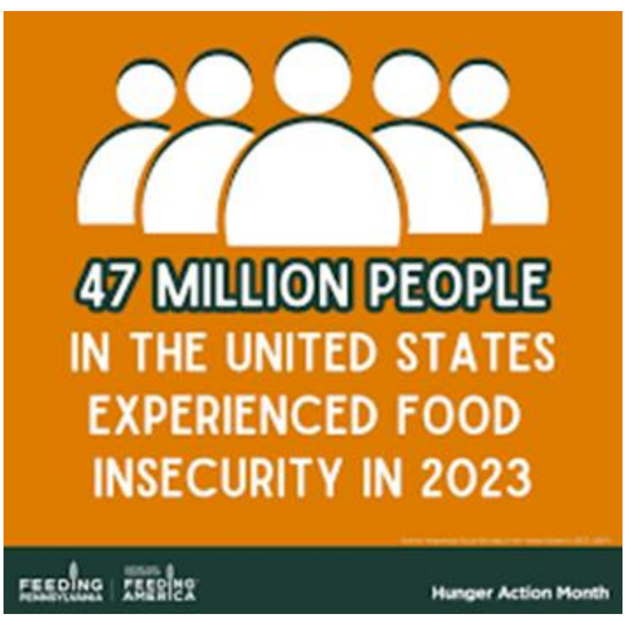
WINTER 2025 • IVORY JOHNSON; CFP®, CHFC; FOUNDER; DELANCEY WEALTH MANAGEMENT, LLC

"I have often wanted to drown my troubles, but I can't get my wife to go swimming.".
Jimmy Carter, 39th President of the United States

My grandfather made my dad promise to take care of his wife and his dog before he died, an odd request, but nothing too unreasonable. Grandma lived to be over 100 and didn't require much attention. She would give us good hugs (not too long and not too tight) and inappropriate advice about dating that I can't share in this newsletter. The dog was a little more work. Here was my dad with a German Shepard in a three-bedroom apartment in Manhattan which meant that any time he went away for any length of time somebody had to watch the dog.

On one occasion my Aunt Burniece agreed to step in. She was my mother's older sister who immigrated with her from Cuba in 1948. This amazingly resilient woman would take the shirt off her back, was sweet as a mango, but would cut you like the knife you used to slice it open if you pissed her off. Well, by the time pop returned home the dog had defecated all over the house. Irritated by the Nat Geo log cabin occupying his living room he asked if she had taken the dog for a walk, and when she said no, he asked if she had to use the bathroom every day herself.

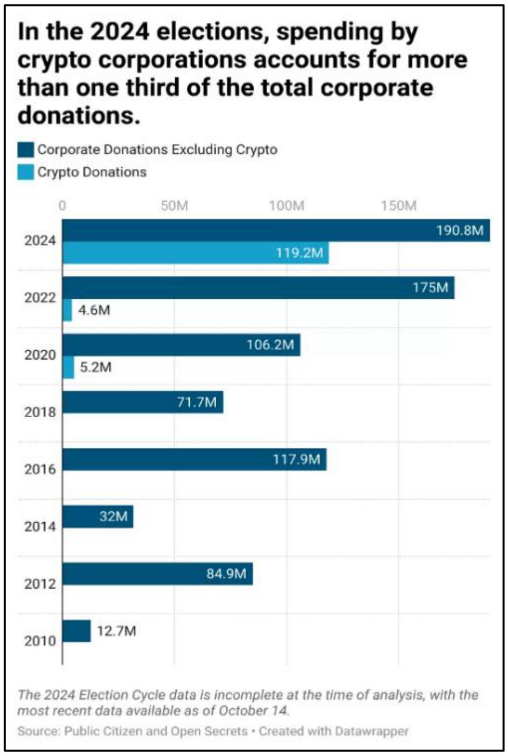
Aunt Burniece narrowed her eyes daring him to say it, but after a slight pause, as if he had written this in advance, he blurted out "yeah, and the dog gotta go too". All hell almost broke loose. She demanded to know if he was calling her stupid when he replied, "I didn't say it, you did". My mother, threatened by the prospect of becoming a single parent, intervened to prevent the murder of her husband.



