Ivory's Economic Outlook

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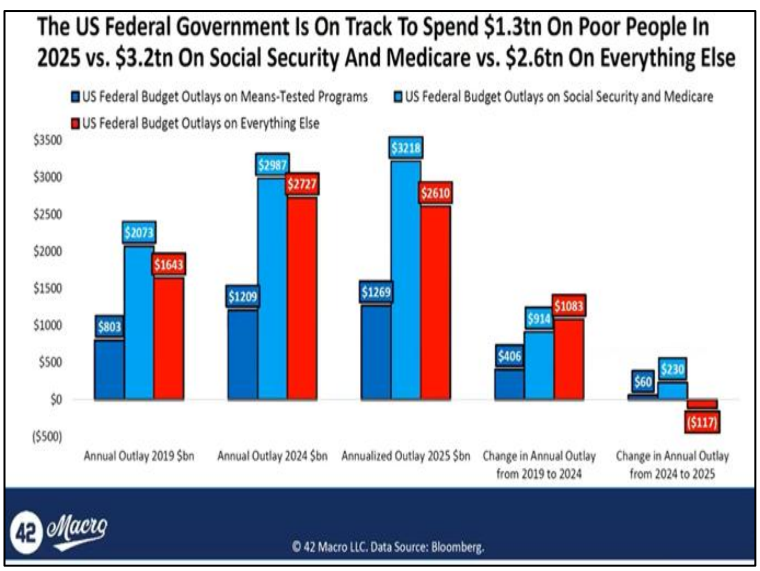
"Clouds are not spheres, mountains are not cones, coastlines are not circles... nor does lightning travel in a straight line."

Benoit Mandelbrot, Mathematician

My parents straddled the line between authenticity and inappropriateness with the precision of a butter knife. My dad thought that if God wanted people to leave the housing projects, he wouldn't give them free heat. If he found somebody unattractive, he'd say they fell out the ugly tree and hit every branch. One time we were driving past Chrystie Street Park in the neighborhood where the prostitutes honed their craft when my mother, aghast at what she saw, declared "look at them, selling their bodies!" to which my father responded, "it's better than giving it away for free". She glared at him for the next three blocks, and to his credit, and I still don't know how he did it, he continued to look straight ahead.

On and on it went. In the 4th grade I learned about WWII and told my dad that if Germany had won the war, we'd be speaking German. He looked at me and said, "if Germany had won the war, we wouldn't be speaking anything at all". Nothing got swept under the rug. At the age of 16 I used the money from my part time job to buy a leather bomber. Excited by my new purchase I came home and declared "this coat is warm". He quipped, "you're inside" and then asked my mother what was for dinner.

My mom wasn't much better. Most families had encyclopedias for the kids, but my mother used them for a more sinister purpose. When she got sick of my dad demonstrating his expertise in some random subject for which he had no formal training, which happened often, she wouldn't argue, she'd just place a book on the table and say, "show it to me". Sometimes he did. Most times he couldn't. That's where I learned to appreciate data. I need somebody to show it to me.



Anybody with access to the internet knows all about the national debt and the fiscal challenges we face as a nation. Fortunately, it's really not that big of a deal. We're just at the point where you might be better off waiting at the finish line and watching everyone else struggle through the race. You don't need artificial intelligence to know how all this ends but guessing which runner will struggle along the way (and how) takes a great deal of effort.

For context, the United States spends roughly $7.1 trillion a year. First you have $1.3 trillion that gets means tested and includes Medicaid, the earned income tax credit, student loans, food stamps, housing assistance and other safety net programs to help the needy who have no political influence. There is another $3.2 trillion that accounts for social security, Medicare and the pensions for government workers and retired military personnel who would burn Washington to the ground if these benefits ever got cut (they've already been cut, which is also not a big deal, but I'll get to that later).

The remaining $2.6 trillion includes defense and non-defense discretionary spending. This is where you find the government contracts, the subsidies, the tax loopholes – the rich people stuff. Without explaining who has lobbyists and who does not, take my word for it when I say that the rich people stuff isn't going anywhere, the entitlement spending will grow by roughly 60%[i] over the next decade and you can't cut enough of the poor people stuff to make up the difference. For what it's worth, this is before Congress cut taxes in July and increased the debt by another $4 trillion[ii]. Please refer to my comments on lobbyists. This isn't about what's fair because the top 1% already pay 40% of all federal income taxes[iii] and that's none of my business anyways - this is about the fiscal direction of the country and what investors should do about it.

