



## Zanetti Monday Missive 2023.09.25

### CNBC and Bloomberg vs Social Economy

**"Social cohesion is a necessity, and mankind has never yet succeeded in enforcing cohesion by merely rational arguments."**

**~ Albert Einstein**

Hello Everyone,

Wall Street wants certainty. Investors want the same thing.

As a result, it is natural in the world of finance to obsess about numbers. That's why we often see reports about balance sheets, earnings estimates, unemployment rates (calculated to a tenth of a percent no less), and so on.

Wall Street even tries to quantify emotions by putting a numerical value on "consumer sentiment."

Wall Street is also a sales organization -- a very good one. And good news sells better than bad.

Therefore, we are often fed a weekly diet of financial news that looks like this:

- Inflation is low --- and likely going lower.
- The unemployment rate is a measly 3.8%.
- If there is a recession coming, don't worry. There will be a "soft landing"...or possibly no landing at all.
- Yes, interest rates are heading higher, but they are having little effect on stocks, real estate, profits, etc.

But if things are so great, why is there so much unease? What about all those homeless people? What about the rampant shoplifting, drugs, crime? And those flash mobs... what gives?

Albert Einstein was so insightful regarding human behavior. We do not live in a world of numbers. We are not always rational beings. The certainty we desire is not possible.

Still, we persist.

There is another economy that Wall Street tends to ignore. **It is the social economy.** And that is telling a very different story.

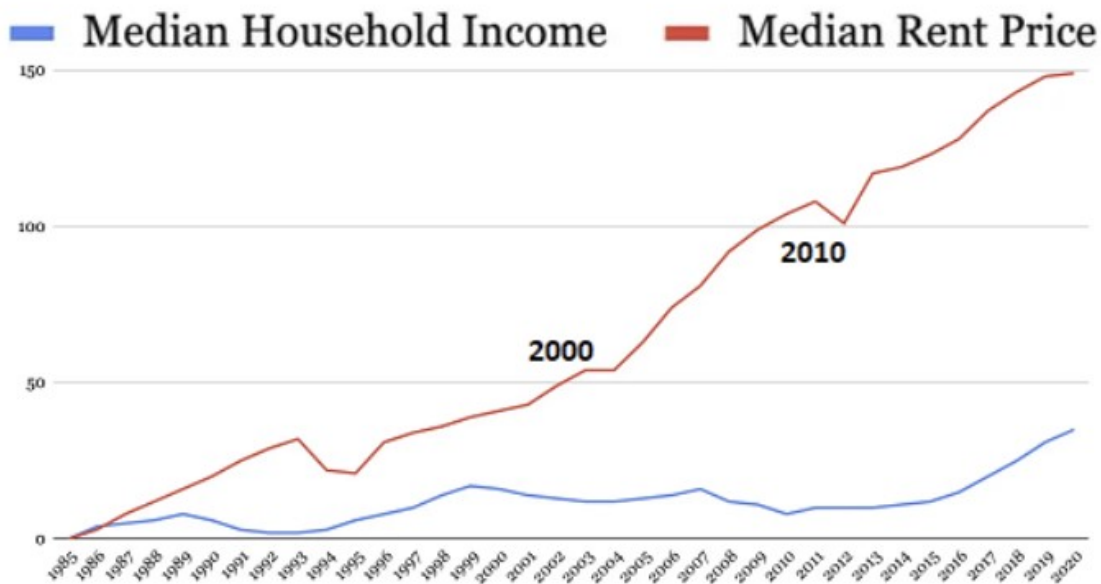
Let's start with the American dream of home ownership. According to Peter Rex in a recent Newsweek column, "*A staggering 70 percent of Americans between the ages of 23 and 40 who want to buy a home say they can't afford to...and*

*those who can are doing so at a later age than their parents.”*

I'll bet that is what many of you are hearing from the younger generation. *“It's not the same for us as it was for you.”* And you know they are right.

So, they rent. But look at this chart. As home prices soared, so did rents. And income did not keep up. Over the past 25 months real wages (wages vs. inflation) have declined. Oh, and anyone who believes inflation is 3.67% is not living in the real world.