For as impolite a society as we've become it's astonishing that nobody is willing to say the quiet things out loud. Have the headlines tell it the economy is bursting at the seams, with the Economist magazine boasting "America's economy is bigger and better than ever"[i]. Manufacturing jobs have surpassed pre-covid levels[ii], weekly unemployment claims are at close to historic lows[iii], the market is higher and by any meaningful measure things are great.

Behind the scenes in the obscurity of (used to be) middle class belies a more unfortunate reality, that we live in a bifurcated K-shaped economy where the people reading this newsletter are the line of the letter facing up, the people who don't have capital represent the line going down and the person writing it wishes somebody took this dog for a walk.

It's confusing to say the least, kind of. Right now, 47 million Americans are food insecure[iv], which is a politically correct way of describing somebody who's hungry. It's no wonder that nearly two out of every five credit cards are maxed out[v], a ditch dug with revolving credit that they'll have a hard time digging out of with rates not so quietly creeping higher. Imagine having a credit card with a $20,000 balance and a 20% annual percentage rate (APY) - the daily periodic date is 20% divided 365, or .0548%. If you make a $500 payment, the credit card company gets $328.77, your principal goes down $171.23, and you still have to eat.

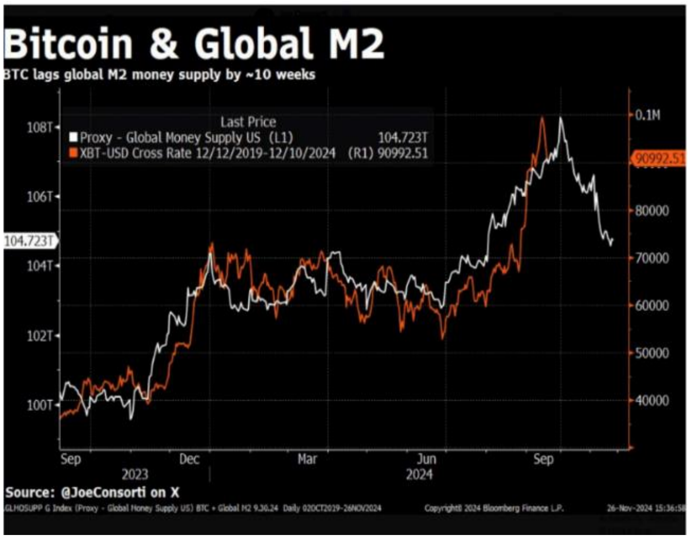


Living on the wrong end of the K is the 60% of American households that are having a difficult time making basic household expenses, the more than one-third of workers who have multiple jobs[vi] and the 38% who don't own any stocks and are rumored to not care about the Dow Jones Industrial Average[vii] politicians keep referencing in well-rehearsed job interviews. Those of us who are on the right side of things are getting pinched with homeowner insurance increasing by 20% and property taxes going through the roof as states no longer worry about how to pay for pensions and retiree health benefits because homeowners are considered easy prey. I mean, where you going?

The silver lining is that what makes the line of the K going up will keep making it go up until it doesn't, and even then, it should be a survivable event. In what is now clear to every economist, the Fed is an unelected body of 12 people who manufactures money, uses it to buy treasury bonds from the banks who in turn use the proceeds to buy even more bonds and funnel that money to the U.S. government to go grocery shopping and put gas in the car. As of today, the biggest holder of U.S. debt is the Federal Reserve - not China, not Japan, not a sovereign wealth fund or some big bank.

The reason we have a K-shaped economy that's going gangbusters for some and not for others is because of the disconnect between real economic growth and the growth of financial assets measured in diminished monetary units. Uncle Sam continues to create new money and debase the currency because he has no other way to finance a credit card that forces him to pay over $1 trillion a year just on the interest on the debt[viii], which is 20% of all taxes collected by the United States government. When an increasing supply of money chases the same number of houses or shares of stock or widgets for that matter, the prices go higher. Pay less attention to traditional valuation methods; what really matters now is how much fake money is coming down the pike. Your currency is being debased and if you used your diluted dollars to buy financial assets, you're likely to think the K resembles a Y.