In that sense, there seems to be a fiscal inevitability to where we're headed. The budget deficit will force us to borrow an increasing amount of money and foreigners, who are now net sellers of our debt, are no longer willing to subsidize Uncle Sam's largess. This means the Fed must manufacture more and more money to buy more of our own debt which increases liquidity at a faster pace. The additionally liquidity means more dollars are chasing the same supply of financial assets. This is not an economic theory, rather it's a simple SAT question: deficit spending is to increased liquidity what peak demand is to higher Uber prices. Or something like that.

My Aunt Blanca is the 80-year-old Cuban lady who still wears tight jeans with pumps to compliment her designer shirts adorned with glitter. She came to this country in the 1970's after cutting sugar cane for two years before Castro would let her, my aunt Lynn and my grandmother leave the island. This is one tough woman. She has a joyful laugh, can dance to salsa as if God forgot to give her bones and will offer her opinion, clear the air, straighten you out, correct the record, demand an apology, fill in the blanks and break it down at a moment's notice. If you're looking for a fight, call my Aunt Blanca.

The book "When the Body Says No" explains that our health rests on three pillars: the body, the psyche and the spiritual connection. To ignore any of them is to invite imbalance and disease because people do not become ill despite their lives, but because of their lives. The author explains that when we repress our emotions, for example, we confuse our physiological defenses so that in some people these defenses go awry and become destroyers of health rather than its protector.

Studies show that people who are emotionally repressed or have an inability to ask for help or to even say "no!" have higher rates of cancer, ALS, rheumatoid arthritis, multiple sclerosis and a list of other diseases. In short, the host has reduced or trained his/her immune system's capacity to destroy harmful cells or ignore threats altogether. To my knowledge, Aunt Blanca has no physical, mental or spiritual impairments.

None of our current problems happened overnight. We are in this place because collectively we thought the government was giving it away for free. Low interest rates are not free because the way the Fed lowers them is by flooding the market with fake money. Deficit spending is not free because the Fed monetizes the debt and has the same effect. The wars aren't free, the tax cuts aren't free, and the safety net programs are not free. In fact, if you look closely, we have been paying for them all this time with wealth inequality and the loss of our purchasing power (which is how they have already cut our social security benefits). It's a difficult pill to swallow, but much of this happened because we suppressed our common sense and the body politic finally got an autoimmune disease where the organism's natural defense mechanisms attacked the organism itself.

So let me return to the silver lining: we can do something about it because wealth never disappears, it just shifts. On Monday you buy a loaf of bread for one ice cube, but on Friday that same bread costs two ice cubes. The bread doesn't taste any better; your ice cubes have just melted. The reason gold and bitcoin have outperformed the market by three-fold over the last 12 months is because they are stores of value and the market knows that all financial assets are priced in ice cubes that keep melting, which is another way of saying that the loaf of bread just doubled in value.

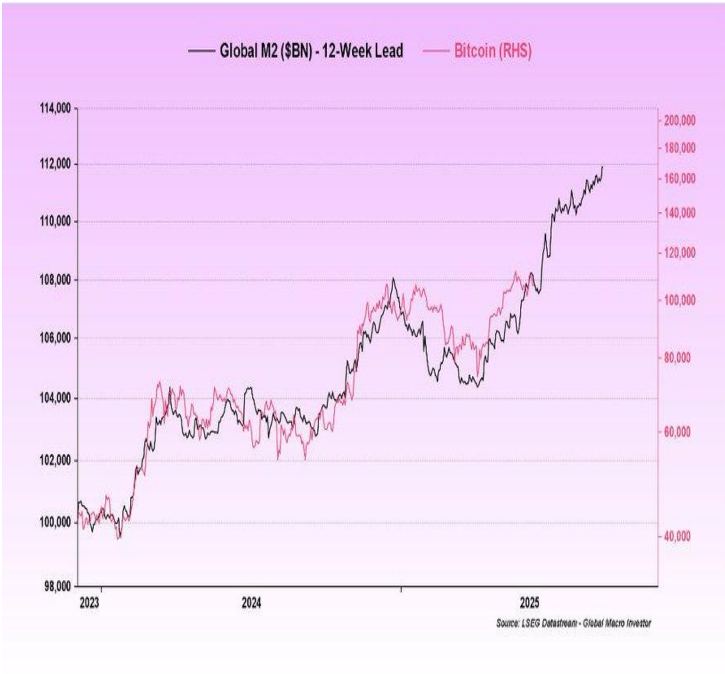
The supply of gold increases by 1% to 2% a year[iv], making it a store of value. Bitcoin has a maximum cap of 21 million coins and has no middleman or central bank. The transactions are also immediate, unlike gold where its slow movement created the need for a central ledger and the costly inefficient apparatus that comes along with it. That's why when liquidity increases, bitcoin goes up and vice versa. The direction of global liquidity will tell you where the finish line is. Most of us pay attention to what happens during the race, but we all know that each mile is very difficult to predict.