### Percent Change In Median Household Income and Median Rent Price

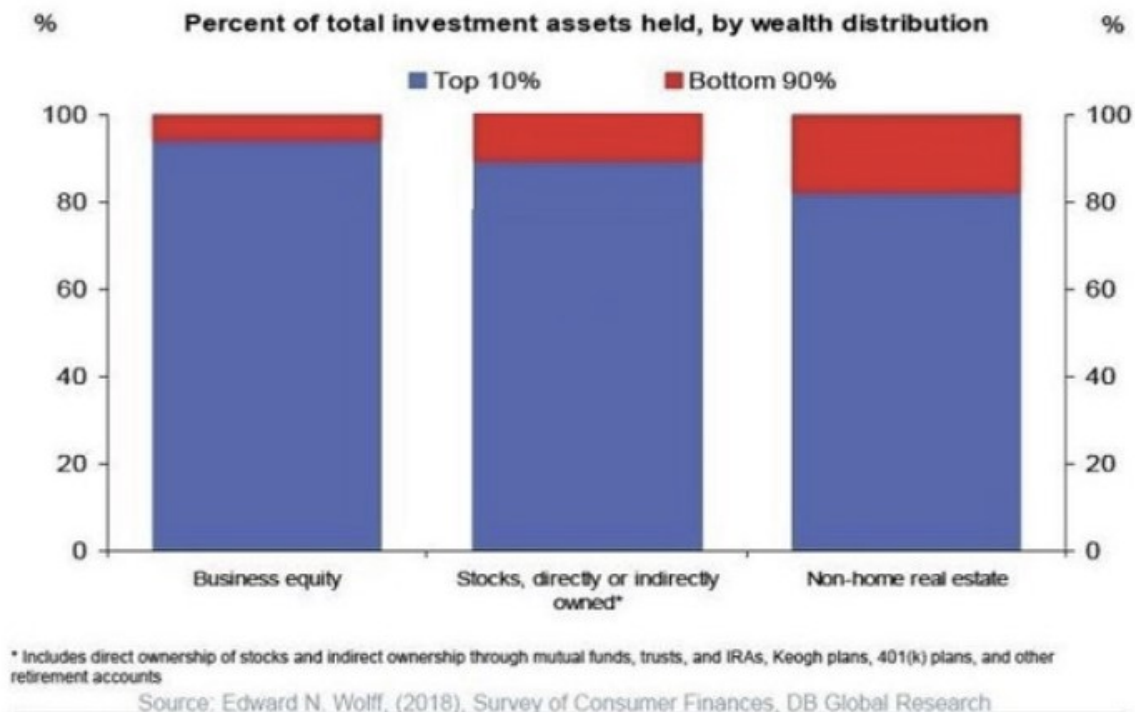


Source: Housing & Urban Development

neverleave.substack.com

And as the politicos and economists beam from behind the podiums about the post-Covid economic recovery, the numbers tell a different story about who is winning. It is not the bottom 80%-90%.

10% of the US population own 84% (now 88%)  
of all stocks held by households



So, the question we must ask is this: how does this social unease impact our portfolios? What difference does it make where the profits come from? Does social unease have any bearing on the stock market? Bonds? Overall economic growth?

And the answer to all of the above is a resounding "yes."

There are tipping points. Wall Street ignores these tipping points because they cannot quantify them on a spreadsheet.

My concern is this: there is a shared hopelessness that is welling up in a large portion of the population. *"Why work hard? I'll never have a home or a decent retirement."*

Given enough time (and pain) though, it is easy to see how

hopelessness can morph into anger. Remember the story about Marie Antoinette? Right before the French Revolution broke out, she was confronted about the plight of the poor, and famously quipped: "*Let them eat cake!*" We regularly read stories of her modern day equivalents. The story ended badly then, and could end badly now. "*Grab the pitchforks, boys!*"

As a society frays, the status quo is called into question. Social cohesion gives way to division and strife. Compromise is not an option. Only rules obey the rules. New institutions are demanded.

And yes, this will affect stocks. Just ask Dollar Store, Target, Wal-Mart, and Nordstrom management about "shrinkage." Or ask Boeing, Ford, or AT&T about retaining employees.

So, we have a conundrum. If you look at a Bloomberg screen, or watch CNBC, you will hear about the strong consumer and how resilient and resourceful Americans are in a tough environment. I agree with that. Well, maybe not the strong consumer part!

Meanwhile, as we stare objectively at the world around us, as we listen to the younger generations, as we read about billionaires competing to see who is the richest today, we sense something is off in the official narrative.

So, what is a good investor to do?

First, recognize what originally caused this situation.

- The Fed kept interest rates near zero for way too long.
- Speculative bubbles were the result. Those will pop.

- The government used Covid to greatly expand its powers, its spending, and its debts.
- In doing so, the government crowded out the private sector. That distorted a healthy economy.

Then realize what must inevitably occur:

- Things will come back to balance. That may mean overcompensation first. Think rising interest rates.
- Rising inflation, pension issues, and rising unemployment will be part of the rebalancing process. Joe Six Pack will bear the brunt.
- Government and the Central banks will lose credibility. Rarely do those who caused the problems know how to fix them. (Think again of Marie Antoinette and her friends.)

And, yes, I know it seems I am going to a dark place. But I am an optimist. Really.

America has been through this before. We are an incredibly adaptive people. As one of my clients says, “American DNA will kick in. Just watch.” I believe he is right.

Until then, however, we at Zanetti Financial are expecting choppy waters ahead. Here is the good news.

Historically, these times offer great opportunities. Great wealth transfers occur. Those who hold on stubbornly to the old paradigms lose wealth to those who adjusted early to changing times. Our objective is to be on the right side. Let's be on right side of those trades....at least until we will hit calmer waters! :>)

# Signed, Your I-Hope-The-Air-Force-Won't-Have-To-Put-F-35's-On-The Sides-Of-Milk-Cartons Financial Advisor,

Greg

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