Unbeknownst to many voters there is a building off New Jersey avenue in Washington, D.C., a few blocks from the nation's capital building (and the house I miss living in), with cubicles where congressmen spend an estimated 50% of their time raising money. In "Nation on the Take", Senator Dick Durbin (D-IL) explains "We sit at these desks with stacks of names in front of us and short bios and histories of giving … and we make calls to our faithful friends and ask them to give money or host a fundraiser." All this time you thought your congressman was writing and reviewing legislation. Nope, they're spending three days a week dialing for dollars.



The crypto currency industry is all grown up, the bitcoin bros trading flip flops for business suits, ping pong tables for board rooms and laser eyes for political influence. Open Secrets, a research and government transparency group that tracks money in politics, reported that the crypto lobbyists spent $22.2 million in 2022 and $24.8 million in 2023 to finance their seat at the table. It now seems that a trio of crypto backed super political action committees (PACs) raised $202.8 million from large industry backers and spent $93.6 million to influence the 2024 elections by the end of June.

To add context, last year the Chamber of Commerce spent 69.8 million, Blue Cross/Blue Shield spent $28.5 million, and the Pharmaceutical Research & Manufacturers of America ponied up $27.6 million to whisper sweet nothings in the ear of elected officials. Many of us give to charity without asking for anything in return. Selflessness is an admirable trait, albeit rare, but these transactions lack the faintest hint of altruism.

Setting partisanship concerns aside, money influences politics and the cryptocurrency industry has lots of it. The digital asset interests have also created a robust infrastructure to allocate these resources and the SEC, as well as other independent government agencies, are important to the adoption rate of a burgeoning asset class that is gaining widespread acceptance.

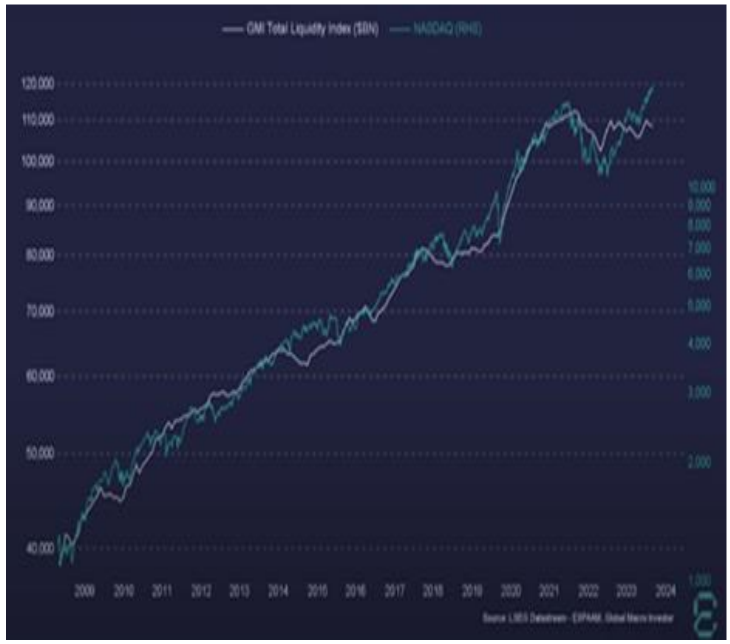
To be fair, political influence is a narrative. For instance, the current anti-crypto SEC chairman Gary Gensler has announced his departure to make way for crypto advocate nominee Paul Atkins that suggests a new dawn. Similarly, David Sachs was nominated to be the AI and Crypto Czar which is a new position and Sen. Cynthia Lummis (R-WY) has introduced the BITCOIN Act that proposes to supercharge the U.S. dollar and pay down the national debt by establishing a Strategic Bitcoin Reserve on the balance sheet of the Treasury to complement its gold holdings[ix]. Bitcoin doesn't just have a seat at the table, it bought the table, ordered the take-out and will probably tip the waiter.