Along those same lines, artificial intelligence is reshaping the economy by boosting productivity, cutting costs, and accelerating decision-making. But while it creates new opportunities, it also threatens to displace millions of jobs. Investors, workers, and policymakers must adapt quickly—because in this new economy, the edge belongs to those who can leverage intelligence, not just possess it.

That last paragraph was written entirely by ChatGPT, an artificial intelligence application. I typed in "write a paragraph for a newsletter written by Ivory Johnson from CNBC about how artificial intelligence will reshape the economy". When the output was too long, I asked if it could be condensed, which is what you just read. I was then asked by the app "let me know if you'd like it tailored more to finance, policy, or workforce trends" and I responded "That's perfect. Thank you".

There are a few takeaways. First, I'm training the machines to be polite because the output is a function of our input and the information that we give the machines. The reason web sites ask you to prove you're human by choosing the motorcycles or the stop signs in those square boxes is because they need the information to program self-driving cars. If we only use AI to sell, spy and kill they may adopt the worst of our behaviors. Second, AI is inevitable, the machines will be smarter than us and mistakes will happen. Third, artificial intelligence will not replace humans, but the humans who use AI intelligently will replace those who don't. Fourth, a lot of money will be made.

An obvious recommendation is that younger white-collar workers had better learn how to use artificial intelligence. Electricians and plumbers will be fine. Beyond that, Nasdaq and tech stocks are also correlated to the rise in liquidity. These companies trade on future earnings, on what's going to happen, and as interest rates decline the present value of that projected cash flow increases. More liquidity also tends to make riskier assets more attractive because it's human nature to take more chances with something you think you got for free, which as we just discussed, you did not.



This is by no means a crystal ball because it's not what will happen but what is likely to happen that matters. I'm particularly interested, therefore, in what would impact the increase or decrease in liquidity. Deficit spending floods the market with currency and increases liquidity and the odds that it continues unabated are high, at least for the next year, unless Congress (or the bond market) forces Uncle Sam to take his medicine. Please note that I cannot be unreasonably long bitcoin, gold and Nasdaq because my compliance department uses AI to ensure that advisors don't take unnecessary risks and nobody has told the computers that the S&P 500 denominated in bitcoin (and not ice cubes) is down 85% since 2020[v] just like that loaf of bread we discussed earlier.

Speaking of Benoit Mandelbrot, he also wrote "The Misbehavior of Markets", a book so dense it nearly caused me to have a cerebral hyrnia. One of his conclusions was that "financial markets are fractal in nature, meaning that the market prices follow patterns that exhibit similar characteristics over time." Or said another way, lightning does not go in a straight line. Don't become overwhelmed with grief, therefore, if the stock market has a bad month or two once the next pending catastrophe dominates the headlines (and it will) because when it's all said and done the fiscal lightning will still strike and melt more ice cubes.

My father used to tell me never to ask people about their problems because then their problems would become my problems. When it comes to the economy, the national debt or artificial intelligence changing the landscape of our workforce, let somebody else worry about what happens during the race. We're going to sit at the finish line for the next year or so and watch gold, bitcoin and Nasdaq stumble along the way until somebody's momma gets sick of me talking about the same damn thing, throws a book on the table, and shows me exactly how the data has changed.

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[i] *CBO*
[ii] *The Senate's Big Beautiful Blunder Could Increase the Debt by $6 Trillion; CATO Institute; 7/2/2025*
[iii] *IRS Tax Foundation*
[iv] *Total gold supply in 2024 increased 1% y/y as mine supply and recycling both posted growth; World Gold Council; 2/5/2025*
[v] *Bitcoin's Dominance Against the Stock Market in 1 Chart: The S&P 500 is up big the last decade, but it's actually down bad in bitcoin terms; Inc Magazine; 7/14/2025*

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