



Zanetti Monday Missive 2022.12.23 Radio Interviews

“TV gives everyone an image, but radio gives birth to a million images in a million brains.”

~ Peggy Noonan

“The radio craze will die out in time.”

~ Thomas A. Edison

Happy FRIDAY, Everyone!

Since next Monday is the day after Christmas and many of you will not be actively checking your e-mails, we thought we'd send out our "Monday Missive" early.

This week, Greg and I were on the radio (770 KKOB with Bob Clark - here in NM). I have a transcript of our interviews - so I thought I'd send them along just in case you missed it over the speakers.

The interviews are a continuation of this past Monday Missive. So without any further ado, here you go...

(December 21, 2022)

Bob: Good Morning , Greg. Nice to have you back... especially so close to the end of the year.

But looking ahead into 2023...I know two of your themes for next year are food and energy. You think food and energy prices will be constantly in the news. But today, you want to add one more to the list.

Greg: Hi Bob. It's nice to be back. And yes, I do. The food and energy theme is pretty easy to predict. The, uhhhh, interesting policy decisions by this administration, coupled with the war in Europe, make rising prices in those sectors pretty easy to predict.

As a consumer I hate that. As an investor, however, you want the price of your product going up. And a product people must have

But there is another huge change one right in front of us that I don't hear people talking about. And, Bob, this one will be with us for years. And that is the shift in power between labor and management.

Bob: I think I know where you are going with this. I see labor issues everywhere. The rail workers just snubbed by the Biden Administration. I see Starbucks workers trying to unionize. There are "help wanted" signs everywhere. I didn't see those types headlines until this year.

Greg: I didn't either. Two years ago, Amazon workers were complaining they had no time to even go to the bathroom. And Amazon seemed unsympathetic.

Anyway, there is always some tension between labor and management. And for decades American management has had the upper hand. If workers wanted a pay raise,

management said, “Don’t get greedy you workers. If you ask for too much, we’ll just ship your jobs to China, India, or Viet Nam.” So, what happened was labor saw their piece of the pie get smaller and smaller. For decades!

Meanwhile, Bob, profits for corporate America soared as labor was off-shored to low cost producers overseas.

Bob: Right. But, I can see this changing, too. I may not be Mr. Economist, but I know China has issues with their banking system. There is civil unrest. And I know the labor there isn’t as cheap as it used to be.

Greg: You’re right. Plus, we might go to war with those guys over Taiwan. So, corporate America is suddenly using terms like re-shoring and near-shoring....meaning bringing jobs closer to home. They want to shorten supply lines. Covid taught them that, too.

But this means, they must pay higher wages. And corporate America isn’t used to that. So, their first response was to try to get robots to do the work. I get that. It is management’s job to be as efficient as possible. But here are limits to what robots can do. People are needed. And workers aren’t stupid. They see the power shifting back their way.

Bob: So, this kind of explains the tug-of-war right now. Management still wants to keep labor prices down. But the workers are saying, “If you want me, you’ll have to pay more.” And the idea of going somewhere else outside the US isn’t the option it used to be. So, isn’t this also why management is moving operations out of some States and going to others? They are squeezing where ever they can.

Greg: Exactly. And your listeners are seeing this in the news every day. Management is moving from California and New York to business friendly Texas and Florida.

Bob: But businesses are not moving here.

Greg: Nope. There are groups trying to change that....but it's an uphill battle. It's unfortunate.

Anyway, what does this mean for stocks in 2023? Bob, I think you'll see pressure on profits as corporate America pays more in wages. That's good for Main Street, but not so hot for Wall Street.

Bob: Which is big shift. And maybe one that is long overdue. I know we are out of time, but I'd like to talk about how inflation and layoffs play into this, too.

Greg: That's a great segue. And you are thinking like Mr. Economics. I can't do the show tomorrow, so my business partner, Walt Benson, will cover for me. You'll like him. I'll ask him to take up where we left off.

(December 22, 2022)

Bob: Good Morning , Walt Benson. As Greg Zanetti's business partner I've heard people refer to you as a Financial Advisor by day and a Bernalillo County Commissioner by night, isn't that right? And, it sounds like you've been busy lately on the County Commission.

Walt: Good morning, Bob. I've heard that as well, and yes, I've been busy working, getting some good things done for Bernalillo County, but today I want to talk about the economy. Yesterday, Greg talked about the workforce out there and what that means in terms of investment opportunities. Bob, today I want to keep that ball rolling with a few more thoughts.

Bob: That's great, Walt. Yesterday we talked about how wages are increasing and that workers now have more leverage with employers – basically saying, “Hey, if you want me to come to work so you can sell your products, you'll have to pay me more.” Isn't that right?

Walt: That's basically it in a nutshell, Bob. And those implications are no small thing! As you know we've been saying food and energy are going to remain in high demand next year – which means prices will remain high. But, Bob – how do people GET their food and energy?

Bob: Well... PEOPLE! Right? I mean, you can't plant, grow, or harvest food without people. Nor can you ship it without people. Nor can you stock the grocery stores and sell food without people. Same goes for energy production.

Walt: That's exactly right, Bob! People costs are one of the biggest costs for any organization, and sometimes THE biggest. And with the "Quiet Quitting" you've heard about – where people decided they weren't getting paid enough – especially when the government stimmy checks were coming in – they stopped going to work. So, companies have had to pay more to get them to come back. And I think those increased wages will continue next year – even in the midst of a recession, Bob.

Bob: So, with employee costs going up, that will be passed on to the consumer, right? Basic economics!

Walt: Bingo! You're exactly right! And with costs continuing to rise to cover the additional employee costs, that will put increased pressure on inflation – making it harder to bring it back down. So, we're expecting inflation to last longer than most of us want it to, Bob.

Bob: Well, on one hand, I'm glad wages will be going up for folks – it's always nice to see people making more money. But on the other hand, I'm not looking forward to seeing inflation staying high. Seems like a Catch 22! Will that affect the stock market?

Walt: I think so, Bob! With prices going up and fewer people receiving Government Checks, we expect people

will slow down their purchasing. Think about it, if people don't have an extra \$500 that just came in the mail from Uncle Sam, they may not rush out to buy that next big TV. And if businesses are selling less – but their expenses increased – that will hurt company profits. If profits fall, so will the price of their stock. If the whole US economy is dealing with this crunch – unfortunately the stock market will not do well, Bob.

Bob: Ok, so that's where the recession comes in to play, right?

Walt: Exactly! But not like any ol' recession. Since inflation will still be high, we'll be dealing with an inflationary recession – that's extra special!

Bob: Oh, Great! An inflationary recession – I think we called that “Stagflation” in the 70's. Jeeze, Walt – thanks for all this good news. But seriously, do you have any good news for us?

Walt: Of course, Bob! We all know that life is not always easy and neither is investing. I see plenty of opportunities to protect your investments next year and actually make money – instead of losing it. Our clients are positioned to benefit from this environment by investing in the things that people need in good times and in bad.

Bob: Finally! Some good news – So, we don't have to be scared of only doom and gloom next year for our investments.

Your-Merry-Christmas-And-Happy-Holidays Financial Advisor,

Walt

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