The data, however, tells us that federal debt held by foreign and international investors has also been in steady decline since its peak of 49% in 2011 which now stands at 29%[x] because there is only but so much money to buy more and more treasury obligations that will dramatically increase in supply. They haven't purchased fewer bonds, we just issued too many of them.

This would be a good time to mention that the U.S. Treasury has to refinance $3 trillion of its current debt at much higher rates on top of the estimated $2 trillion of deficit spending[xi]. This debt, therefore, will need to be monetized, with the Fed purchasing the U.S. bonds in the open market and the proceeds being used to lend Uncle Sam more money. Said another way, as we borrow more money, the Fed has no choice but to create more liquidity to keep the lights on in what is essentially a giant money laundering operation.

The craziest things happened when nearly two-thirds of the total existing money supply was created in the past thirteen years[xii]. You simply have more money that buys less stuff and in a perfect world your financial assets would increase faster than the rate at which the money you used to buy it is degraded.

I'm here for all of it. Yes, it's awful for the people who don't own assets and get hit with inflation when their dollar buys less today than it did yesterday, but bitcoin has been the biggest beneficiary of rising global liquidity because of the store of value argument. They may create more dollars, but algorithmic constraints prevent more than 21 million bitcoins from ever being produced. Let's not ignore how liquidity benefits Nasdaq either, which goes to show that one man's tragedy is another's treasure if he can tolerate the volatility. After all, nobody would be surprised if bitcoin or Nasdaq had a 25% correction.



The narrative tells us that government has been bought and paid for by the Crypto Bros, but the data indicates the Federal Reserve has no choice but to expand liquidity because so much of our debt is coming due in 2025. Similarly, tax cuts are great, but if they reduce tax revenue, you'll need to borrow the money to pay for them. In this instance, the tax break gets eaten alive by inflation and if your tax break puts less money in your pocket than the rising prices take out, then oh boy, the narrative and the data become a bipartisan one-two punch that knocks consumers out of their selective comfort zone. It is what John Steinbeck described in "The Winter of Our Discontent", that "Men don't get knocked out ….. by the big things. What kills them is erosion; they get nudged into failure."

A dominant theme over the next four years for digital assets, and to some extent Nasdaq, will be regulatory certainty and the monetization of our debt that increases liquidity. While voters have already decided which candidate is better poised to lead the country, it may or may not have the financial impact we believe. After all, money talks and Congress has been a historically great listener. Bitcoin has paid its fare, it's here to stay and anyone on the right side of things should attempt to benefit from political payoffs, PACs, and the notorious pickpockets of Capitol Hill.

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[i] *America's economy is bigger and better than ever; The Economist; 10/17/2024*
[ii] *Manufacturing jobs now exceed pre-pandemic levels; Axios; 10/9/2024*
[iii] *Number of Americans applying for jobless claims remains historically low; Associated Press; 5/2/2024*
[iv] *Household Food Security in the United States in 2023; USDA; 9/2024*
[v] *This Week In Credit Card News: 37% Of Cardholders Are Maxed Out Of Their Available Credit; Forbes; 10/18/2024*
[vi] *More Than a Third of Americans Have Second Jobs: 'It's Been Tough for Sure'; Newsweek Magazine; 7/26/2024*
[vii] *How Many Americans Own Stock? About 162 Million -- but the Wealthiest 1% Own More Than Half; Motley Fool; 12/27/2024*
[viii] *Interest payments on the national debt top $1 trillion as deficit swells; CNBC; 9/12/2024*
[ix] *The U.S. Government Is One Step Closer To Holding 1 Million Bitcoins; Forbes; 11/11/2024*
[x] *The Federal Government Has Borrowed Trillions. Who Owns All that Debt?; Peter G Peterson Foundation; 8/6/2024*
[xi] *The battered bond market starts 2025 facing some difficult issues about debt; CNBC; 1/1/2025*
[xii] *The Money Supply Is Growing Again and the Fed Wants It that Way; Mises Institutes; 5/18/2024*